



Bethany Beach Landowners Association (BBLA)

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February 13, 2015

TO: Town Council Members and the Town Manager

We write to share with you some initial thoughts regarding the Storm Emergency Relief Fund ("SERF") item on your February 16 workshop agenda.

We think it helpful to break down SERF into six separate issues: (1) Is a SERF necessary, (2) What should be the precise purpose or purposes of such a fund (for example, should it be restricted to repairing damage caused by a future "super storm" or should it also be available to pay for periodic beach replenishment), (3) How much money should be put into such a fund, (4) How fast should the money be accumulated, (5) Can neighboring communities be persuaded or expected to contribute to a SERF and (6) How should the Town raise the money (or its share of the money) for the fund?

First. The BBLA Board believes that the Town should create a SERF.

We see three arguments against creating a SERF: It is unnecessary because in the event of catastrophic storm damage to Bethany's beach and boardwalk the Federal and State governments will come to our rescue. Creating a SERF is unwise because if we have such a fund that fact will be cited as evidence by those who want to cut government funding that beach communities can take care of themselves. And third, Bethany cannot afford to create a SERF.

The primary argument in favor of creating a SERF is that, in the event of catastrophic damage, FEMA would cover no more than 75 percent of the cost of repairing or replacing the boardwalk and restoring the beach and dune. Bethany's 25 percent could amount to a very large sum of money. That money would be needed quickly to get the Town back on its feet within a reasonable period of time. But raising large sums quickly after devastating damage to public and private property could be very difficult, if not impossible. Even if loans could be found to pay Bethany's share, there would be significant interest to pay. A reserve fund, on the other hand, would not only avoid or reduce that interest expense but would earn interest until the funds were needed. In short, a reserve fund in the long run would save money.

The three arguments against creating a SERF strike us as unpersuasive. First, it is unrealistically optimistic to assume that Congress and the State government will always come to our rescue given the widespread concerns over government deficits and hostility towards tax increases. Second, contrary to the rosy assumption that Washington and Dover will always be there for us, the concern that Bethany's creation of a SERF would encourage a cutback in Federal and State money, on the theory that we don't need any help, represents a doom and gloom outlook. Perhaps if hundreds of coastal communities around the country had fully funded SERFs the fear that this would create added pressure for cutbacks in federal and state support might have some merit. But what is at issue here is whether one community – Bethany -- should begin to create a fund to cover its share of the costs that would not be covered by current FEMA programs. A SERF created for that limited purpose cannot legitimately support cutting back on current FEMA programs.

As for the argument that Bethany cannot afford to create a SERF, much will depend on three factors: how large a fund is prudent, how much time can be taken to accumulate the desired reserve and whether other communities would contribute to the fund. Another important factor will be whether new sources of revenue can be found. But more fundamentally, how can we afford not to create a SERF given the risk of catastrophic storm damage and the greater cost of postponing raising the money that will be needed to deal with it.

Second. Should a SERF be available for any other purposes such as future periodic beach replenishment? The possibility of Federal and/or State government cutbacks or even the elimination of funding for beach replenishment cannot be ignored. On one side there is great pressure to reduce government expenditures; at the other end of the political spectrum are some extreme environmentalists who argue that destruction of beach front property is both inevitable and desirable. Perhaps use of a SERF for other purposes such as periodic beach replenishment need not be addressed unless and until Federal and State cutbacks in replenishment funding occur. Still, the possibility of such cutbacks provide a further reason for creating a SERF that could if necessary be used for other similar purposes.

Third and Fourth. The answers to how much money should be placed in a SERF and over what period of time it should be accumulated will depend in large measure on expert estimates of the amount of money that would be needed in the event of a catastrophic storm and the likelihood of such a storm hitting Bethany within some predictable period of time. We claim no special insight on these issues. But certainly 25 percent of the cost of replacing the boardwalk and repairing the beach and dune would amount to a very large sum and the time over which to accumulate it will not prudently be multiple decades.

Fifth. We cannot now predict whether other communities can be persuaded or compelled to contribute to a SERF. Since residents of nearby communities use and enjoy our beach and boardwalk – and the value of their property is enhanced by its proximity to our beach and Boardwalk – there certainly are strong reasons why they ought to contribute. But getting contributions from other communities will require a good deal of effort and doubtless a large amount of time. State or County legislation may be required. No matter how successful efforts to obtain such contributions, there is a very high probability that Bethany will have to raise a substantial amount itself. Starting the process of creating a Bethany SERF promptly seems prudent, while simultaneously pursuing efforts to obtain contributions from others.

Sixth. Finally, we want to share some thoughts on raising the money. What new revenue sources can be found and if new sources will not be adequate how can increases in existing sources of Town revenue be equitably achieved? Additionally what existing or projected expenses can be cut so as to free up revenue for SERF? Other than a few suggestions below, we will not attempt in this letter to outline all the possible answers to these questions. We believe, however, that a guiding principle in searching for answers should be that no one single answer is likely to be appropriate. The pain of new or increased taxes or fees, or from the loss of existing services, should be widely and equitably shared.

The additional tax revenue that the new hotel will generate strikes us as one source of money for SERF that merits serious consideration. At least by 2016 if not this year the new hotel should produce substantially more occupancy tax revenue than was produced by the old Bethany Arms because the new hotel will have many more rental units. The new hotel should also yield substantially higher property tax revenue because it will be assessed at a higher value than the Bethany Arms. Why not dedicate these incremental increases to SERF rather than simply allowing them to go into the Town's general budget?

Other possible new sources of revenue to be explored are a tax on beach rental equipment to be collected by the Steen operation and paid over to the Town, and/or adjustments to the fees the Steen family pays. For example, the concession fee could be modeled on the terms typical of rentals of space for retail activities under which the landlord (in this case the Town) is paid a percentage of both the gross revenue and net income of the retailer. Other possible new sources of revenue also need to be identified and considered.

As for increasing revenue from existing sources, the BBLA Board would strongly oppose increased property taxes as the sole or primary source of revenue for SERF. No one group should bear the sole or primary burden of contributing to a SERF. This is not to say, however, that a nominal increase in property tax revenue would be unacceptable if it was a small part of a larger package of fund raising measures and if sufficient new sources of revenue could not be found.

We understand that increases in parking fees in increments of less than 25 cents per hour would present problems because coin-fed parking meters are still in use a few areas. An increase of 25 cents per hour (plus appropriate adjustments in related parking fees and penalties) would produce estimated additional revenue of \$190,000 per year. However, parking fees are already quite high and the Finance Committee has recommended a 25 cent per hour increase to cover higher expenses expected this summer. An increase in the rental tax rate from the current six percent level to a rate of seven percent would yield additional annual revenue of about \$175,000. A seven percent tax rate would be slightly lower than the rates in South Bethany (eight percent) and Fenwick (7.5 percent) but well above the comparable rates in Rehoboth and Dewey (three percent) and in Ocean View (five percent).

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As stated at the outset, this letter reflects preliminary ideas and considerations that we hope the

Council will find useful as it begins exploring these issues. BBLA looks forward to working with the Council and other concerned citizens on these vitally important and quite complex matters in the coming months.

Sincerely yours,

/s/

Michael S. Horne, BBLA President

On behalf of the BBLA Board