

Budget and Finance Committee
Meeting Minutes
October 20, 2011

The Bethany Beach Budget and Finance Committee held a meeting on Thursday, October 20, 2011 at 2:00 p.m. in the Bethany Beach Town Hall meeting room, 214 Garfield Parkway, Bethany Beach, DE 19930.

Members present: Jerry Dorfman, Chairman, who presided; Joseph Healy; Denise Bowell; Chuck Peterson; and Philip Rossi.

Also present: Janet Connery, Finance Director; Cliff Gravier, Town Manager; Mayor McClenny; Councilpersons, Lew Killmer and Margaret Young; Jerry Morris, future Budget and Finance Committee member; Lindsey Good, Administrative Secretary; and interested members of the public.

Call to Order

Mr. Dorfman called the meeting to order at 2:00 p.m.

Mr. Dorfman introduced Mr. Jerry Morris to the Committee members and stated that he will be appointed to the Committee at the upcoming Town Council meeting.

Mr. Gravier distributed the following additional documents to be discussed at the meeting: Capital Maintenance and Replacement Schedule, General Fund Rough Five-Year Projection for Development of the FY 2013 Budget, and the Water Fund Rough Five-Year Projection for Development of the FY 2013 Budget.

Approval of Agenda

Mr. Rossi made a motion to approve the agenda. Mr. Peterson seconded the motion and it was unanimously approved.

Approval of Minutes from July 14, 2011 Meeting

Mr. Healy made a motion to approve the meeting minutes dated July 14, 2011. Seconded by Mr. Peterson, the motion was unanimously approved.

Discussion on Decrease of Transfer Tax Revenue

Mr. Gravier explained that in the past two (2) months there has been a significant decrease in Transfer Tax Revenue. He said that Ms. Connery has reviewed the history of Transfer Tax Revenues, and it is currently at the lowest it has ever been since the Town began collecting this tax in 1999.

Mr. Gravier stated that since there is a concern of the Transfer Tax Revenue, Ms. Connery has met with the Department Managers and then developed different projections based on a slightly pessimistic prediction of \$325,000 in collections for this year and next. He added that since there are issues with the capital revenue, he does not foresee suggesting any significant capital enhancements, especially for the FY 2013 Budget.

Mr. Peterson emphasized that two recent developments occurred that probably contributed to the delays in properties going to settlement. The Dodd Frank act implemented three (3) sections of rules that \ banks are required to adapt to, and FEMA declared Delaware as a disaster area after the effects of Hurricane Irene in August, so mortgage companies have requested additional documents before closing.

Ms. Connery responded that although these issues may be part of the reason for the delays in properties going to settlement, the Town usually has good indications of properties that are preparing to go to settlement since the realtors contact the Town inquiring tax and final water bill information.

Ms. Connery gave the following report:

Regarding Transfer Tax Revenues, the Town has collected just over half of the current FY budget, which is \$500,000. Compared to last year, collections have declined by fifty percent (50 %). Last year the Town collected \$816,000, which was \$316,000 over budget. Only \$44,000 was collected during this past quarter, and this is the lowest quarter since the Town began collecting Transfer Taxes in 2003. The months of July through Septembers usually have the highest collections and the months of January through March usually have the lowest collections. She noted that that since it is a small town, the status can easily change.

Ms. Connery emphasized that the Town Council and Committee has put in a lot of effort not to rely on Transfer Tax revenue for day-to-day operations. She used the current year an example, stating that in the general fund the revenue budget exceeded the operating budget by \$800,000. In a typical year, approximately \$400,000 is needed for capital maintenance and repair. This leaves \$400,000 for capital enhancements. Therefore, even if transfer tax revenue remains very low, the Town will still be able to cover the costs of day-to-day operations and replace currently owned assets. Only funding for new capital enhancements will be affected.

Ms. Connery explained that she produced various five-year projections, which concentrate on the amount of reserves the Town is currently expending and saving.

The first projection demonstrates that \$1.6 million would be generated over the next five (5) years if nothing changes, which is not a probable scenario. She produced this projection for comparison reasons only.

The second and third projections show the impacts if the typical changes to the revenues occurred. These projections show typical levels of slow revenue growth. The inflation costs are different in the second and third projections, with costs increasing two percent (2%) results in \$885,000 in reserves generated over five years verse costs increasing three percent (3%) which results in only \$205,000 in reserves generated over five (5) years. These are not the worst case scenarios, but it is a pessimistic assumption. The funds will still cover the needed costs.

These projections all have Transfer Taxes at \$325,000 for three (3) years before slowly returning to \$500,000. Overall, if the Town can control its costs, then it can stay at the current fees without having

any budgeting concerns. Even if Transfer Tax collections remain low, the Town will still have enough funding to cover operating costs and planned maintenance/replacements. A decline in Transfer Tax only limits future capital enhancement or improvement projects.

Mr. Healy commented that he doesn't feel that the outcome will be as negative as what is being predicted, noting that the actual outcome will be in the range of \$400,000 to \$500,000.

Ms. Connery reviewed the Water Fund Five-Year Projection with the Committee. The first projection is no change in anything for comparison. The second projection shows that current fees can only support a one percent (1%) rate of cost inflation. The third and fourth projections use three percent (3%) cost increases per year, which is what the Water Department usually sees. The third projection has no change in fees and shows the fund using \$260,000 in reserves over five (5) years. The fourth projection includes a fifteen percent (15%) rate increase in FY 2014 that results in a \$356,000 gain over five (5) years.

Ms. Connery added that the Town should expect to be discussing a water rate increase next year for the FY 2014 budget. For most of the Town's property owners, a fifteen percent (15%) increase will cost under \$45 per year.

Mr. Dorfman noted that they are very fortunate to have the Town Manager, Mr. Gravier, and the staff.

Ms. Connery mentioned that a lot of other towns are in a financial crisis. Other than Transfer Taxes, total town revenue should end the year as budgeted.

Review of 2nd Quarter of FY 2012

Ms. Connery reviewed the FY 2012 2nd Quarter Revenue with the Committee.

- Rental tax is collected from last September through November. Receipts to date of the largest realtors are four percent (4%) higher than last year. If this continues, the budget could be exceeded by \$40,000.
- Building Permits have declined \$39,000 when compared to last year, but last year the Town collected \$99,000 more than budgeted. As of yesterday, the Town has collected \$122,000.
- Parking is up by \$70,000 due to the pay stations (paying online and credit card fees) and the new lots. Meters and pay stations increased \$152,000. Ticketing declined \$117,000, and the collections continue. Mr. Gravier noted that ticketing declined by 3,000 tickets, in part from fewer staff hours and the pay stations. He added that he will be working to improve the staff for next year.
 - Projections show that the Town should end the FY slightly (0.4%) higher than last year.
 - Revenue sharing agreements totaling \$33,000 were paid in October, so they are not yet reflected.
 - Parking in total can be expected to end under budget because of the decline in ticketing, most of which is counteracted by the Parking Department seasonal salary line which is \$33,000 under budget.
- Sanitation revenue increased by \$110,000 due to last year's rate increase.
- Water use revenue declined 2.4% when compared to last year when use was unusually high

Overall, the cost and revenue is exactly where it should be, other than Transfer Tax which cannot be predicted. Total revenues for each fund should end the year around the amount budgeted.

Operating Budget

Ms. Connery reviewed the following report on the Operating Budget:

The more significant changes in Operations Costs include:

- Parking is up by \$78,000 due to the pay stations (paying online and credit card fees) and the new parking lots. Pay stations increase costs from things such as purchasing the paper rolls utilized in the machines to the credit card fees which are a percentage of revenue collected.
- Sanitation shows a \$29,000 increase when compared to last year from recycling. The budget was prepared without knowing how much, if any, grant funds would be received, and the Town received \$250,000 for carts, dumpsters and a truck. Sanitation should end the year \$150,000 under budget mainly as a result of the grant.
- Water costs for the first half of the year decreased mainly from fewer repairs required so far this year. This will likely even out before the end of the year.

Mr. Peterson acknowledged that Mr. Gravier and the department heads do a great job.

Preliminary Discussion of FY 2013

Ms. Connery explained that she is meeting with the department managers in December and she will then develop a proposed budget. There will be minimal changes.

Mr. Gravier stated that one change may be healthcare. It will go to bid by the end of the year.

Mr. Healy mentioned that he is going to create a projective balance sheet, and then complete a different five-year projective sheet for the source and use of funds. He also plans to review the State pension's financial statements and compare them to other states.

Mr. Dorfman noted that the staff has already created a five-year projection sheet.

Adjourn

Future Committee meetings are scheduled for the following dates at 2:00 p.m.:

- January 17, 2012
- February 14, 2012
- March 13, 2012 – only if necessary.

Mr. Healy made a motion to adjourn the meeting. Seconded by Ms. Boswell, the meeting was adjourned at 2:40 p.m.

