

**TOWN OF SOUTH BETHANY
BUDGET AND FINANCE COMMITTEE MEETING MINUTES
APRIL 21, 2012**

The B&F Committee met at 10:00 on 4/21/12 at the Police Conference room. In attendance were Pat Voveris, Kent Stephan, John Fields, Keith Krenz, Melvin Cusick & Renee McDorman. The agenda was followed for discussion.

Phone Participation for Committee Meetings

Melvin spoke to our Town Council & committees being subject to FOIA. This subject came up in 2009 when the Mayor wanted to vote on the draft budget when he was out of town. Though our Charter speaks to creating an ordinance to allow phone participation, discussion took place about the possibility that Delaware law could supersede South Bethany mandate. John made the suggestion to contact Hocker's office for an opinion rather than to take the risk and just follow Charter. The group felt our attorney should be able to render an opinion encompassing both South Bethany and Delaware.

Internet Tracking on Rental Revenue

Keith has found nothing new since his research last fall. At Kent's recommendation last year, an area was added to our rental application for an owner to list their internet account number. Keith spoke to towns doing this, as well as, adding language to the rental agreement that spoke to a town's ability to audit personal income tax returns to verify what an owner claimed to the town matched what was reported to the IRS.

The threat of non-reporting of rental revenue is real and of great concern to resort towns in the country. Kent said the penalty for non-reporting should be onerous.

Discussion ensued of how a town would even pursue auditing. It is clearly a complex legal issue. Overall, the committee felt the insertion of language into the rental application might be enough of a deterrent.

Renee is monitoring revenue by property for a period of several years to spot discrepancy and trends. She spoke to some rental applications citing "Big Brother" tactics and others not providing requested information.

Keith spoke to the difficulty of internet auditing and the ease of tax return auditing. Again, the legal ramifications and reach of our Town are issues.

Keith also spoke to getting word out in our newsletters via SBPOA and the Zephyr about the importance of our rental revenue and the need for honesty and accuracy in reporting.

Financial Policy

This discussion was delayed until our next meeting when Steve Farrow would be present. Steve formulated the policy and will see it through to completion for recommendation to Council.

Property Tax

Tax rates of South Bethany were compared to local jurisdictions. Additional information included gross property tax revenue per town divided by number of households.

Keith spoke to looking for a commonality or benchmark by town. This information at hand is a first cut and does illustrate some tremendous difference in the low amount of tax generated by properties in South Bethany.

He further spoke of lack of a long range plan on part of the Council. This results in making decisions based only on the budget at hand. No targets or objectives being in place stifle projections.

Both Kent & Keith spoke to our status quo existence. Pat spoke to the need to be proactive, rather than the reactive existence we choose.

Discussion took place about the pending Rehoboth reassessment, and the cost, and the effect. Ultimately the amount of tax generated will not necessarily increase overall, but just change by property per its location.

Further discussion on long range planning took place. Pat suggested the Planning Commission or even B&F input, but the group felt a separate and distinct committee should be established or a consultant for such be sought. B&F can quantify costs once information was formulated.

Kent spoke to the lack of wiggle room in our budget. Keith spoke to the lack of ability to fully fund our ARM Reserve, with inflation. He spoke further about lack of beach replenishment reserves. Pat noted they once accounted for \$800,000.

ARM Reserve

Pat spoke about the refining of the schedule working with Melvin & Renee. This excluded grant items, included MSA allocation, and increased the buildings' useful life years.

She then reviewed schedule amounts for funding without inflation, with inflation, and the Bethany Beach approach.

Keith spoke to the Bethany Beach approach as being reckless. Saving only a fraction of future replacement was nothing short of irresponsible. He further spoke to what might be the end of grants and MSA money moving forward.

Kent spoke to looking at the buildings for maintenance items, not replacement. The buildings could last 200 years. He further spoke about including such a large amount for inflation being too much of a current burden for a long time future need. Keith spoke in support of the compounded inflation rate as necessary to have required cost coverage in the future.

Keith said a decision was made 2 years ago to include inflation so future generations would not be as burdened with replacement.

Bethany Beach Approach

Pat spoke about a conversation with the Bethany Beach CPA regarding inclusion of depreciation as a line item on the first draft budget page. Pat is not in support of this approach as it is not correct accounting and it would trigger a revenue shortfall and property tax increase. The CPA agreed with this premise.

Funding ARM Reserve

When we look to fund this we should first look to unallocated reserves. By the same token, there must be a recommended remaining balance in unallocated reserves never to be touched. GFOA recommends at least 2 months of operating reserves.

Our Future

Discussion then took place about how little our Town would change in the future with the idea that condos would never be introduced and with buildings being well maintained, why would we ever need to replace them.

The question was raised as what would happen first - the need for new buildings or a significant beach event. The group agreed to the real need for a beach reserve. We can lessen the load for buildings and consider establishing this.

The real possibility exists that one day the federal government will look to town participation on beach recovery.

Budget Cuts

Because our budget is so lean, the only likely cut would have to be in Services. The Police Department is more than 30% of our budget. Their service is highly valued by our owners, ranking #2 in Satisfied, in the recent Town Survey. Compared to neighboring towns, the number of South Bethany personnel is smaller. A financial handout will be prepared for Council.

Use of Transfer Tax Revenue

The last item on the agenda was information on the use of Transfer Tax Revenue to fund the ARM Reserve. GASB rules allow for 1/2% of such revenue to be set aside, and this concept is supported by our auditor. The practice would enforce savings, and in the event of a revenue shortfall on the first draft budget page, provide a legitimate avenue for a property tax increase.

John commented on the viability and sense of this approach and voiced his support of it.

Adjournment

The meeting was adjourned with plan in place to meet again on May 4th at 4:00 in Town Hall.