

TOWN OF OCEAN VIEW
DELAWARE

November 12, 2025

TO: Honorable Mayor and Council

FROM: Carol S. Houck, Town Manager 

Subject: Recommendation of Path Forward for the Utilization of Remaining Funds from the Sale of the Towns Water Distribution System

Background

Financial Assessment - In February of 2025 Ocean View completed a Financial Condition Assessment, with the assistance and guidance of PFM Financial Advisors. The goal of the assessment was to identify the status of our revenues and expenses while identifying near - term changes in our financial picture that will need our attention.

The full assessment remains available on our website under the What's Happening in Ocean View Scroll. It identifies the findings (PFM refers to them as the Diagnosis) and offers recommendations (referred to as Treatment by PFM). Of the recommendations, this document and the workshop held on Nov 18th focuses primarily on two of the four including:

- Establishment of a Tax Rate Stabilization Fund and
- Providing a boost to our Trust Funds with one-time funds

The other two recommendations are policy upgrades and the consideration of alternative funding options for our capital needs. These two recommendations will be explored in more depth in 2026.

Sale of the Town's Water Supply Distribution System – The Town completed the sale of its water distribution system in April of this year. The system that the Town owned (the pipes in the ground and the hydrants above ground) was sold to Tidewater Utilities, a private utility regulated by the Delaware Public Service Commission for \$4,607,660. Tidewater was the Town's outsourced water supplier from the start and also performed the operations and maintenance as well. The reasons for the sale were the subject of a Council workshop, and all details remain available on our website scroll for ease of reference. In summary, the former Town system customers are getting the same water supply from the same provider, with enhanced customer service options, but the Town no longer carries risk for the utility without proper oversight.

The sale included the pay-off of all Town debt associated with the development of the system.

Funds Remaining from the Sale of the System and Reserves

Now that the sale of the Town's system is complete and all payments and requirements of the sale are final, **the Town maintained \$2,103,804 as of October 31, 2025.**

Therefore, we must now determine the use of these funds which I suggest should focus strongly on the best interests of the Town as a whole, with our future fiscal wellbeing of highest importance. Likewise, we're in a position to look back to our recent Financial Assessment noted earlier, for guidance.

Unique Opportunity Presented – Financial Assessment Recommendations and the Availability of Funds - The Town Council and staff of Ocean View timed the Assessment and outcome of the water sale well, in that the two provide a unique opportunity to immediately address out-year concerns identified in a way that is familiar to us (existing trust funds) and that has served the Town well.

In alignment with the recommendations of the Financial Assessment we're now suggesting we utilize the available \$2,103,804 noted above to create a:

- **Tax Rate Stabilization Trust Fund** utilizing \$1,421,650 of the funds and
- Provide **enhanced support of the Town's existing Trust Funds** utilizing \$600,000 to boost the Capital Replacement Trust Fund and The Street Repair and Replacement Trust Fund (at \$300,000 each).

Doing so would leave a balance of \$82,154 for consideration during the preparation of the FY27 budget which will begin in earnest in January.

What Is A Tax Rate Stabilization Trust Fund (TRSTF)? - A Tax Rate Stabilization Trust Fund is a fund to be established much like our current trust funds (with rules and guardrails for use), that enables the Town to pull from the fund to "credit" property owners for a portion of future necessary tax rate increases for the year they're implemented.

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Here's an example as recommended by staff:

The Town establishes the Tax Rate Stabilization Trust Fund with \$1.4 million of the funds maintained from the sale, the funds will be invested and may be utilized as determined necessary and with a vote of Mayor and Council, any given year to support some portion of the tax rate increase, to balance the budget.

Further, and as an example only, and as recommended by staff, if we were to find that a 4 cent tax rate increase per \$100 assessed value were necessary, the Town staff could recommend and the Town Council consider the use of up to 2 cents any given year from the Tax Rate Stabilization Trust Fund. We recommend a 2 cent annual guardrail to allow funds to remain while still providing some initial relief and smoothing to the property owners of Ocean View.

With this example, the tax rate would be raised by 4 cents as determined to be necessary during our full budget process, but all property owners would receive their specific credit for 2 cents (or whatever the credit approved by Council might be up to the 2 cent guardrail).

It is also recommended that this fund should be evaluated every year but replenished every 5 years at time of our Charter required Full Town Reassessment and then maintained at the value of 10 cents of the then tax dollar. This allows for replenishment and accounts for the limitation of utilizing 2 cents any given year, while also investing the funds annually and hopefully gaining interest. This replenishment process is similar to how we fund our emergency reserve fund at 20% of the annual operating budget by making up the difference of funds remaining to hit the required amount.

Enhanced Support to Existing Trust Funds –

Again, in alignment with the recommendation from the Financial Assessment, we implement a \$300,000 boost of funding into the Capital Reserve Trust Fund and the Street Repair and Replacement Trust Fund for a total of \$600,000.

Justification

The use of the funds remaining following the sale of the Town's water distribution system for these purposes benefits the Town as a whole, and can have a positive impact on:

- The limited sources of revenue the Town has and thereby creating an opportunity to smooth the need for any future tax rate increases for our property owners, in a sustained fashion and with replenishment requirements/guardrails for use, and
- Provide a needed boost as recommended in the Financial Assessment to two of our existing trust funds as noted.

Recommendation

It is therefore recommended that Mayor and Council authorize the Town Manager to implement two recommendations from the PFM Financial Assessment by:

As soon as practical, move \$300,000 from the former Water Fund into the Capital Reserve Trust Fund and \$300,000 into the Street Repair and Replacement Trust Fund for a total of \$600,000.

As soon as practical, develop all regulations, guardrails (max 2 cents a year) and accounts to create the Tax Rate Stabilization Trust Fund with seed funding of \$1,421,650, for future use as necessary and approved by Council during the annual budget process, and with an every 5-year replenishment requirement, and for use as necessary any given fiscal year to balance the budget, as recommended herein.

Include the consideration of the remaining \$82,154 in the development of the Town's FY27 Budget, identifying recommended use/placement of funds during the budget process to begin in January, 2026.