

Budget and Finance Review Committee
Meeting Minutes
January 25, 2008

The Bethany Beach Budget and Finance Committee held a meeting on Friday, January 25, 2008 in the Town Meeting Room.

Members present: Jerry Dorfman, Chairman, who presided; Don Doyle, Jack Gordon, Joseph Healy, Denise Boswell and Phil Rossi.

Members excused: Stanley Berkman.

Also present: Cliff Graviet, Town Manager; Janet Connery, Finance Director; Carol Olmstead, Mayor; Tony McClenny, Vice-Mayor; Tracy Mulligan, Town Council Member; JoAnna Nichols, Administrative Secretary; and other interested members of the public.

Call to Order

Mr. Dorfman called the meeting to order at 2:00 p.m. He announced that Stanley Berkman was excused from today's meeting. He then welcomed Denise Boswell, a new committee member.

Approval of the Agenda

Mr. Doyle made a motion to approve the agenda. The motion was seconded by Mr. Healy and was unanimously approved.

Approval of the Minutes from the October 5, 2007 meeting

Mr. Dorfman made a motion to approve the minutes as amended. The motion was seconded by Mr. Doyle and unanimously approved.

Review 3rd quarter budget results

- With the current housing market decline, transfer tax collection is lower than in the past few years but still on target to reach the amount budgeted. For this fiscal year to date we have received \$587,000 out of \$600,000 budgeted.
- Rental tax and parking revenue are both in excess of the amount budgeted for the year indicating that we had a very successful summer season.
- Investment Income is exceeding the amount budgeted since we have more cash to invest and have been able to negotiate favorable CD rates with area banks.
- Building Permits may end the year short of the amount budgeted due to the housing market decline. We expected to receive permit fees from the Blue Surf condominiums this year but this construction has been delayed.
- Water Usage revenues are in line with the amount budgeted. Typically the billing for the second half of the year generates around \$260,000. Water Impact fees may end the year under budget due to the housing market decline.
- In general we should end the year at least \$100,000 over budget in revenue.
- In operating expenditures we should end the year at least \$50,000 under budget.

Review revenue sources

- Ms. Connery passed out a pie chart comparing the 2009 General Fund Revenue Budget to the actual revenue received in FYs 2006 & 2007. She commented that the FY 2009 pie is much healthier than prior years, which relied heavily on unreliable income sources such as transfer tax.
- The FY 2009 General Fund Revenue budget is only \$10,200 (0%) more than what it was in FY 2008.
- Transfer Tax revenue budget is being decreased from \$600,000 to \$450,000 as the housing market decline continues.
- Building Permit revenue budget is being decreased from \$300,000 to \$200,000 for the same reason.
- Rental Tax revenue budget is being increased from \$720,000 to \$860,000 to reflect the rate increase from 5% to 6%, which was approved last March. The implementation of the new rate was delayed a year to allow realtors time to adjust.
- The Interest Income budget was also increased from more cash reserves held in investments.
- Sanitation Revenue is increasing \$21,500 (3%) due to the addition of the recycling program. To date only 220 properties have signed up for the recycling program, which is disappointing.
- Water Operating Revenue is budgeted without a change, but this will be discussed later. The Water Impact fee budget is \$25,000 less than FY 2008 due to the housing market decline.

Discuss operating budget for fiscal year 2009

- Ms. Connery said that the budget document is designed to provide information to interested citizens and so an effort is made to keep it fairly clear and concise. Several changes have been made to the budget format this year to make it easier to understand to the average reader including the addition of a Table of Contents and the addition of the Budget Overview which explains the budgetary process and budget segments.
- Another change this year is separating Sanitation completely from the General Fund. While the Sanitation department has been treated as a self-supporting entity for the past few years separating it into its own fund this year formalizes this treatment.
- This year's budget includes new sections in the General Fund and Water Fund called Capital Replacement Reserves. This was based on a suggestion made by Mr. Healy. Using these Reserves, the town will put away funds roughly equal to 5% more than annual depreciation expense. These funds will then be used to fund the replacement of capital assets when needed. Capital projects and purchases that are enhancements or improvements would be not be funded from Replacement Reserves.
- Also new this year is a summary of the operating budget by type of cost (page 8), This was also a suggestion made by Mr. Healy. This page clearly shows that the

Town's total costs are more than half from Personnel, followed by Contracted Services.

- Ms. Connery said she rounded the figures for the FY 2009 budget to the nearest \$1,000.
- Mr. Gravier mentioned that the draft budget with the changes made at today's meeting will be posted on the website the following Monday or Tuesday.
- The total General Fund operating budget for FY 2009 is \$18,000 more than FY 2008, which is a change of 0%. Specific changes include increasing the number of seasonal lifeguards to patrol the larger beach, not rehiring two vacant full time Public Works positions, and changes in the Beach, Boardwalk & Comfort Station budget to cover the cost to perform beach cleaning ourselves rather than hiring a contractor. The increased size of the replenished beach prompted this change.
- The total Sanitation Fund operating budget for FY 2009 is \$16,000 more than FY 2008, which is an increase of 3%. This is due to the new recycling program.
- The total Water Fund operating budget for FY 2009 is \$29,300 more than FY 2008, which is an increase of 4%. The increase is mainly due to changes in the water treatment process increasing chemical costs and additional overtime.
- Mr. Gravier reviewed the Capital Budget detailed on pages 10 and 11. The main items in the General Fund are \$85,000 to add a solar power system to the room of Town Hall, \$135,000 matching funds for boardwalk construction at the conservation area, and \$60,000 for purchase of beach cleaning machinery. The Sanitation Fund has budgeted to replace two trash trucks. The Water Fund budget includes \$100,000 to replace the aerator, which will increase our capacity and \$120,000 to move the water line at the library property.

Discuss long term Capital Expenditures & Revenue

- Ms. Connery passed out a worksheet titled Water Department Major Equipment Inventory. She said this worksheet shows that the condition of almost all of our equipment is excellent. It also shows that it is difficult to predict when equipment will need to be replaced since a piece of equipment can last 8 to 40 years while structural items like wells can last 25 to 75 years before replacement is needed.
- Ms. Connery passed out a worksheet titled Town of Bethany Beach Long Term Water Fund Operating Projection. She explained the worksheet and pointed out that the cash status of the water department is rapidly declining, becoming negative after FY 2012. With the upcoming capital needs of the water department the Town needs to address this decline and start saving up money for future repairs, replacement and improvements.
- Ms. Connery passed out a worksheet titled Comparison of Estimated Annual Water Costs at Current Rate Schedule. She explained that this worksheet illustrated how the Town is currently charging less for water service than others in the area.
- Ms. Connery said that the Town should increase its Water Usage revenue by at least \$250,000 per year to cover operating costs, depreciation and to accumulate funds for large future projects and equipment replacement.
- Ms. Connery passed out another worksheet showing the effects of various changes to the town's water usage fees. After committee members had a few

minutes to evaluate the different options the discussion focused on option #7 which would increase rates for in town users to a \$125 flat rate plus usage rates of \$3.50, \$4.50 and \$5.50 depending on gallons use. Out of Town rates would increase to a flat rate of \$180 and usage rate of \$5.50. This option would generate an estimated \$278,000 additional revenue. The increase to the average property owner would be between \$110 and \$150 per year, less if the household made reasonable attempts to conserve water.

- Mr. Doyle made a motion to support the rate increase of option number #7. Mr. Gordon seconded the motion and all were in favor.

Set date for next Committee meeting in February

The next scheduled meeting is set for Friday, February 29, 2008 at 2:00 p.m.

The meeting was adjourned at 3:55 p.m.

Respectfully submitted:

Janet Connery
Finance Director