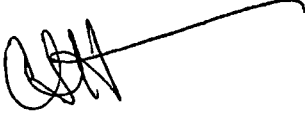


TOWN OF OCEAN VIEW
DELAWARE

November 5, 2024

TO: Mayor and Council

FROM: Carol S. Houck, Town Manager 

Subject: Recommendation to Initiate a Long-Range Financial Planning and Forecasting Effort
PFM Group Consulting (Including PFM Financial Advisors)

Background

An expanded focus on long-range planning is now justified, in association with our efforts to continue to operate as a fiscally sound and prepared local government, with an eye towards maintaining service delivery while preparing for the future. Ocean View remains an attractive place to own a home and operate a business and has enjoyed years of strong tax base growth, recognition for comprehensive planning, cleanliness and safety while also benefiting from a high level of grant support in all areas of operations. While not at a point of urgency, fine tuning our approach to being prepared for revenue decline associated with lower transfer tax collections, property value changes, as well as higher costs for supplies, services, healthcare and other employee related expenses, is now advised.

Further, it's well understood that while currently fiscally sound and competitive in regard to annual tax rate, Ocean View's revenue streams are limited with property tax revenue being its prime source for funding operations. Therefore, future increased funding needs, absent new revenue and or a focused long-term funding plan will resort to increases in the **tax rate** (per \$100 assessed value) with limited opportunity for **tax base** increases. In other words, Ocean View will have to further burden its property owners or decrease service delivery. I remind you as anticipated and discussed, since 2022 our transfer tax revenue has declined by \$2 million dollars. While we don't rely on this revenue for our operations, the decline results in less support for our various trust funds. In time, this continued decline will require support from other revenue sources. This reality suggests that now's the time for a strong consideration/exploration of a tax rate stabilization fund to assist in limiting the burden on our property owners, as well as other options for funding our trusts, capital needs and or operations in the future.

The goal of this engagement is to take advantage of the services and focused forecasting of an experienced firm, well versed in supporting local governments just like ours and position Ocean View to build a solid foundation for near- and long-term decision making that supports a continued high quality of life experience and professionally delivered services.

Proposed Scope of Work

The proposed scope of work for this engagement includes the following three tasks (fully outlined in the attached proposal):

Task 1 – Financial Projection – Our diagnosis

Task 2 – Capital Funding Strategy – Diversification needs

Task 3 – Tax Rate Stabilization Fund Reserve - Conceptual Framework

Why PFM?

The Town of Ocean View has worked with PFM Financial Advisers in matters related to its water utility since its inception in 2006. Further, PFM Financial Advisers lead the efforts associated with the cost saving 2018 refinance of water utility bonds. More recently, PFM Financial has been instrumental in the 2020 through 2024 effort to sell the Town's fully outsourced water utility which is poised to eliminate unnecessary risk and all of the Town's existing debt. As such, our introduction by PFM Financial Advisers to the services of the PFM Group Consulting team that specialize in assisting towns with long range financial planning is timely. This overall "PFM" team is therefore uniquely positioned to best guide and assist Ocean View in this effort. The PFM Financial Advisers team has a strong familiarity with our Town finances and can work seamlessly with PFM Group Consulting for the benefit of our community. All past engagement with PFM has been highly responsive and professional.

Funding

Funds are available to initiate this effort from the following sources:

\$20,000	Administrative Professional Services (Tasks 1 and 2)
\$10,000	Town Water Utility (Task 3)

Recommendation

It is therefore recommended that Mayor and Council authorize the Town Manager to enter into an agreement with PFM Group Consulting and its collaborative engagement with PFM Financial Advisers (as required for federal regulatory requirements) to facilitate a Long-Range Financial Planning Model including baseline projections, capital funding strategy, and a conceptual tax rate stabilization fund reserve framework, for the total cost of \$30,000.



Town of Ocean View, Delaware Long-Range Projection Planning Support Proposal

The Town of Ocean View has a population of almost 3,000 with a median household income of \$88,004, 11% higher than statewide average. Median home value in 2022 was \$436,700 and most residents (94%) own their homes, versus a statewide average of 72%.

Even though the Town has experienced strong growth in its tax base and saw robust real estate transfer tax revenues, it is now approaching built-out as a community and beginning to see transfer tax revenue decline. Town officials believe that Ocean View is entering a pivotal point where, moving forward, revenue growth will likely slow, and the Town will have to adjust its financial management efforts to ensure long term sustainability while meeting Town residents' service demands.

As part of our Phase I engagement, PFM Group Consulting LLC ("PFM") will support the Town of Ocean View's long-term financial sustainability by developing a multi-year projection, creating a capital funding strategy, and outlining a framework for establishing a tax revenue stabilization fund. Building off our work in Phase I, PFM can provide continuous support to the Town through additional phases of work as detailed below.

PFM Long-Range Financial Planning Services

Beginning with PFM's work on Philadelphia's successful turnaround from fiscal distress in the early 1990's and continuing today, PFM has helped to set the standard for public sector multi-year financial planning toward structural budget health.

Our community partners on budgeting issues feature a diverse range of economic bases, population sizes, and governance constraints. Our long-term financial planning clients range from built-out municipalities (like the Town of Ocean View) to growing suburban towns to industrial cities like Baltimore and Pittsburgh. What they had in common when hiring PFM was the desire to achieve sustainable, structural balance by adopting a multi-year perspective.

Project Team

Gordon Mann, Managing Director in PFM Group Consulting LLC, will be the engagement manager.

Vieen Leung, Director, will be the lead consultant and project manager. Since joining PFM in 2013, Vieen has worked extensively to help local governments achieve their strategic and financial goals. She currently leads the development of multi-year financial plans and fiscal advisory services for local governments in the Mid-Atlantic and Southeast regions of the United States. Vieen regularly conducts multi-year financial planning seminars, including training sessions organized by the Government Finance Officers Association (GFOA). In 2020, she conducted a series of webinars around the nation regarding the financial impact of the COVID-19 pandemic and emerging strategies for local government budgets in the COVID-19 era. She also provided advice and consultation to *Balancing the Budget in Bad Times*, a 2020 GFOA publication that offered practical advice on how to evaluate the effect and efficacy of gap-closing initiatives in light of the fiscal pressures created by the pandemic.

Beyond providing fiscal advisory services, Vieen leads PFM's labor costing and analytics service line, where she oversees the development of customized costing models. She also provides collective bargaining support to her clients, including developing compensation analysis and testifying in police and fire interest arbitration proceedings.



Prior to joining PFM, Veen was a Policy Analyst with the City of Baltimore (MD) Bureau of the Budget and Management Research, where she developed budget analyses for various City agencies, managed the City's annual Citizen Survey, and supported comprehensive updates to the City's Administrative Manual. She also developed and authored the first Management Research Reports published by the Bureau that examine cost-effectiveness of city agencies and provide recommendations to improve service delivery. Veen holds a Master of Arts in Public Policy, a Master of Music, and a Bachelor of Music, all from the Johns Hopkins University.

Veen and her team will develop work product and recommendations pertaining to Tasks outlined in the Scope of Work. Jamie Schlesinger and his team from PFM Financial Advisors LLC (PFMFA) will provide support as needed.¹ Both the PFM Group Consulting and PFMFA teams will be available to attend both virtual and in-person meetings at the Town's request.

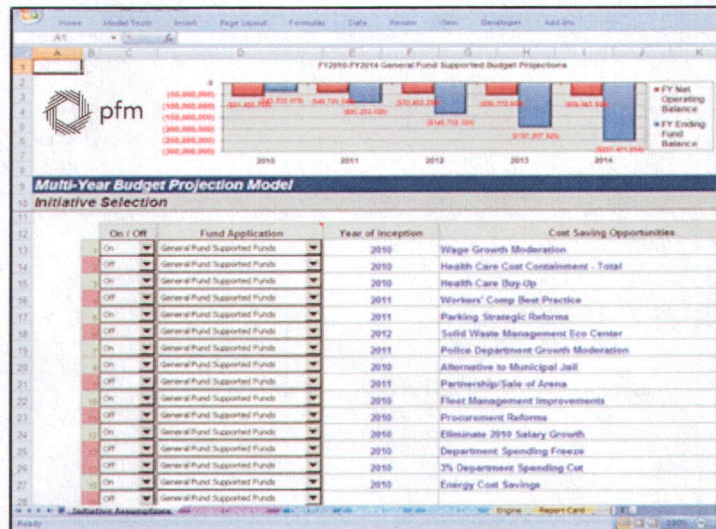
Proposed Scope of Work

PFM proposes to complete Phase I of this engagement with the following three tasks.

Task 1: Financial projection

PFM will first develop a baseline projection (diagnosis) for the Town's General Fund to evaluate any fiscal pressure the Town may be experiencing using the PFM budget model.

The budget model is a tool that PFM developed to project a government's future financial performance under different scenarios. As a framework for developing multi-year financial plans, it allows users to project revenues and expenditures, stress-test fiscal health under various economic conditions, outline alternatives to change the status quo and manage performance as conditions change (diagnosis-treatment-check up), and discuss needs and goals for maintaining adequate reserves.



Ultimately, the goal of developing this financial projection tool is to provide the Town and its stakeholders a quantifiable way to consider a financially sustainable path forward. The financial model will organize and present the Town's projection at different levels of detail and will be a tool for ongoing planning discussions. PFM will also provide analysis of the critical factors and key trends that drive Town government's financial performance.

Task 2: Capital Funding Strategy

The Town's capital improvement plan is primarily funded by the Capital Reserve Trust Fund and the Street Repair and Replacement Trust. However, based on current transfer tax revenue forecasts, the Town anticipates the fund reserves to decline in the near-term. For that reason, the Town will need to diversify its

¹ This project will be a collaborative effort between members of PFM Financial Advisors LLC and members of PFM Group Consulting team, which operates under PFM's affiliated company, PFM Group Consulting LLC. PFM Financial Advisors LLC's work will be completed under a separate agreement. This requirement arises from the federal regulatory regime within which PFM Financial Advisors LLC operates.



capital funding streams and potentially use bonded debt to pay for a portion of future capital improvement projects.

For this engagement, PFM will work closely with Town officials and PFM Financial Advisors, LLC to develop a capital strategy that explores various capital funding options based on projected capital needs. PFM will then layer in the fiscal impact to show the combined impact of the baseline forecast (Task 1) and a capital funding scenario (Task 2).

Task 3: Tax Stabilization Fund Reserve Conceptual Framework

Using the findings from the baseline financial projection and capital funding scenario, PFM will develop a conceptual framework for a tax stabilization fund reserve.

In addition to recommending a tax stabilization fund target, PFM will review the Town's existing fund balance policy and capture other policy and economic factors in the recommendation to facilitate implementation. PFM will also provide recommendations regarding whether the fund should have a dollar or percentage cap, repayment/replenishment mechanism and timeline, use and limits of the fund, and ways to fund and maintain the fund in the long term.

PFM will summarize the findings from all three Tasks into a PowerPoint presentation. The goal of this presentation is to provide the audience an understanding of the Town's current financial trajectory and ways to continue meeting service demands, investing in infrastructure, and maintaining fiscal balance in the long term.

Deliverables

The related deliverables will be:

- A financial projection model built in Microsoft Excel;
- A presentation on the major findings from the baseline financial projection, capital funding strategy, and tax stabilization fund reserve conceptual framework.

Timeline

PFM is committed to delivering timely, accurate, and effective analysis. The following outline provides our proposed project schedule that assumes a project start date of November 2024.

Work step	Est. Date
Project kickoff; submit document request	November 2024
Financial projection development	December 2024
Capital funding strategy development	January 2024
Tax stabilization fund reserve conceptual framework	February 2024
Participation in budget workshop and presentation of financial projection Presentation of final report	January/February 2024 March 2024

Fees and Terms

PFM proposes to complete the scope for a flat fee of \$30,000. PFM will invoice the Town in three equal installments based on completion milestones, tied to the completion of each task and deliverables described in this engagement.



Future Phases of Work

This proposal outlines three tasks that meet the Town's immediate need as it enters the FY2026 budget process. Beyond these immediate tasks, Town officials may complement the Phase I analysis with subsequent phases of work such as the following.

Reserve Fund Implementation

Building on the Phase I work of developing a tax stabilization fund reserve framework, PFM can assist the Town in developing an implementation plan and standard operating procedures. Working closely with Town officials, PFM can help design a mechanism to fill and replenish the fund and outline policy parameters to ensure that the process for using fund reserves is clear to the Town's leaders and stakeholders.

Compensation Analysis

PFM provides compensation analysis, helping clients evaluate and benchmark key components like wage increases, merit adjustments, structural pay changes, and operational suggestions, including those affecting costs like shift modifications and premium pay. When evaluating the full compensation package, PFM also develops benchmarking analyses for active employee benefits and retiree benefits.

Staffing Analysis

PFM understands that local governments are labor-intensive, and personnel costs usually represent the largest share of local government spending. At the same time, continuous increasing or even maintaining headcount may not be a financially sustainable approach to meet service demands. For that reason, PFM provides analytical support to help local governments find other alternatives to achieve their goals. For example, PFM's Center for Justice & Safety Finance has extensive experience performing police staffing studies. Those analyses typically center around current calls for service data, deployment strategy, and operational goals. Similarly, PFM can help facilitate discussions and develop analyses that help our clients better understand current operational areas, resource allocation, and how workload, headcount, and service quality (e.g., turnaround time) relates to each other. This type of exercise can provide the Town an informed understanding of how agencies currently allocate their resources and inform more nuanced, qualitative evaluations.

Revenue Enhancement

For more than three decades, PFM has worked with state and local governments around the country on a broad range of management and budget engagements – including extensive support for policy-based cost recovery. PFM can help the Town evaluate and benchmark its fee levels to help the Town diversify its revenues as much as possible within its legal framework.

Financial Projection Update

While the multi-year financial projection will help the Town evaluate future risks and chart a path forward, it is only useful if it is supported by an iterative process. PFM can support the Town by updating the projection each year during the budget process and refresh the plan every three to four years to track progress, make adjustment, and recalibrate as appropriate.

Next Steps

If this proposal effectively meets the needs you expressed in the recent call, the next step is to transmit a draft contract outlining the proposed scope and fees. Thank you again for the opportunity to work with you on this important project.