

REHOBOTH BEACH BUDGET AND FINANCE UPDATE

The City's finances are facing increasing attention, as Commissioners continue to ask staff for details of a surplus from the prior fiscal year (FY24), overall fund balance, and other investments. In the past 4 months, the Mayor and Commissioners have been told that the city's financial position has gone from a possible deficit to a significant surplus. Therefore, we are providing our members with the latest update as of July 19.

January - March

Following a series of six winter budget meetings, Commissioners on March 15, approved a budget of \$38.7 million for FY2025, which began April 1. They cited capital improvements, additional staff, and greatly increased healthcare insurance costs as major budget challenges. They announced that, in order to balance the budget for this fiscal year, a 29% property tax increase and a 28% wastewater fee increase were necessary, along with raising business license fees, parking rates and rental tax. At that time the Commissioners were informed of significant fund reserves but elected not to balance the budget using those funds, saying they were being held in case of an emergency.

June

During the budget process, Commissioners questioned city staff about surpluses from prior years, and the city's "rainy day" fund ("Fund Balance"), so that a formal policy could be established. Staff presented a Fund Balance and Net Position Policy recommendation at a Commissioners workshop June 10.

https://cityofreboth.civicweb.net/document/243775/Review%20and%20discuss%20the%20City_s%20Fund%20Balance%20and%20.pdf?handle=16B3E870EC0D4B70A772B05D6E7C1902

The goal of a Fund Balance and Net Position Policy is to have "sufficient financial base to sustain municipal services and to maintain the social well-being and physical conditions of the City" in the event of any environmental or economic hardship. (Think Superstorm Sandy and the forecast of a very active hurricane season.)

Staff recommended 60% of the annual operating budget (approx. six months of high seasonal operating expenses), plus 100% debt service and 100% capital improvement budget be set aside as a minimum fund balance. All in, the recommended balance was \$22.2M and staff reported that the current balance of the Fund is \$20.9M, which still left a shortfall of \$1.3M.

At that time, staff also projected a surplus from FY24 of \$1 million in the General Fund (as well as \$1 million in the Water Fund), which would reduce the shortfall in the recommended Minimum Fund Balance.

There was discussion of nationwide best practices, which hovers around holding 20% of the city's operating budget as a fund balance. But as a seasonal community, it was recognized that it may be prudent for Rehoboth Beach to set aside more, to account for the disparity in income and expenses from season to season and month to month.

July

The City's Finance Director gave a more detailed presentation of the City's overall financial health at the July 19 Commissioners meeting, which included some data previously not made available to the Commissioners

- The surplus from FY24 is now projected to be at least \$2.7M.
- There is still an additional anticipated \$1M surplus in the Water fund.
- All of the city's debt is financed at 2% or less; Sussex County pays 42% of the debt associated with the wastewater treatment plant.
- YTD for FY25 (April-June), revenues are \$5.8M vs \$4.8M for same period last year, suggesting increases in parking fees have not had an adverse impact on parking revenue.
- Parking revenue makes up 44% of our budget.
- In addition to the surplus figures above, the city also invests in T-bills. Starting in late 2022, \$23.5M was invested and the current value of those T-bills is \$25.3M. They are projected to earn about \$1M this year.

The Finance Director summed it up by saying: "At no time in the history of Rehoboth Beach has the city been in a stronger financial position," and adding that cities five times our size don't have fund balances this large.

After the presentation, some Commissioners expressed frustration over not having some of this information when the current year budget (FY25) was developed and approved by a narrow margin, 4-3, in March. At Friday's meeting, some Commissioners said the outcome of the property tax discussion may have been different if this information had been known. In the future, they want to see accurate facts shared in time for making budget and tax decisions.

Toward the end of the meeting, Commissioners asked when they will see a revised FY25 budget and an updated recommendation on a Fund Balance Policy. Staff is currently gathering actual expenditures for beach maintenance and estimates for rebuilding the boardwalk in the event of a catastrophic storm, and City Manager Taylour Tedder is surveying best practices in other communities and sharing best practices from his career. An update is expected sometime in August. We will keep you apprised as further information becomes available.