

Town of Bethany Beach
Budget and Finance Committee Minutes
January 15, 2015

The Bethany Beach Budget and Finance Committee held a meeting on Thursday, January 15, 2015 at 1:00 p.m. at the Bethany Beach Town Meeting Room, 214 Garfield Parkway, Bethany Beach, DE 19930.

Members present: Jerry Dorfman, who presided; Denise Bowell; Martin Decre; Patrick McGuire; Jerry Morris; and Philip Rossi.

Excused members: Joseph Healy

Also present: Janet Connery, Finance Director; Cliff Gravier, Town Manager; Mayor Jack Gordon; Council members Lew Killmer, Bruce Frye, Rosemary Hardiman and Chuck Peterson; and interested members of the public.

Call to Order

Mr. Dorfman called the meeting to order at 1:00 p.m.

Approval of Agenda

Ms. Boswell made a motion to approve the agenda. The motion was seconded by Mr. Decre and unanimously approved.

* Note: Later in the meeting, Mr. Gravier asked to change the order of items V and VI on the agenda and the Committee agreed.

Approval of Minutes from October 16, 2014 Meeting

Mr. Morris made a motion to approve the minutes dated October 16, 2014. The motion was seconded by Ms. Boswell and unanimously approved.

Review results of the 3rd quarter of FY 2015

Mr. Gravier noted that the overall operating budget is increasing 3.2%. The main drivers are increases in summer services (lifeguard and bandstand) and health insurance.

Ms. Connery gave the following report:

There has been minimal change in the budget since the last meeting in October.

The General Fund revenues so far total \$6.3 million. This is \$763,000 higher than last year. The main causes are:

1.) The Hotel project, which brought in a \$494,000 building permit plus \$150,000 in transfer taxes. 2.) Parking revenues increased \$81,000. 3.) \$62,000 in insurance claim funds from two vehicle accidents.

Sanitation Fund revenues are as expected.

Water revenues are also as expected, with the exception of the \$147,000 Water Impact fee from the hotel project.

In total, the Town should end this fiscal year around \$900,000 over budget in revenue. \$791,000 of this is from the hotel project.

General fund operating costs so far are \$4,026,000. This is \$307,000 more than last year at this time. The main drivers were additional lifeguards and equipment purchases, which include replacing the beach Wi-Fi system and parking ticket writers.

Sanitation operating costs to date are \$552,000.

Water operating costs are \$658,000. This is an increase of \$46,000 over last year mainly from an increase in health insurance premiums and repairs to the water distribution system.

Mr. Graviet asked to change the order of the next two items and the Committee agreed.

Discuss the FY 2016 draft budget

Revenue

Ms. Connery stated that in this first draft, she made several small adjustments to next year's revenue budget based on revenue projections for the current year in comparison to prior years. These adjustments resulted in a revenue increase of \$51,000, however there are no tax or fee changes included in this draft.

Operating costs

Town-wide costs are increasing 3.2%.

The main increase is in the Beach Patrol. The increase of \$112,000 is broken down as follows:

- \$43,000 to maintain staff at the same levels of this past summer, which was an unbudgeted increase over prior years.
- \$28,000 from increasing lifeguard payrates by \$1 to be competitive with other towns, matching Rehoboth and Sea Colony with a starting rate of \$13.50
- \$22,000 more from the season between Memorial Day and Labor day being 6 days longer.
- \$16,000 employment taxes and worker's comp from above changes

Health Insurance costs Town-wide have also increased. The method of calculating premiums changed from flat rates to age-based premiums. This resulted in increases and decreases in several departments. For example, health insurance costs decreased in the Police department, which tends to have younger staff. On average, the Town's premiums increase 12% this past May after health insurers restructured how premiums are calculated. Prior to this year, the Town was able to maintain health and life insurance costs flat through competitive quotes, plan changes and reducing benefits. Total health insurance costs had actually decreasing slightly in the previous five fiscal years.

This budget also includes a 3% salary increase to all employees, more to seasonal lifeguards to remain competitive with other towns.

Capital

Capital projects budgeted in the General Fund are:

- \$400,000 for street paving; \$100,000 on Hollywood and \$300,000 on Half Moon Drive.
- \$40,000 to purchase two large outdoor holiday trees.
- \$95,000 to replace a 16-year-old backhoe.

In the Water Fund:

- \$350,000 to replace media in the filter gallery. This needs to be done periodically and engineering studies indicate that it is needed soon. The current media is the original from 1992.
- \$100,000 to improve water pipes on South Atlantic Ave.
- \$50,000 to construct a structure to house the mineral tank and store equipment at the water plant.
- \$50,000 for replacement of equipment if needed
- \$50,000 for unplanned repairs of distribution system as needed

Reserves

The method of budgeting takes the projection of cash and investments at the start of the year, plus the proposed revenue budget to determine available funds. These available funds are then allocated to cover the operating budget, capital budget, operating reserve and other specific reserves. The amount left over is the reserve for capital replacement. The Town's Fund Balance Policy provides recommendations on the minimum and maximum amounts that should be held in the capital reserve.

The reserves are adequate in the General and Sanitation Funds, but fall short in the Water fund. The water fund's capital reserve is \$58,000 below the recommended minimum. It has been discussed for several years that water revenues need to be monitored and water rates would need to be adjusted soon. The \$350,000 media replacement is what caused the Town's reserves to go below recommended minimum, which triggered this Committee discussion. The last adjustment to water use rates took effect in April of 2008, seven years ago.

The Water Use Rate handout provides an analysis of the Town's current rates, current water users, the effect of a possible rate increase and a comparison to Tidewater Utilities and Sussex Shores current rates. 68% of the Town's water users use fewer than 40,000 gallons per year. More than half use under 30,000 gallons per year, which is generally 20,000 in the summer and 10,000 in the off-season.

Increasing water use fees by 21% would be an even-dollar increase to the per gallon rates and would generate around \$208,000 more per year. For most residential properties, this would be an increase of under \$55 per year and no further adjustments should be needed for the next five years.

Discussion

Mr. McGuire questioned if our goal was to bring the water fund capital reserve up to the minimum recommendation. I answered that falling under the minimum recommendation triggered this discussion, but we should plan to increase enough that we won't need to increase fees again for several years.

Mr. Morris noted that the Town's flat rate was much less than charged by Tidewater and Sussex Shores. He questioned if the Committee should consider increasing the flat rate by much more and the per-gallon rate by less. Recommendation during discussion was to try to keep rates low for those who put less demand on the system to encourage water conservation.

Mr. McGuire questioned if costs could be cut. Mr. Graviet responded that the department only has three workers. Ms. Connery added that the main non-personnel costs are treatment chemicals, insurance and electricity, all of which are essentially out of the Town's control.

Mr. Graviet noted that our costs are higher than surrounding communities due to our aquifer type, which requires more treatment prior to use.

Mr. Rossi made a motion that the Committee support increasing rates 21% as proposed. Mr. Dece seconded the motion and it was unanimously approved.

Discuss possible ways to increase summer revenues

One of the financial goals of the Town is to be sure that the summer season pays for itself so that year-round residents are not subsidizing summer activities. The Town has maintained a good balance for many years, but lately summer costs have been increasing much faster than summer revenues.

The current fiscal year will end with summer revenues falling short of summer costs. This should be addressed to reestablish the balance and continue to ensure that the summer season pays for itself. In this draft budget, summer revenues increase \$34,000 while summer costs increase \$178,000, resulting in a \$144,000 shortfall in a single year. The main cause is the increase in lifeguard staffing.

Comparing the FY 2014 budget to the FY 2016 budget, summer costs increased \$308,000 while summer revenue increased only \$35,000, giving a deficit of \$273,000. The main causes are normal price inflation, lifeguard staffing and bandstand costs.

While year-round costs have also increased, so have year-round revenues. The Town has been increasing the property tax rate by 3% every two to three years and building permit revenue has been steadily increasing. Therefore, it is not being proposed to make any other increases for residents this year for General Fund costs.

The Fee Comparison handout was distributed. It compares rental taxes and license fees to other towns and provides a list of summer revenue in descending order by amount of revenue generated.

Discussion

Mr. Dorfman stated he felt the easiest way to generate the funds is by increasing the annual parking rate by \$0.25 per hour. This would generate at least \$190,000. Mr. Graviet added that the daily and weekly parking permits would be increased by roughly the same percent as the parking rate is increased.

Mr. Rossi supported raising the rental tax rate from 6% to 7% or 8%.

Mr. Morris commented that increasing the parking rate would target the day visitors.

Mr. Gravier noted that the Town of Dewey Beach and the City of Rehoboth Beach only charge a 3% rental tax.

Mr. Morris questioned if the Committee is discussing funding for the proposed Storm Emergency Relief Fund. Mr. Gravier responded that at the moment, the discussion is to cover the seasonal shortfall. It is up to the Town Council to decide if it wants to create this fund and task the Committee, or others, with finding ways to make it happen.

Mr. McGuire favored not adjusting rental taxes this year. He suggested that the contract for concession fees be changed to require revenue and cost figures so that a rate can be better negotiated.

Mr. Gravier said that the Town currently charges \$3,000 and \$6,000 for shuttles to operate in Town, that rate should be increased by the same percentage as the hourly parking rate.

Mr. Morris suggested increasing the trolley rider fee from \$0.25 to \$0.50, noting that it would take more like \$2.50 per rider to cover costs.

Mr. Rossi made a motion to increase the hourly parking rate by \$0.25 and increase the daily/weekly parking permits and shuttle fees by the same percentage. Mr. McGuire seconded the motion and it was unanimously approved.

The meeting was adjourned at 2:20 p.m.