Budget and Finance Committee
Meeting Minutes
November 20, 2009

The Bethany Beach Budget and Finance Committee held a meeting on Friday, November 20, 2009 in the Bethany Beach Town Hall meeting room, 214 Garfield Parkway, Bethany Beach, DE 19930.

Members Present: Jack Gordon, Chairman, who presided; Chuck Peterson; Don Doyle, Stan Berkman, Denise Boswell, and Phil Rossi.

Excused Members: Joe Healy

Also Present: Cliff Graviet, Town Manager; Janet Connery, Finance Director; Mayor Tony McClenny; Vice Mayor Carol Olmstead; Council member Jerry Dorfman; Council Member Margaret Young; Pat Neary; Jim McGrath; interested members of the public; and Administrative Secretary, Lindsey Shallcross.

Call to Order

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

Approval of the Agenda

There was a correction made to the agenda. Mr. Doyle needed to leave early so the agenda was revised to move the Fund Balance policy to first and the financial review to last.

Mr. Berkman made a motion to approve the revised agenda. Ms. Boswell seconded this motion and it was unanimously approved.

Approval of Minutes from the July 17, 2009 Meeting

The minutes were not approved. This item was unacknowledged after the revision of the agenda.

New Business

Review and finalize proposed fund balance policy statement

Mr. Doyle summarized the discussion that took place at the July meeting. At the July meeting, Mr. Gordon had asked Mr. Healy and Mr. Doyle to meet with Ms. Connery to work on revisions to the draft policy. They met on September 4, 2009 along with Ms. Boswell.

Mr. Doyle shared copies of his document "Thoughts Regarding Capital Reserve Replenishment" and addressed each point along with how the discussion at the smaller meeting progressed.

> #1: *"The principle issue arising from the Budget Meeting in July was that the basis used in the General funds reserve Projection was the $10, 767,966 depreciable asset total with*

no recognition for the fact that assets making up this figure had distinctly different life expectancies or that outside financing was essential part of their future replacements."

- Longer lived assets, such as buildings, should be treated separately from shorter lived assets.

  #2: *"The three (or four) categories suggested in Joe Healy's and Janet Connery's schedules now recognize the need for individual projections for these categories. By using these separate categories the Town has a much better Capital Funding policy to document the why and how these dollars are being reserved- particularly when questions are raised about the reasons these dollars have been so earmarked."*

- Mr. Healy proposed dividing the assets into three categories while Ms. Connery recommended four. The Committee discussed and decided to support the four categories.

  #3: *"This new basis for funding reserves also addresses the essential tax issue of just how much should today's property owners have Town revenues (including their taxes) be used to fund reserves for the replacement of assets in the distant future. It is entirely reasonable to expect that future property owners also need to pay their fair share of such reserve building. By the use of realistic life expectancies, all taxpayers, current and future, will participate- and that will insure current property taxes are set at levels of primarily needed to manage today's Town expenses."*

- Reserves should be funded by both current and future property owners and users of the town.

  #4: *"Lastly, these current reserve projections and their maximum limits also recognize the reality that in the reserve funding process for our major assets (e.g. Town Hall, water plant ect.), borrowing either from banks and/or the bond market will of necessity be an essential part of those financing scenarios. Replacement reserves are only one part of this strategic planning for such capital funding."*

- Debt of some sort will be an essential part of future replacement of town assets.

  #5: *"One other factor (mainly for the Town Manager of the Council) to project in the amount placed in capital reserves is that in certain situations, as we have had in the past for the building of our Town Hall and the purchase of the land at Rtes' 26 and One, was when borrowing is repaid in less than 5 years we avoid the referendum process which can easily become a political football. The point here being, in such cases, there may be a desire to increase related capital reserves beyond the "maximums" to have larger reserves and therefore small borrowings."*

- Reserves can limit our need to seek long term debt. Any debt issuance of more than five years must have voter approval.

Mr. Doyle read the "Draft Fund Balance Policy" document to the Committee members.

He commented on the ending of the Beach & Boardwalk Reserve, explaining that the Town will never be able to afford replacing the beach, and it is State owned. This reserve is intended mainly for the boardwalk. Since the policy will set up sufficient capital reserves, and would supply funding for boardwalk repair, the Beach & Boardwalk Reserve is no longer needed. He mentioned that this reserve has been perceived as a beach replenishment fund, which it is not.

Mr. Doyle concluded by stating that the fund balance policy is a good management tool. Forward thinking like this has helped the Town stay in good financial condition while other towns have struggled.

Mr. Gordon reported the following concerns of Mr. Healy who was unable to attend:

- Mr. Healy recommended increasing the percentage range of 40-year assets, stating that the 5% minimum was too low. Mr. Gordon said the Committee would discuss this.

- Mr. Healy wanted to include guidance on debt issuance. Mr. Gordon said that the Committee could consider preparing a Debt Policy in the near future, but he wanted to keep that separate from the Fund Balance policy currently under discussion.

Mr. Gordon mentioned the two-page report headed "Comparing the current budgeting method to budgeting using the draft Fund Balance Policy", which the Committee received on Tuesday, November 17th. He asked Ms. Connery to review this analysis and the draft policy.

Ms. Connery acknowledged that these pages show the effect that the policy would have on the budget process and shows the effect of the changes made since the last meeting. The policy would change how the Town budgets.

The Committee's current process is to take the prior year's balance in the reserve, add the current year's contribution (depreciation plus 5%), and subtract the current year's budgeted replacements to determine the balance held in the Capital Replacement Reserve.

Under the new policy, the Committee would reallocate all funds each year. Money would be allocated to the operating budget, the Operating Reserve to at least the 15% minimum in the policy, then to any specific reserves and the capital reserve. There would not be a carrying forward of capital reserves as is currently done.

Benefits of budgeting using the draft policy include:

- It addresses the concerns raised by property owners at the budget hearing last March by setting recommended minimum and maximum reserves.

- The process and resulting budget should be easier for lay people to understand.

- The Budget Committee will have clear guidance to use to determine if current fees and taxes are inadequate or excessive.

- The Committee and Council will be able to use the policy to help determine if they support or oppose spending for a specific capital project.

The recommended minimum reserve in the general fund would be $3.7 million. While this looks like, and is, a lot of money, it is less than one year's operating costs, which is a reasonable amount to hold in reserve. Preliminary estimates for FY 2011 show $3.8 million in reserves.
The Sanitation fund would be over the maximum in FY 2011, but would be reduced to within the recommended range of two years as trash trucks are replaced.

The Water fund has approximately 28% more than the minimum the policy recommends, though much of this is in the water storage reserve.

Ms. Connery addressed Mr. Healy's concern that the percentage range for 40 year and above assets is too low. She explained that using a higher percentage for the minimum would have the Committee recommending a water rate increase in the near future. The Committee and Council should be aware of this as they discuss the policy.

Pat Neary asked where the figures lay in the asset life classification. Ms. Connery explained that in the General fund; $3.6 million has a useful life of under 8 years, $1.6 million with a life of eight to fifteen years, and $5.6 million in assets with a life over 15 years. In the Sanitation fund all assets are under 8 years since they are the trash trucks. In the Water fund over $5 million of $6 million in assets have a useful life of 40 or more years. This is predominately underground piping.

There was brief discussion of a replacement plan for underground pipes. Town Manager, Mr. Graviet explained that the Town did have engineer estimates for pipe replacement, which put the cost at many million. The Town has taken the engineer's recommendation that we replace pipes as they become problematic rather than trying to set a schedule for replacement.

Mr. Graviet expressed that he felt it was important that the policy be seen as recommending minimums and not making them a requirement. The Committee supported this.

Ms. Connery pointed out that the draft policy uses the word "recommended" for the minimum but not for the maximum, since she was unsure if the Committee wanted a firm cap on reserves.

Mr. Peterson voiced his opinion that the maximum should be a recommendation, especially since the Sanitation Department is currently above that maximum. The Committee supported making the maximum a recommendation and not a true cap.

Mr. Doyle made a motion to support the draft policy with that minor change and to use this policy for FY 2011 budget preparation (unless Council revises or votes against). Mr. Berkman seconded this motion and it was unanimously approved.

Mr. Gordon encouraged the Committee to attend the Council Workshop on December 17, 2009 when this policy will be discussed.

Old Business
Review DELGIP Investment

Ms. Connery explained that DELGIP is the Delaware Local Government Investment Pool, a State managed pooling of funds from municipalities throughout Delaware. The State has a higher amount of money in investments and hires cash managers to maximize returns while minimizing risk and the pool lets small governments take advantage of this.

A concern has been raised because Town funds in this pool are not FDIC insured or collateralized in the Town's name. The State manages the funds so all collateral is in the State's name.

The questions addressed by the Committee were:
1. Should the Committee move these funds elsewhere to earn a higher interest rate?
2. Does the Committee want to recommend revising the Investment Policy to remove DELGIP as an "Authorized and Suitable Investment"?

Ms. Connery added that the Town currently has $300,000 in this pool and directed attention to copies of the section of the State's policy which addresses DELGIP investments. The Committee could get a better interest rate on the money if we transferred it to PNC or Del National.

Mr. Doyle expressed that he would rather the Town manage its funds on their own.

The Committee agreed that they should move the funds out of DELGIP to improve the interest earnings. They did not feel that we needed to amend the Investment policy at this time.

Mr. Doyle excused himself from the meeting at this time due to prior obligations.

New Business
Discuss proposed changes the Schedule of Fees

Building Permit Fee
Mr. Gordon reviewed the proposed building permit fee change, which the Council will review at the meeting held that night. Mr. Graviet added that the Committee developed the current fee structure based on recommendations from the former building inspector. The new Building Inspector has recommended this revision.

Basic Court Fee
Ms. Connery said that the proposal increased the basic court fee from $15 to $20 to match the State, which recently made the same adjustment.
The increase would bring the revenue up to roughly equal the cost of running the court. The Committee could raise their fee to more than the State charges, but the Town has generally felt that it is better off following the State's example when it comes to traffic fines and fees. The Council will consider this change at a future meeting.

The committee supported these two fee changes with little discussion.

Review financial results through October 31, 2009 (Ms. Connery)

Ms. Connery began her review of the current fiscal year to date by stating that the Town is doing very well, considering the countrywide problems with the economy. The Budget Committee anticipated a reduction in summer revenue, planned ahead and the Town is in good shape because of this.

Points specifically mentioned include:

General Fund Revenue

- Ms. Connery reported that the Property Taxes are as budgeted.

- The Transfer Taxes have exceeded the amount budgeted at $510,000. An additional $40,000 has been received this month making the total $550,000. This is very good considering the housing market. The average collection for November through March for the past 3 years is $254,000, but the Town can't safely predict it will receive that much more.

- Rental Tax receipts are still being received. Receipts through November 19th were $827,000 which is 3.7% less than prior year. Receipts from the 11 largest renters in the Town show a 6.5% decrease. If there is a 6.5% decline from last year, the Town will end the year with around $850,000, only $11,000 short of the budget.

- Licenses, Permits & Fees: Building permits is the largest of these and shows what seems to be a large decline. Revenue has declined mainly because last year had revenue from the Blue Surf building permit of $170,000. As of November 19th , the Town has received $171,000 The budgeted amount should be reached and even exceeded. Mercantile Licenses (Business & Rental) are down slightly (4.6%) from last year.

- In Parking, the Town budgeted anticipating a 5% decline in summer visitors, which is roughly what the summer's parking meter revenue shows. Parking fines were increased after the budget was approved, which is why that revenue is exceeding the budget. The Town will most likely receive $30,000 more in parking fine payments bringing parking revenue to at least $100,000 over budget.

- In total, the General Fund revenue will exceed the amount budgeted by at least $150,000. More would depend on transfer taxes and building permits.

Ms. Boswell asked about the revenue from contributions. Ms. Connery responded that last year the town received $3,200 from the Historical Society for the wall of service, which was a one-time donation. Contributions for the Cultural & Historic Affairs Committee are made up of craft show fees, which are received in February and March.

Mr. Neary questioned the sale of fixed assets in the Sanitation Fund last year. Ms. Connery said that the Town replaced a trash truck and sold the used truck. He inquired if the Town was planning to sell any assets as other governments are considering compensating for budget shortfalls. Ms. Connery responded that the Town has no such plans.

Mr. Neary asked for details of the Bandstand & Entertainment budget. Ms. Connery explained that the main item of that budget was $41,000 for contract services, which mainly

consisted of bandstand performances. Personnel costs (for the entertainment director and a sound technician) and the fireworks budget are the other two main pieces.

Mr. Neary commented that if the Town is only spending $40,000 on bandstand performers through the summer then we are receiving a lot for that money.

Ms. Connery continued her review of revenue:

Sanitation Fund Revenue
This fund should reach the total budgeted.

Water Fund Revenue
Water Use is approximately 7% less than last year from fewer gallons used. This is the lowest number of gallons used in a summer season since FY 2004. This is consistent with the reduction in rentals and with the summer's rainfall, which reduces the amount of lawn irrigation. This revenue will probably end the year $40,000 to $60,000 under the amount budgeted.

Impact fees will make up for the decline in water use. That revenue is already $88,000 over budget from the Blue Surf project.

In total the Water Fund should end the year at least $50,000 over budget in revenue.

Operating Costs
The Town as a whole should end the Fiscal Year at least $100,000 (2%) under budget.

Personnel costs in total will end the year at least $100,000 under budget for the following reasons:

1. A reduction in seasonal and overtime hours of $50,000 in the Police and Public Works departments.
2. A decline in Worker's Compensation rates saving the town $30,000.

Beach Patrol has exceeded their budget by $19,000 in total so far. More lifeguard stands were in place this year, full staffing started earlier than usual and Labor Day was late. Rip currents also caused safety concerns. A budget amendment will be done in the coming months.

Comparison of this year to last year
The Town has spent $171,000 more than last year though the same date. Specific reasons for this include:

- $43,000 increase in seasonal lifeguards.
- $25,000 contribution to new library made earlier this year.
- $22,000 parking meter refurbishment done preseason rather than after the summer.
- Higher repair and maintenance costs in the Water fund

Grants

There has been a reduction of over $150,000.

- Municipal Street Aid Grant reduced from $132,500 to $0. $100,000 was reallocated from the Collins Street sidewalk project, which was cancelled, to the street paving project.
- Sussex County vehicle grant reduced from $25,000 to $15,000.
- Police Retirement grant reduced from $46,000 to $35,000.

Mr. Neary mentioned a time when he witnessed a police car left idling for hours and questioned why this was done considering the cost of fuel. Mr. Graviet responded that the police officers are reluctant to turn off the vehicles since the equipment in the vehicle reboots whenever the car is turned off. This could cause delays when responding to an emergency.

Mr. Gordon asked the Committee members and others if they had any additional questions or comments. There were none at the time.

Motion to Adjourn

Mr. Peterson made a motion to adjourn the meeting. Ms. Boswell seconded this motion and it was unanimously approved.

The meeting was adjourned at 3:25 p.m.