



Milford City Hall Council Chambers 201 South Walnut Street Milford DE 19963

Finance & Audit Committee Agenda August 11, 2025

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5:00 PM

15-Minute Public Comment Period*

Virtual attendees must register prior to start time of meeting by calling 302-422-1111 Extension 1300 or 1303, or by sending an email to cityclerk@milford-de.gov and providing your name, address, phone number, and item name and/or description you wish to comment on. Persons in attendance wishing to speak must sign up prior to the start of the Council Meeting.

Page

1. Public Comment

2. Call to Order – Chair Jason James

3. Investment Update

a. Introduction – Mr. Jeffrey Fasino, PFM Asset Management

b. Quarterly Investment Report

c. [Quarterly Investment Report - CITY OF MILFORD DELAWARE - 20250630](#) 

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d. Investment Policy Update

e. [Investment Policy Statement - Rev 2025](#) 

27 - 45

f. [Investment Policy Statement - Rev 2024 as Adopted](#)  46 - 60

4. S&P Global Credit Rating**

a. [SP Global Credit Rating Memo](#)  61 - 71

5. Adjournment

All items on the Meeting Agenda are subject to a potential vote.

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*Time Limit is three minutes per speaker, not to exceed a total of fifteen minutes for all speakers prior to start of meeting/workshop.

© Designated Items only; Public Comment, up to three minutes per person will be accepted.

072325

**080625 Late addition by Finance Senior Accountant



CITY OF MILFORD, DELAWARE

Investment Performance Review For the Quarter Ended June 30, 2025

Client Management Team

Jeffrey Fasino, Senior Managing Consultant
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Kecia Vaughn, Key Account Manager

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Agenda

- Market Summary
- Account Summary
- Portfolio Review

Market Summary

Summary

- The second quarter of 2025 was characterized by growing uncertainty as markets reacted to the volatile rollout of tariffs that were larger than expected. Markets reacted negatively during the first two weeks of the quarter and experienced the largest declines since the onset of the COVID pandemic. The rest of the quarter was marked by equity and bond markets recovering to pre-tariff levels on constructive trade negotiations and stable economic data.
- Inflation remained relatively benign but is expected to increase in the second half of the year as tariff-related cost pressures begin to emerge. The timing, extent, and duration of these pressures are unknown.
- The labor market remained healthy though early signs of cooling are emerging, such as rising initial jobless claims. Continuing claims have also increased, and a slower hiring rate may mean any acceleration in layoffs could result in unemployed workers remaining without a job for longer. Federal job cuts are beginning to flow through the data, but severance packages and deferred resignations have delayed the impact on claims data. However, the reduced pace of population growth, particularly among foreign-born workers, may suggest the economy needs fewer new jobs to keep the unemployment rate stable.
- Consumer sentiment remains subdued due to expectations for higher prices and weaker labor market conditions as tariffs weigh on the pace of economic growth. However, there has been modest improvement from the April lows due to progress on tariff negotiations. A sharp labor market downturn remains the biggest threat to consumer spending.
- The Federal Reserve (Fed) left the overnight policy rate unchanged at 4.25% - 4.50%. The Federal Open Market Committee's (FOMC) "dot plot" continues to suggest 50 basis points (bps) in rate cuts by the end of 2025, although there is a divergence of views as eight members are calling for two rate cuts in 2025 and seven are calling for none. Fed Chair Powell noted the Fed would likely be in a position to begin cutting rates again were it not for the unknown impact of tariffs, but the resilient economic data supports the Fed's wait-and-see approach.

Economic Snapshot

- U.S. inflation moved marginally closer to the Fed's 2% target, but tariff-driven price pressures may emerge as excess inventories built up before tariffs are depleted. Fed Chair Powell said that he expects tariffs to impact inflation, but the size, duration, and time of tariff effects are highly uncertain. The year-over-year change in the consumer price index (CPI) stood at 2.4% while core CPI, which excludes the volatile food and energy components, moved marginally lower but rounded to an unchanged 2.8%.

U.S. real GDP turned negative in Q1 2025 mainly on the one-off effect of the trade deficit expanding to the highest level on record as businesses increased imports in advance of tariffs. Strong inventories and higher fixed investment served as a bit of an offset, and a decline in the trade deficit is expected to reverse and support

future growth. However, consumer spending slowed notably, which may foreshadow decreased spending and investment due to declining confidence going forward.

Interest Rates

- The U.S. Treasury yield curve steepened over the quarter. The front end of the yield curve moved lower amid expectations for Fed rate cuts while longer-dated tenors rose on concerns regarding the longer-term impacts of the proposed federal reconciliation bill.
- The 3-month Treasury was relatively unchanged given no rate cuts from the Fed while 2- and 5-year Treasuries fell by 15-16 bps to 3.72% and 3.80% respectively. In addition, the 2-year traded over a wide 60 basis point range during the quarter, highlighting the elevated volatility. The 10-year Treasury increased by 2 bps to 4.23% while the 30-year Treasury increased by 16 basis points to 4.78% as investors demanded more yield to make investments further out the curve.
- Short- and intermediate-duration U.S. Treasury indices generated positive total returns for the quarter. The ICE BofA 2-, 5-, and 10-year U.S. Treasury indices returned 1.11%, 1.66%, and 0.98% for the quarter, while the shorter-duration ICE BofA 3-month U.S. Treasury index returned 1.04%.

Sector Performance

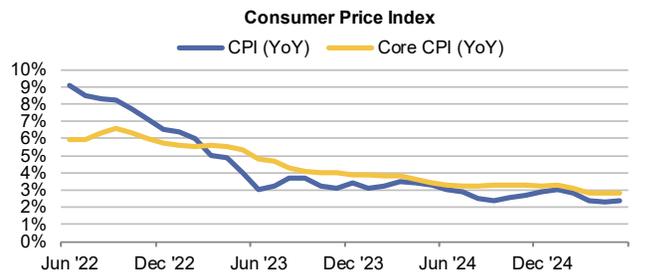
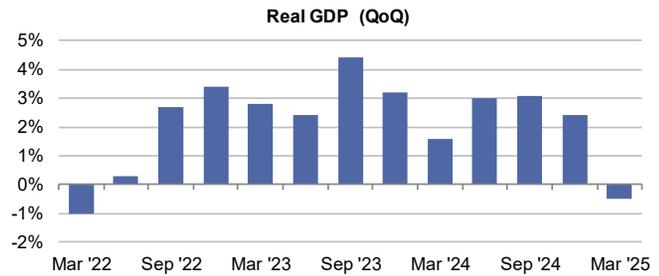
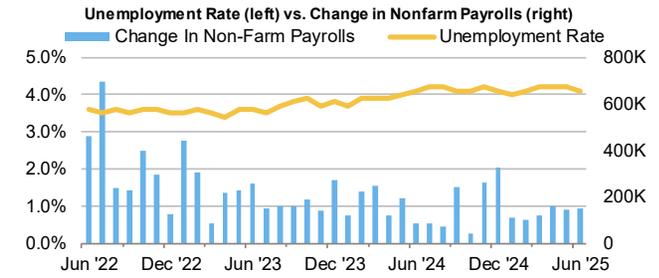
- Excess returns were strong across investment grade sectors as the spread widening experienced in April reversed following trade news and resilient economic data.
- Federal Agency & supranational spreads remained low throughout Q2. Both sectors produced slightly positive excess returns for the quarter. Issuance remained light and the incremental income from the sectors is near zero.
- Investment-grade (IG) corporate bond spreads spiked early in the quarter on tariff announcements, but as external stressors eased much of the widening retraced. Demand for new issuance remains strong while net issuance is predicted to decrease over the balance of the year. Lower-quality issuers outperformed as did banks and other financials.
- Asset-backed securities (ABS) spreads retraced over quarter, but to a lesser degree than most other sectors. ABS showed the impact of the slower decrease in spreads by posting more modest excess returns over the quarter. We expect the sector to continue generating value from carry going forward.
- Mortgage-backed securities (MBS) performance was strong across all structures and coupons as rate volatility moderated over the quarter. Likewise, Agency-backed commercial MBS (CMBS) also posted strong performance for the quarter and saw positive excess returns.
- Short-term credit (commercial paper and negotiable bank CDs) yields on the front end of the yield curve rose slightly in response to the approaching Treasury "X-Date" (estimated date for Treasury to exhaust funds under the debt ceiling) while yields fell modestly on the long end as demand shifted into longer-term Treasury notes. Yield spreads tightened over the quarter in response to moderated issuance and strong demand.

Economic Snapshot

Labor Market	Latest	Mar '25	Jun '24	
Unemployment Rate	Jun'25	4.1%	4.2%	4.1%
Change In Non-Farm Payrolls	Jun'25	147,000	120,000	87,000
Average Hourly Earnings (YoY)	Jun'25	3.7%	3.9%	3.9%
Personal Income (YoY)	May'25	4.5%	4.7%	5.4%
Initial Jobless Claims (week)	6/28/25	233,000	219,000	238,000

Growth	Latest	Mar '25	Jun '24	
Real GDP (QoQ SAAR)	2025Q1	-0.5%	2.4%	1.6%
GDP Personal Consumption (QoQ SAAR)	2025Q1	0.5%	4.0%	1.9%
Retail Sales (YoY)	May'25	3.3%	5.1%	2.0%
ISM Manufacturing Survey (month)	Jun'25	49.0	49.0	48.3
Existing Home Sales SAAR (month)	May'25	4.03 mil.	4.02 mil.	3.93 mil.

Inflation / Prices	Latest	Mar '25	Jun '24	
Personal Consumption Expenditures (YoY)	May'25	2.3%	2.3%	2.4%
Consumer Price Index (YoY)	May'25	2.4%	2.4%	3.0%
Consumer Price Index Core (YoY)	May'25	2.8%	2.8%	3.3%
Crude Oil Futures (WTI, per barrel)	Jun 30	\$65.11	\$71.48	\$81.54
Gold Futures (oz.)	Jun 30	\$3,308	\$3,123	\$2,340



1. Data as of Fourth Quarter 2024.

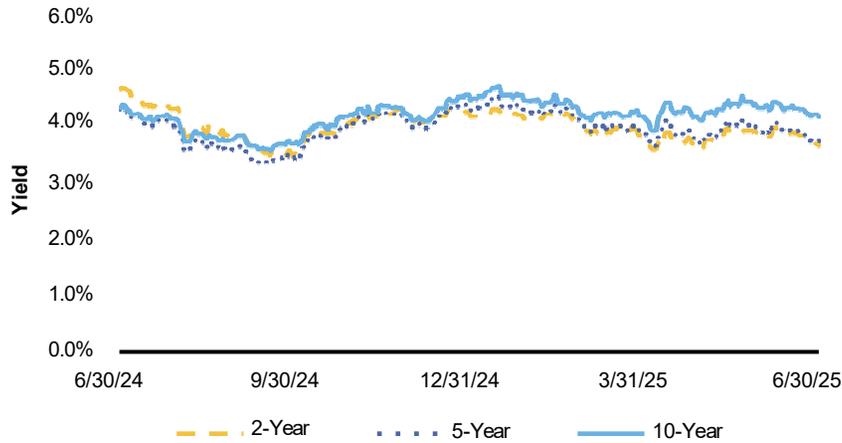
2. Data as of First Quarter 2024.

Note: YoY = year-over-year, QoQ = quarter-over-quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil.

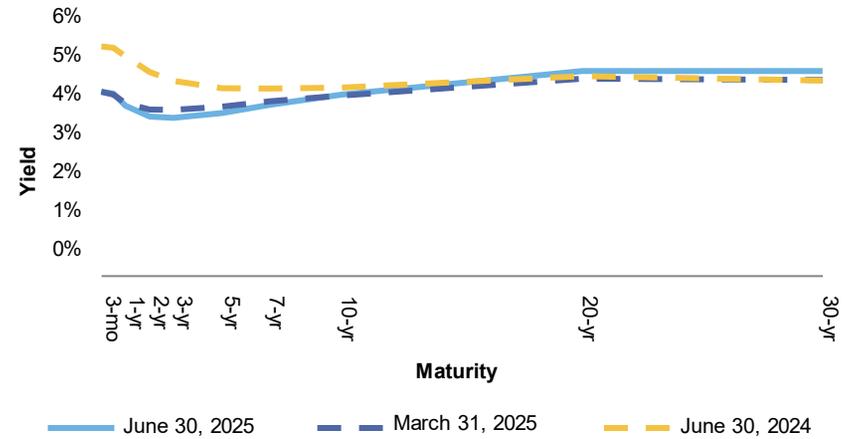
Source: Bloomberg Financial L.P.

Interest Rate Overview

U.S. Treasury Note Yields



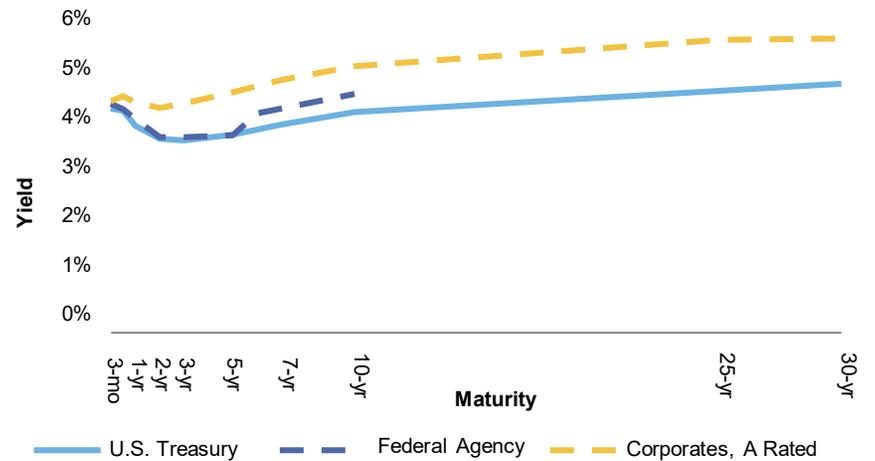
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	Jun '25	Mar '25	Change over Quarter	Jun '24	Change over Year
3-Month	4.30%	4.30%	0.00%	5.36%	(1.06%)
1-Year	3.97%	4.03%	(0.06%)	5.12%	(1.15%)
2-Year	3.72%	3.89%	(0.17%)	4.76%	(1.04%)
5-Year	3.80%	3.95%	(0.15%)	4.38%	(0.58%)
10-Year	4.23%	4.21%	0.02%	4.40%	(0.17%)
30-Year	4.78%	4.57%	0.21%	4.56%	0.22%

Yield Curves as of June 30, 2025



Source: Bloomberg Financial L.P.

ICE BofA Index Returns

June 30, 2025	As of 06/30/2025		Returns for Periods ended 06/30/2025		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.83	3.79%	1.18%	5.67%	3.41%
Federal Agency	1.45	3.85%	1.12%	5.43%	3.53%
U.S. Corporates, A-AAA rated	1.84	4.33%	1.40%	6.48%	4.45%
Agency MBS (0 to 3 years)	1.91	4.45%	1.25%	5.84%	3.64%
Taxable Municipals	1.86	4.14%	1.40%	6.07%	3.82%
1-5 Year Indices					
U.S. Treasury	2.55	3.77%	1.36%	6.07%	3.23%
Federal Agency	2.07	3.83%	1.27%	5.72%	3.42%
U.S. Corporates, A-AAA rated	2.64	4.38%	1.69%	7.06%	4.63%
Agency MBS (0 to 5 years)	3.07	4.51%	1.67%	7.18%	3.69%
Taxable Municipals	2.41	4.28%	1.50%	6.19%	3.65%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.10	4.06%	0.76%	5.18%	1.31%
Federal Agency	3.33	3.96%	1.30%	5.78%	3.08%
U.S. Corporates, A-AAA rated	6.67	4.86%	1.65%	6.64%	3.67%
Agency MBS (0 to 30 years)	5.79	4.97%	1.13%	6.42%	2.28%
Taxable Municipals	8.81	5.24%	0.72%	4.82%	2.17%

Returns for periods greater than one year are annualized.

Source: ICE BofA Indices.

Disclosures

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Account Summary

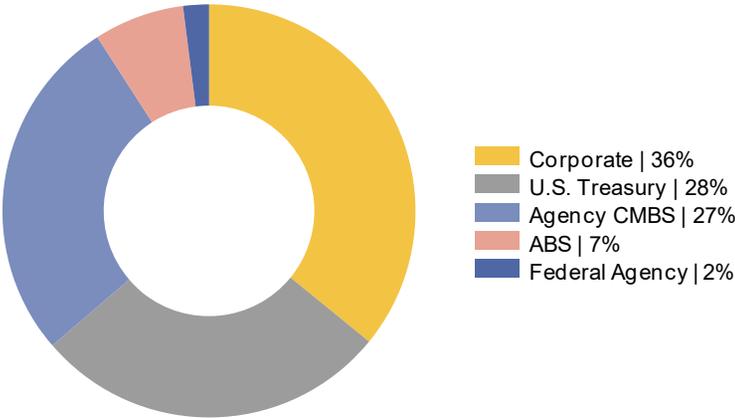
Portfolio Review: CITY OF MILFORD, DELAWARE

Portfolio Snapshot - CITY OF MILFORD, DELAWARE¹

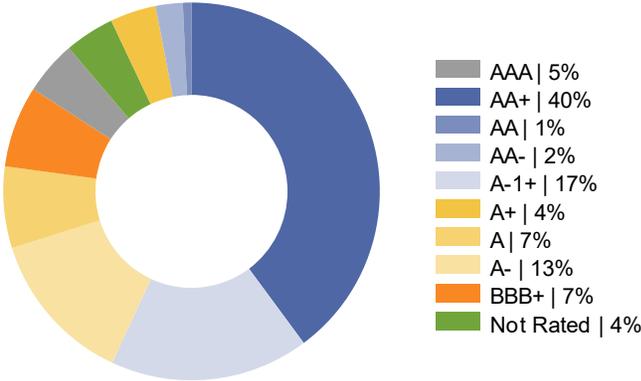
Portfolio Statistics

Total Market Value	\$36,999,826.07
<i>Securities Sub-Total</i>	\$36,750,985.26
<i>Accrued Interest</i>	\$194,923.62
<i>Cash</i>	\$53,917.19
Portfolio Effective Duration	1.82 years
Benchmark Effective Duration	2.05 years
Yield At Cost	4.42%
Yield At Market	4.27%
Portfolio Credit Quality	AA

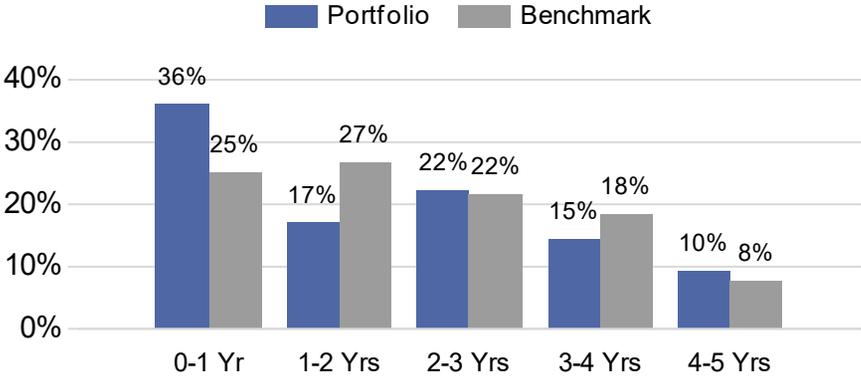
Sector Allocation



Credit Quality - S&P



Duration Distribution



Yield and duration calculations exclude cash and cash equivalents. Sector allocation includes market values and accrued interest. The portfolio's benchmark is the ICE BofA 0-5 Year U.S. Treasury Index. Source: Bloomberg Financial LP. An average of each security's credit rating was assigned a numeric value and adjusted for its relative weighting in the portfolio.

Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
U.S. Treasury	27.7%	
United States Treasury	27.7%	AA / Aa / AA
Federal Agency	2.0%	
Federal Home Loan Banks	1.0%	AA / Aa / NR
Federal Home Loan Mortgage Corp	1.0%	AA / Aa / AA
Agency CMBS	27.1%	
Federal Home Loan Mortgage Corp	24.8%	AA / Aa / AA
Federal National Mortgage Association	2.3%	AA / Aa / AA
Corporate	36.2%	
AbbVie Inc	0.5%	A / A / NR
Accenture PLC	0.3%	AA / Aa / A
American Express Co	0.8%	A / A / A
Analog Devices Inc	1.0%	A / A / A
AstraZeneca PLC	0.6%	A / A / A
Bank of America Corp	2.7%	A / A / AA
Bank of Montreal	0.3%	A / A / AA
Bank of New York Mellon Corp	1.1%	A / Aa / AA
Bank of Nova Scotia	0.5%	A / A / AA
BlackRock Inc	0.8%	AA / Aa / NR
Boston Scientific Corp	0.2%	A / A / A
BP PLC	0.7%	A / A / A
Bristol-Myers Squibb Co	0.6%	A / A / NR
Canadian Imperial Bank of Commerce	0.7%	A / A / AA
Cintas Corp	0.3%	A / A / NR
Cisco Systems Inc	0.6%	AA / A / NR
Citigroup Inc	2.4%	A / A / A
Citizens Financial Group Inc	0.5%	BBB / Baa / BBB

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
Corporate	36.2%	
Commonwealth Bank of Australia	0.7%	AA / Aa / AA
Cummins Inc	0.1%	A / A / NR
Eli Lilly & Co	0.8%	A / Aa / NR
Goldman Sachs Group Inc	1.8%	BBB / A / A
Hershey Co	0.4%	A / A / NR
Honda Motor Co Ltd	0.7%	A / A / NR
Hormel Foods Corp	0.2%	A / A / NR
HSBC Holdings PLC	1.5%	A / A / A
Huntington Bancshares Inc/OH	0.7%	A / A / A
International Business Machines Corp	0.5%	A / A / A
Johnson & Johnson	1.5%	AAA / Aaa / NR
JPMorgan Chase & Co	2.1%	A / A / AA
Kenvue Inc	0.6%	A / A / NR
Lowe's Cos Inc	0.2%	BBB / Baa / NR
McKesson Corp	0.5%	BBB / A / A
Mizuho Financial Group Inc	0.5%	A / A / NR
Morgan Stanley	1.5%	A / Aa / AA
National Bank of Canada	0.7%	BBB / A / A
National Rural Utilities Cooperative Fi	0.6%	A / A / A
Parker-Hannifin Corp	0.5%	BBB / A / A
Royal Bank of Canada	0.6%	A / A / AA
Sanofi SA	0.7%	AA / Aa / NR
State Street Corp	1.5%	A / Aa / AA
Stryker Corp	0.5%	BBB / A / NR
Target Corp	0.1%	A / A / A
Toronto-Dominion Bank	0.8%	A / A / AA

Rating shown are calculated by assigning a numeral value to each security rating, then calculating a weighted average rating for each security type / issuer category using all available security ratings, excluding Not-Rated (NR) ratings. For security type / issuer categories where a rating from the applicable NRSRO is not available, a rating of NR is assigned. Includes accrued interest and excludes balances invested in overnight funds.

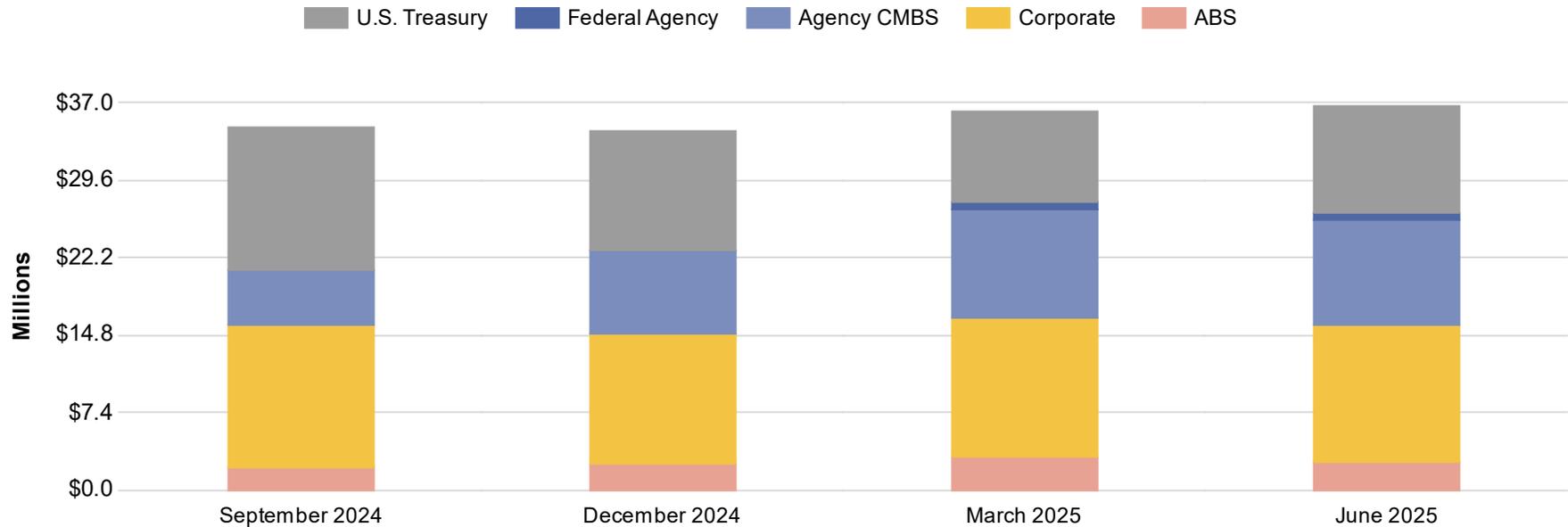
Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
Corporate	36.2%	
Toyota Motor Corp	0.3%	A / A / A
Waste Management Inc	0.5%	A / A / A
Wells Fargo & Co	0.6%	BBB / A / A
ABS	7.0%	
BMW Vehicle Lease Trust	0.3%	AAA / NR / AAA
Capital One Financial Corp	0.9%	AAA / Aaa / AAA
CNH Equipment Trust	0.3%	NR / Aaa / AAA
Discover Card Execution Note Trust	0.9%	NR / Aaa / AAA
Ford Credit Auto Owner Trust	0.7%	NR / Aaa / AAA
Harley-Davidson Inc	0.6%	NR / Aaa / AAA
Honda Auto Receivables Owner Trust	0.8%	AAA / Aaa / AAA
Hyundai Auto Receivables Trust	0.7%	AAA / NR / AAA
Nissan Auto Receivables Owner Trust	0.4%	NR / Aaa / AAA
Verizon Master Trust	0.7%	NR / Aaa / AAA
World Omni Auto Trust	0.7%	AAA / NR / AAA
Total	100.0%	

Ratings shown are calculated by assigning a numeral value to each security rating, then calculating a weighted average rating for each security type / issuer category using all available security ratings, excluding Not-Rated (NR) ratings. For security type / issuer categories where a rating from the applicable NRSRO is not available, a rating of NR is assigned. Includes accrued interest and excludes balances invested in overnight funds.

Sector Allocation Review - CITY OF MILFORD, DELAWARE

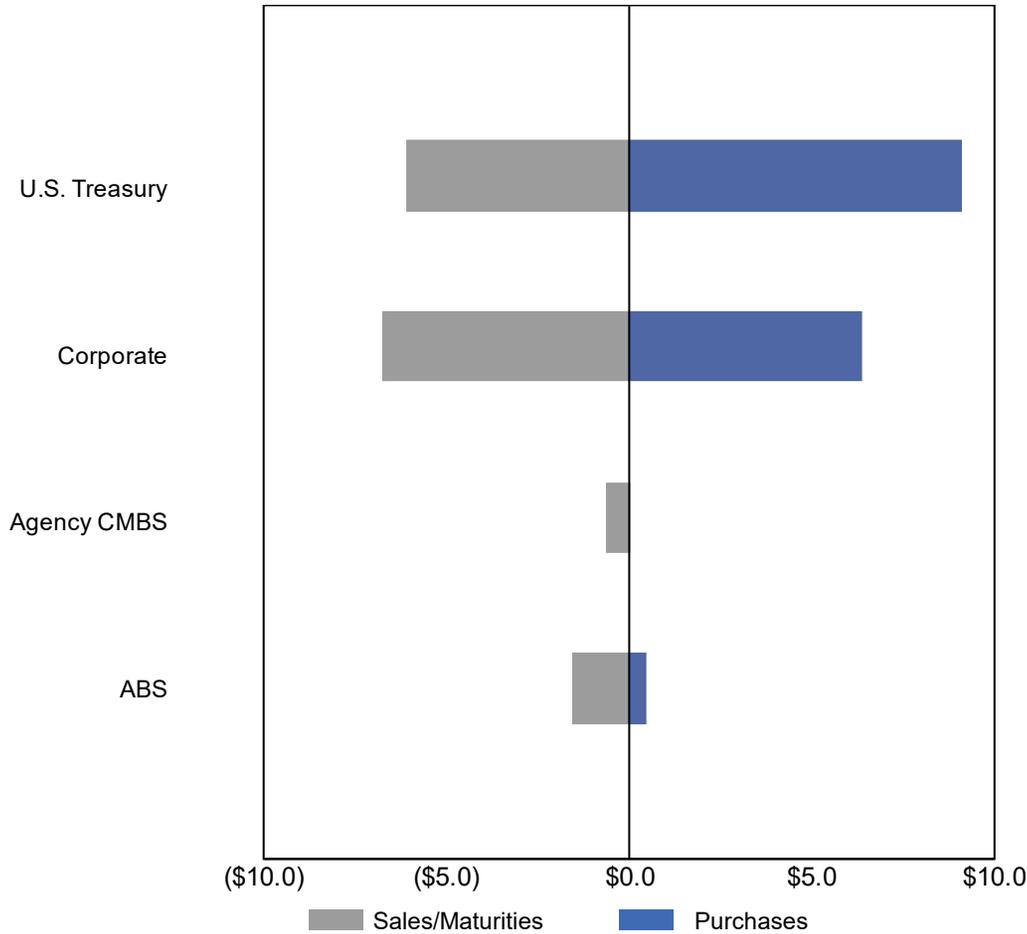
Security Type	Sep-24	% of Total	Dec-24	% of Total	Mar-25	% of Total	Jun-25	% of Total
U.S. Treasury	\$13.6	39.3%	\$11.5	33.4%	\$8.6	23.9%	\$10.2	27.8%
Federal Agency	\$0.0	0.0%	\$0.0	0.0%	\$0.7	2.0%	\$0.7	2.0%
Agency CMBS	\$5.4	15.5%	\$7.9	22.9%	\$10.3	28.4%	\$10.0	27.2%
Corporate	\$13.5	38.8%	\$12.5	36.4%	\$13.4	37.0%	\$13.2	35.9%
ABS	\$2.2	6.4%	\$2.5	7.3%	\$3.1	8.7%	\$2.6	7.1%
Total	\$34.7	100.0%	\$34.3	100.0%	\$36.1	100.0%	\$36.8	100.0%



market values, excluding accrued interest. Only includes fixed-income securities held within the separately managed account(s) and LGIPs managed by PFMAM. Detail may not add to total due to rounding.

Portfolio Activity - CITY OF MILFORD, DELAWARE

Net Activity by Sector
(\$ millions)

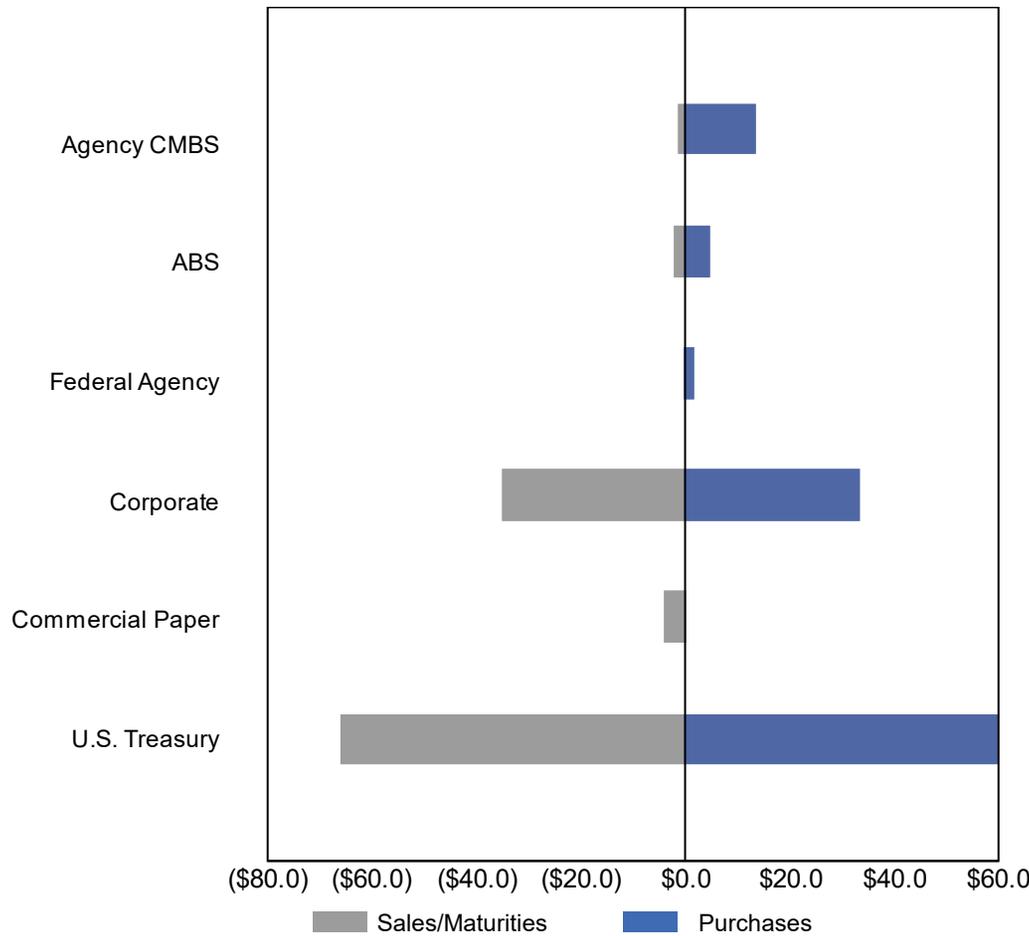


Sector	Net Activity
U.S. Treasury	\$2,974,045
Corporate	(\$406,368)
Agency CMBS	(\$630,302)
ABS	(\$1,098,199)
Total Net Activity	\$839,177

Based on total proceeds (principal and accrued interest) of buys, sells, maturities, and principal paydowns. Detail may not add to total due to rounding.

Portfolio Activity (12 Months) - CITY OF MILFORD, DELAWARE

Net Activity by Sector
(\$ millions)

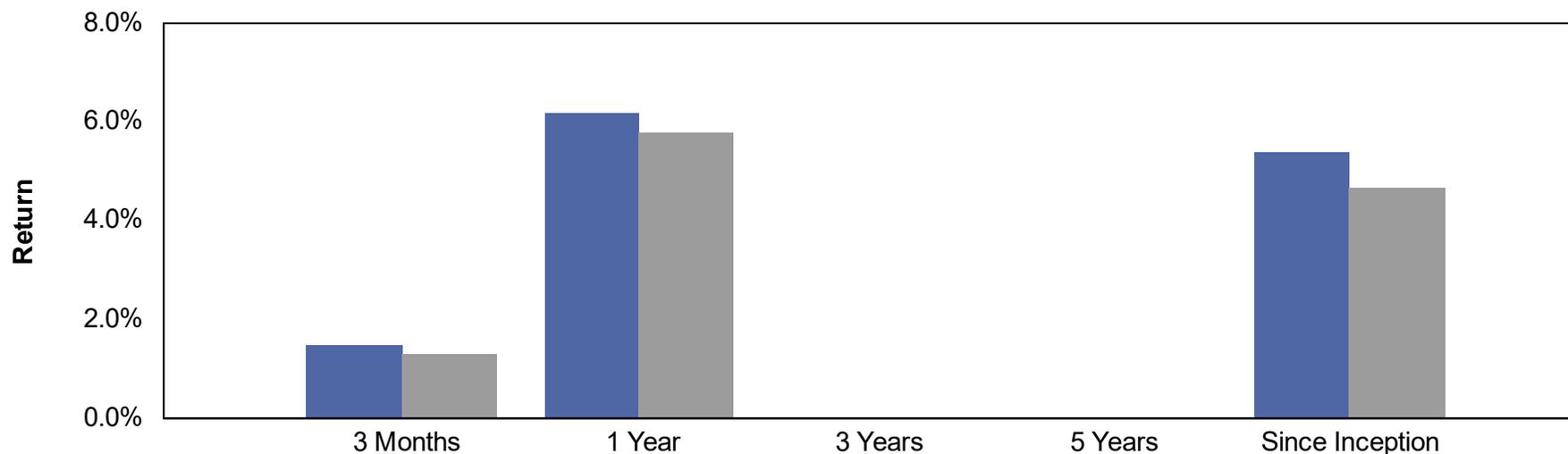


Sector	Net Activity
Agency CMBS	\$12,030,621
ABS	\$2,463,916
Federal Agency	\$1,429,453
Corporate	(\$1,790,537)
Commercial Paper	(\$4,000,000)
U.S. Treasury	(\$6,443,778)
Total Net Activity	\$3,689,675

Based on total proceeds (principal and accrued interest) of buys, sells, maturities, and principal paydowns. Detail may not add to total due to rounding.

Portfolio Performance

Portfolio Benchmark



Total Return ³	3 Months	1 Year	3 Years	5 Years	Since Inception ¹
Portfolio	1.50%	6.18%	-	-	5.40%
Benchmark ⁴	1.28%	5.80%	-	-	4.65%
Difference	0.21%	0.38%	-	-	0.75%

The lesser of 10 years or since inception is shown. Since inception returns for periods one year or less are not shown. Performance inception date is December 31, 2023.
 Interest earned calculated as the ending accrued interest less beginning accrued interest, plus net interest activity.
 Returns for periods one year or less are presented on a periodic basis. Returns for periods greater than one year are presented on an annualized basis.
 The portfolio's benchmark is the ICE BofA 0-5 Year U.S. Treasury Index. Source: Bloomberg Financial LP.

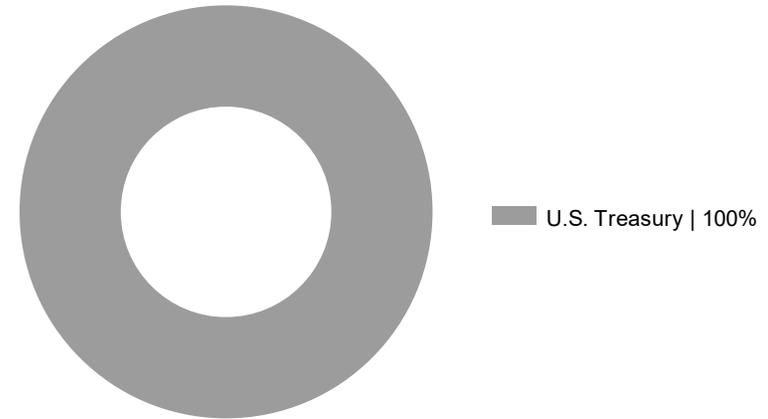
Portfolio Review:
CITY OF MILFORD CASHFLOW ACCOUNT

Portfolio Snapshot - CITY OF MILFORD CASHFLOW ACCOUNT¹

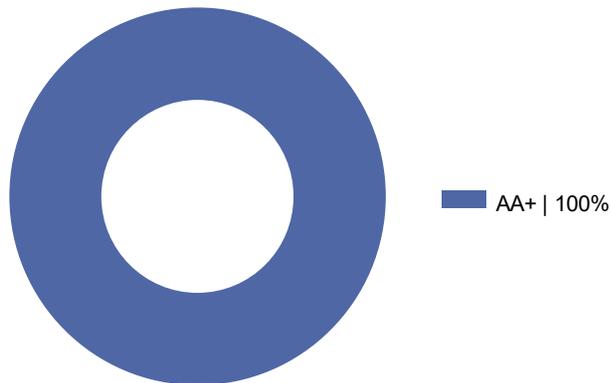
Portfolio Statistics

Total Market Value	\$4,327,395.65
<i>Securities Sub-Total</i>	\$4,327,260.04
<i>Accrued Interest</i>	\$135.61
<i>Cash</i>	\$0.00
Portfolio Effective Duration	3.14 years
Yield At Cost	4.64%
Yield At Market	3.94%
Portfolio Credit Quality	AA

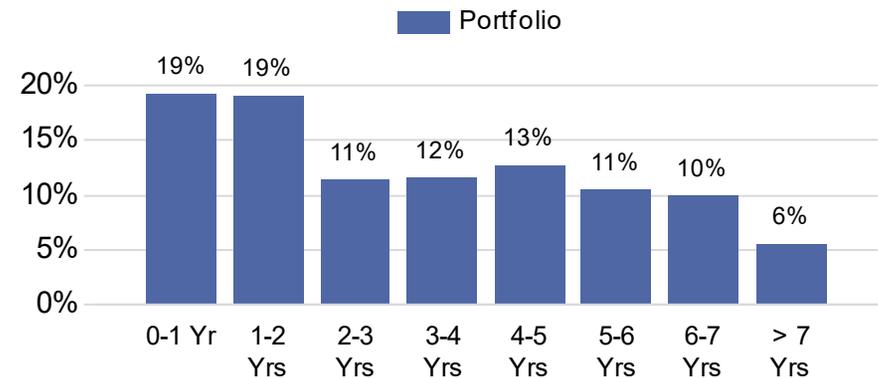
Sector Allocation



Credit Quality - S&P



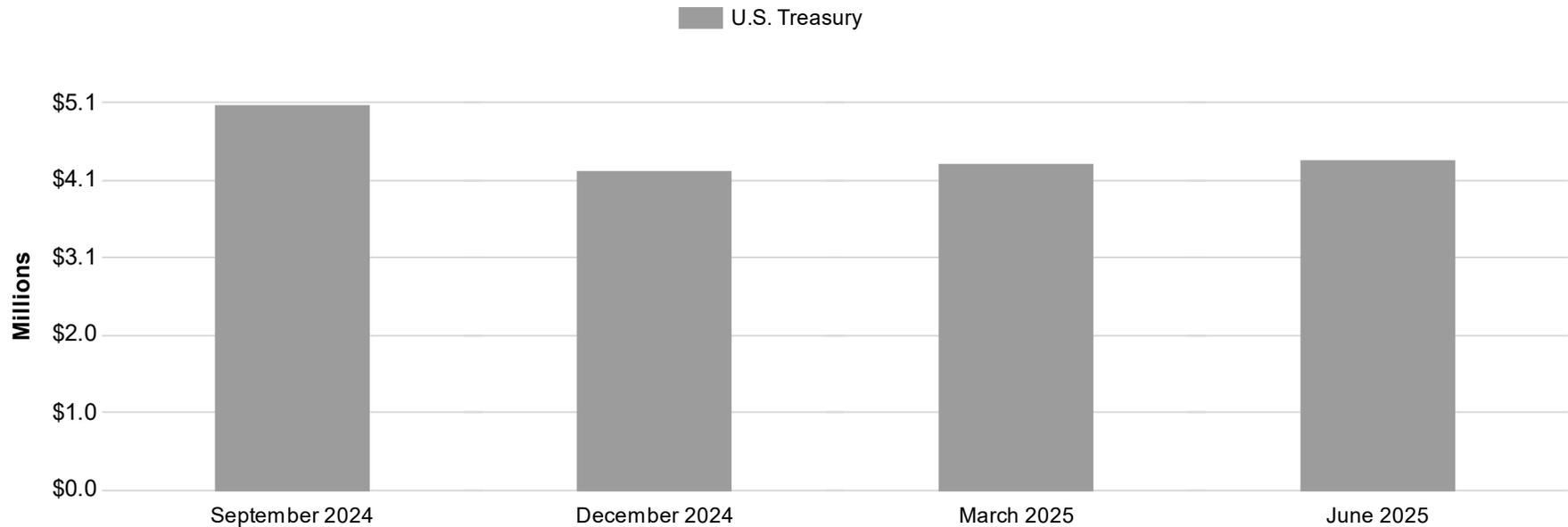
Duration Distribution



¹Yield and duration calculations exclude cash and cash equivalents. Sector allocation includes market values and accrued interest. An average of each security's credit rating was assigned a numeric value and adjusted for its relative weighting in the portfolio.

Sector Allocation Review - CITY OF MILFORD CASHFLOW ACCOUNT

Security Type	Sep-24	% of Total	Dec-24	% of Total	Mar-25	% of Total	Jun-25	% of Total
U.S. Treasury	\$5.1	100.0%	\$4.2	100.0%	\$4.3	100.0%	\$4.3	100.0%
Total	\$5.1	100.0%	\$4.2	100.0%	\$4.3	100.0%	\$4.3	100.0%



Market values, excluding accrued interest. Only includes fixed-income securities held within the separately managed account(s) and LGIPs managed by PFMAM. Detail may not add to total due to rounding.

Important Disclosures

This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation, as it was prepared without regard to any specific objectives or financial circumstances.

PFMAM professionals have exercised reasonable professional care in the preparation of this performance report. Information in this report is obtained from sources external to PFMAM and is generally believed to be reliable and available to the public; however, we cannot guarantee its accuracy, completeness or suitability. We rely on the client's custodian for security holdings and market values. Transaction dates reported by the custodian may differ from money manager statements. While efforts are made to ensure the data contained herein is accurate and complete, we disclaim all responsibility for any errors that may occur. References to particular issuers are for illustrative purposes only and are not intended to be recommendations or advice regarding such issuers. Fixed income manager and index characteristics are gathered from external sources. When average credit quality is not available, it is estimated by taking the market value weights of individual credit tiers on the portion of the strategy rated by a NRSRO.

It is not possible to invest directly in an index. The index returns shown throughout this material do not represent the results of actual trading of investor assets. Third-party providers maintain the indices shown and calculate the index levels and performance shown or discussed. Index returns do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause investment performance to be lower than the performance shown.

The views expressed within this material constitute the perspective and judgment of PFMAM at the time of distribution and are subject to change. Any forecast, projection, or prediction of the market, the economy, economic trends, and equity or fixed-income markets are based upon certain assumptions and current opinion as of the date of issue and are also subject to change. Some, but not all assumptions are noted in the report. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Opinions and data presented are not necessarily indicative of future events or expected performance.

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Important Disclosures

- Generally, PFMAM's market prices are derived from closing bid prices as of the last business day of the month as supplied by ICE Data Services. There may be differences in the values shown for investments due to accrued but uncollected income and the use of differing valuation sources and methods. Non-negotiable FDIC-insured bank certificates of deposit are priced at par. Although PFMAM believes the prices to be reliable, the values of the securities may not represent the prices at which the securities could have been bought or sold. Explanation of the valuation methods for a registered investment company or local government investment program is contained in the appropriate fund offering documentation or information statement.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- ICE Bank of America Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.

Glossary

- **Accrued Interest:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **Agencies:** Federal agency securities and/or Government-sponsored enterprises.
- **Amortized Cost:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **Asset-Backed Security:** A financial instrument collateralized by an underlying pool of assets – usually ones that generate a cash flow from debt, such as loans, leases, credit card balances, and receivables.
- **Bankers' Acceptance:** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **Commercial Paper:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **Contribution to Total Return:** The weight of each individual security multiplied by its return, then summed for each sector to determine how much each sector added or subtracted from the overall portfolio performance.
- **Effective Duration:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **Effective Yield:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **Interest Rate:** Interest per year divided by principal amount and expressed as a percentage.
- **Market Value:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.
- **Negotiable Certificates of Deposit:** A CD with a very large denomination, usually \$1 million or more, that can be traded in secondary markets.
- **Par Value:** The nominal dollar face amount of a security.
- **Pass-through Security:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.

Glossary

- Repurchase Agreements: A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- Settle Date: The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- Supranational: A multinational union or association in which member countries cede authority and sovereignty on at least some internal matters to the group, whose decisions are binding on its members.
- Trade Date: The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- Unsettled Trade: A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- U.S. Treasury: The department of the U.S. government that issues Treasury securities.
- Yield: The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- YTM at Cost: The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- YTM at Market: The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.

To: Mayor and City Council
Finance and Audit Committee
From: Louis C. Vitola, Finance Director
Date: August 11, 2025
Re: Investment Policy Update

EXECUTIVE SUMMARY

Staff request that the Finance and Audit Committee review the enclosed edits to the City's Investment Policy Statement (IPS) proposed by PFM Asset Management. Staff requests that the Committee make a recommendation to City Council to approve the change to standardize credit rating requirements consistent with Securities and Exchange Commission (SEC) guidelines and to update both the maturity limitation (from two to three years) and allowable portfolio proportion (from 10% to 20%) for asset-backed securities.

DETAIL

The City's Investment Policy Statement was last updated April 22, 2024. The Policy was recently reviewed by Finance staff and the City's investment advisors, PFM Asset Management (PFMAM), pursuant to the requirement that the IPS be reviewed annually. The PFMAM team recommend two changes to the Policy. One is to standardize the definition of credit rating agencies to conform to SEC standards. That is, in sections 8.3.1, 8.4.3, and 8.4.4 of the policy, to refer to agencies as Nationally Ranked Statistical Rating Organizations (NRSROs), rather than by company name(s) of current NRSROs. Credit ratings agencies are required to submit annual registration information to the SEC, which performs limited oversight of the registered credit ratings firms. By standardizing the policy to conform to SEC guidelines, the policy becomes dynamic, and the City's investment managers will consistently act on the City's behalf using consistent, standardized ratings criteria. The other is to update both the maturity limitation (from two to three years) and allowable portfolio proportion (from 10% to 20%) for asset-backed securities in section 8.5. This update will provide flexibility to the City's portfolio when market conditions emerge penalizing overweight positions in treasury and corporate securities versus asset-backed securities, all else equal. The investment managers at PFMAM understand that the City's IPS clearly prioritizes the safety of principal and liquidity over return on investment, and the diversification into asset-backed securities, should it materialize, will be done with the IPS goals in mind. Staff recommend the change be supported by the Committee and approved by City Council at the August 11, 2025 meeting.

cc: Christopher Coleman, City Manager



RESOLUTION 2025-10

Adoption of the City of Milford Investment Policy

WHEREAS, it is the policy of the City of Milford to invest public funds under its control in a manner that will provide the highest investment return consistent with the primary goals of liquidity and safety of principal, while meeting cash flow needs of the City; and

WHEREAS, the City investment program shall conform to all state and local statutes governing the investment of public funds; and

WHEREAS, the City investment policy is being adopted after the review and recommendation of the Finance and Audit Committee;

WHEREAS, the City Finance and Audit Committee will, no less than once a year, review the Investment Policy for any required updates and amendments; and

WHEREAS, the City Council has determined that it is appropriate and necessary to update the "Investment Policy for the City of Milford" to bring the policies in line with current financial practices, procedures, and strategies of the City of Milford.

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MILFORD, DELAWARE, AS FOLLOWS:

Section 1: The City Council hereby adopts and approves the proposed updates to the Investment Policy.

Section 2: The City Manager is authorized to take action, provide guidance, and create procedures with the input of the City Finance Director, to ensure the investment program authorized by this Resolution is implemented pursuant to the guidelines set forth in the Investment Policy.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Official Seal of the City of Milford to be affixed this 11th day of August 2025.

Mayor F. Todd Culotta

Attest:

City Clerk Katrina L. White



THE CITY of

Milford
DELAWARE

Investment Policy Statement

As Approved April 22, 2024

Final Review; City Council Approval, Current: https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/5239	April 22, 2024
Finance & Audit Committee – Review and Discussion: https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/5207	March 11, 2024
Final Review; City Council Approval: https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/3907	March 13, 2023
City Council Workshop – Review and Discussion: https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/3833	February 22, 2023
Finance Committee Final Review; Council Approval: https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/3443 ; https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/3440	November 8, 2021
Finance Committee Review and Discussion: https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/3416	September 13, 2021

1.0 Governing Authority

It is the policy of the City of Milford to invest public funds under its control in a manner that will provide the highest investment return consistent with the maximum safety of principal, while meeting cash flow needs of the City. The investment program shall conform to all state and local statutes governing the investment of public funds. In the event of a conflict, state and local statutes will prevail.

2.0 Scope

This Investment Policy Statement (the "Policy") applies to all financial assets of the City of Milford for which the City retains direct or indirect daily control. Funds for which the City has retained outside investment advisory, fund management and/or brokerage services shall also be governed by this Policy. Bond proceeds shall be governed by the Trust Indenture and related obligation documented in connection with the debt issuance, subject to Internal Revenue Service (IRS) regulations. Police and Firefighter Pension assets, Municipal Employee / Civilian Pension assets, employee-directed post-retirement benefit funds and other pension assets beyond the City's control are not subject to the provisions of this Policy.

The City's investable funds may be segregated into three distinct categories:

2.1 Liquidity

The City's operating cash balances, Equipment Replacement Reserves (ERR) for assets being replaced in the current budget year, reserves restricted for capital projects being undertaken in the current budget year, and any component of the City's Minimum Cash Requirement (MCR) related to operating cash are included in the City's Liquidity investment group. The Liquidity investment group is limited to commercial checking and savings deposit accounts (subject to collateral considerations) and those investments specified in sections 8.1, 8.2, 8.3, 8.6, 8.7 and 8.10 provided that the investments are convertible to cash within one (1) business day.

2.2 Intermediate

The City's ERR and MCR restricted for asset replacement and capital projects scheduled at least one year in advance constitute the City's Intermediate investment group. The Intermediate investment group is eligible for investment in investments specified in all sections of paragraph 8.0, provided that the average duration is no longer than three (3) years and investments are convertible to cash within three (3) business days. Commercial checking and savings deposit accounts (subject to collateral considerations) are also permissible for this investment group.

2.3 Growth

The City's unrestricted cash not required for operations or intermediate capital requirements, the non-operating component of any MCR, and any cash restricted for a purpose at least three (3) years into the future comprise the City's Growth investment group. The Growth investment group is eligible for investment in investments specified in all sections of paragraph 8.0, provided that the average duration is no longer than five (5) years and investments are convertible to cash within five (5) business days. Commercial checking and savings deposit accounts (subject to collateral considerations) are also permissible for this investment group.

3.0 Objectives

The primary objectives of the City of Milford's investment activities, in order of importance shall be:

3.1 Safety

Preservation of principal is the foremost objective of the investment program. To attain this objective, funds shall be diversified among securities of high credit quality and liquidity, so that risk of loss of principal is minimized.

3.2 Liquidity

The City's investments shall be made for such periods as to enable the City to meet all operating requirements that may be scheduled or reasonably anticipated.

3.3 Return on Investments

A goal of the investment program shall be to maximize investment return within the constraints of Sections 3.1 and 3.2.

4.0 Delegation of Authority

Authority to manage the City of Milford's investment program is derived from this Policy, which is approved by City Council. The Finance Director shall be the administrator of all City funds.

The Finance Director shall:

- 1) Review this Policy annually and recommend changes, if any, to City Council;
- 2) Be charged with implementing the Policy, and may delegate authority to act pursuant to this Policy to an investment advisor, fund manager, brokerage firm, or other third-party agent authorized to trade securities (the "advisor"). The Finance Director shall be responsible for all investment transactions and shall establish controls to oversee the activities of any investment advisors.
- 3) Ensure that records of the City's investment activities are retained for a minimum of ten years or the time required by an applicable regulatory authority.

5.0 Prudence, Ethics and Conflicts of Interest

Any official of the City or investment advisor empowered to make investments on behalf of the City of Milford shall comply with the following:

5.1 "Prudent Person" Rule

Investment decisions shall be made with the judgment and care which persons of reasonable intelligence, under circumstances prevailing at the time the investment is made, would exercise in the management of their own investments assuming that their objectives are those shown in Section 3.0 of this policy.

5.2 Ethics and Conflict of Interest

The delegate authorized to make City investments shall act at all times in an ethical manner, and shall not engage in activity that could impair or be perceived to impair their ability to make impartial investment decisions. They shall disclose to the Mayor and City Council any material interests in financial institutions with which the City has financial dealings, and which may be related to the performance of the investment program. Employees and

officers shall refrain from undertaking personal investment transactions with the same individual(s) with whom business is conducted on behalf of the City.

6.0 Authorized Institutions and Dealers

All broker/dealers that desire to become qualified for investment transactions with the City shall meet the following:

1. Primary dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule)
2. Capital of at least \$25,000,000 or capital of \$5,000,000 for firms incorporated in the State of Delaware
3. Registered as a dealer under the Securities Exchange Act of 1934
4. Member of the Financial Industry Regulatory Authority (FINRA)
5. Registered to sell securities in the State of Delaware
6. Engaged in the business of effecting transactions in U.S. government, federal agency, and corporate securities for at least five (5) consecutive years

To the extent the City utilizes the services of an outside Investment Advisor, it shall be the responsibility of the Investment Advisor to maintain an approved list of brokers.

7.0 Safekeeping and Custody

To ensure that securities are deposited in an eligible financial institution prior to the release of funds, all trades of marketable securities will be executed using the delivery vs. payment ("DVP") method.

Further, all securities will be held by an independent third-party custodian, in the name of the City of Milford, and evidenced by safekeeping receipts in the City's name. The custodian shall provide daily confirmation of securities held as well as a monthly transactions and holdings report. Fixed income securities must be reported at both the historical cost plus or minus accretion or amortization, respectively, and at market value quoted by an independent securities pricing service.

8.0 Authorized Investments and Trading of Securities

The Finance Director or authorized investment adviser may invest only in the types of securities listed below. The maximum stated maturity of any security shall be limited to 10 years at time of purchase, unless otherwise stated. For Agency mortgage-backed securities, the maximum maturity shall be defined as the weighted average life ("WAL"). WAL is a convention that estimates the expected weighted amount of time, in years, for the principal amount of an issue to be fully paid. For this sector, WAL shall be limited to 10 years, measured at the original purchase date, provided by Bloomberg Financial Markets or another independent pricing/research firm.

8.1 United States Government Securities

Marketable securities issued by the U.S. Government and supported by the full faith and credit of the U.S. Treasury either by statute or an opinion of the attorney general of the United States. Up to 100% of the portfolio may be invested in this sector.

8.2 Government Agency Securities

Debt securities issued by government-sponsored enterprises ("GSE"), federal agencies, and federal financing banks; the maximum stated maturity of any investment in this sector shall

be limited to 10 years at time of purchase. Up to 100% of the portfolio may be invested in this sector.

8.3 Certificates of Deposit and Time Deposits

8.3.1 Domestic Institutions: Issued or endorsed by a domestic bank, or a savings and loan association, organized and supervised under the laws of the United States and denominated in U.S. dollars; provided, however, that deposits are fully insured or guaranteed by the Federal Deposit Insurance Corporation ("FDIC").

If not insured by the FDIC:

- The banking institution must have assets of not less than \$5 billion; and Issuers must have a short-term rating of A-1 by Standard & Poor's or have an equivalent rating by at least one Nationally Ranked Statistical Rating Organization ("NRSRO") and P1 by Moody's and a long-term rating of AA by Standard & Poor's or have an equivalent rating by at least one NRSRO/Aa by Moody's.

The maximum stated maturity of any investment in this sector shall be limited to 5 years at time of purchase. This sector shall not exceed 25% of the total portfolio. No single issuer shall exceed 5% of the City's portfolio.

8.3.2 Delaware-Domiciled Institutions: Issued by or endorsed by any bank or savings association domiciled in the State of Delaware and organized and supervised under federal or State of Delaware banking laws which does not meet the requirements of Section 8.3.1 hereto; provided, however, that:

- For each of the latest two years, the bank or association has had a return on total average assets of 0.50% or greater and an average capital ratio (defined as total equity capital to total assets) of at least 1 to 20, or the instrument is secured as set forth in Section 8, "Collateralization of City Deposits," hereto; and
- Not more than the lesser of \$10 million or 25% of an issuer's total equity capital may be invested in any one issuer. (Investments due to mature in one business day may be excluded from the computation of this percentage.)
- City Council affirms that, consistent with this Policy, Delaware banks and savings associations should be considered as an eligible source of investment.
- The maximum stated maturity of any investment in this sector shall be limited to 5 years at time of purchase. This sector shall not exceed 20% of the total portfolio. No single issuer shall exceed 5% of the City's portfolio.

8.4 Corporate Debt Instruments

Such instruments include commercial paper bankers' acceptances, and non-convertible senior debt securities (bonds and debentures).

8.4.1 Any such instrument must be denominated/issued in U.S. dollars. Many foreign corporations issue debt/securities in the U.S. market, in U.S. dollars.

8.4.2 No single issuer shall exceed 5% of the City's portfolio.

- 8.4.3 Commercial Paper shall be limited to a final stated maturity of 270 days. This sector shall not exceed 25% of the total portfolio. Issuers shall be rated at least A-1 by Standard & Poor's or have an equivalent rating by at least one NRSRO and P-1 by Moody's.
- 8.4.4 Bankers' Acceptances shall be limited to a final maturity of 365 days. This sector shall not exceed 20% of the City's Portfolio. Issuers shall be rated at least A-1 by Standard & Poor's or have an equivalent rating by at least one NRSRO and P-1 by Moody's.
- 8.4.5 Corporate bonds and debentures shall be limited to a final stated maturity of 15 years. This sector shall not exceed 50% of the total portfolio. Issuers shall hold a long-term rating of at least BBB+ by S&P, Baa1 by Moody's or BBB+ by Fitch Ratings, though the dollar-weighted average credit rating of the securities invested pursuant to 8.4.5 must exceed the minimum rating at the time of purchase. Rebalancing shall not be automatically required if the dollar-weighted average credit rating of the securities invested pursuant to 8.4.5 fall below minimum rating.

8.5 Asset-Backed Securities

8.5.1 Definition: Securities collateralized by pools of auto loan receivables, credit card receivables, and equipment loans; provided that such securities have (i) the highest credit rating from at least two NRSROs and (ii) an average life not to exceed ~~two~~ three years from the date of settlement (unless such securities are subject to periodic reset of coupon or interest rate, in which case the average life may not exceed three years from the date of settlement).

8.5.1.2 Percentage Limit: ~~10~~ 20% in total

8.6 Repurchase Agreements

The underlying collateral shall consist of U.S. government and/or GSE securities provided, however, that:

- 8.6.1 All repurchase agreements must be governed by a written master repurchase agreement;
- 8.6.2 Agreements will be entered into only with respect to underlying securities in which the investment manager may otherwise invest as described above, and only with a recognized U.S. Government/broker or a bank which meets the requirements set out under paragraph Section 8.3.1 or 8.3.2 above;
- 8.6.3 In the case of repurchase collateral held in book-entry form in the Federal Reserve System, all deliveries of securities must be made, for the transfer thereof, through the Federal Reserve book-entry system to the account designated by the investment manager for such purpose. Securities held in certificated form must be delivered to the investment manager or a custodian as directed by the investment manager.
- 8.6.4 Any collateral employed under this paragraph shall be counted towards the applicable maximum limits set forth within these guidelines for such type of investment, and such collateral shall be valued at market at not less than 103 percent of the maturity value of the agreement and marked-to-the-market as requested by the investment manager.
- 8.6.5 Repurchase agreements shall be limited to a maximum maturity of 90 days from date of purchase. No single issuer shall exceed 25% of the City's portfolio.

8.7 Registered Investment Companies (Money Market Funds)

Money market funds shall not be permitted to invest in or hold securities other than those approved in this Policy. No single fund shall exceed 50% of the City's portfolio. Money market funds shall be rated AAAm by S&P, Aaa-mf by Moody's or AAAMmf by Fitch Ratings. A current prospectus must be obtained before investing in any money market fund, and current holdings reports must be maintained at least each month.

8.8 Mortgage-Backed Securities

Mortgage-backed securities issued by the following: Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Association (FHLMC). This sector shall not exceed 50% of the total portfolio.

8.9 Municipal Obligations

Taxable and tax-exempt securities issued by state and local governments and public authorities in the United States. The maximum stated maturity of any investment in this sector shall be limited to 15 years at time of purchase. This sector shall not exceed 40% of the City's portfolio. No single issuer shall exceed 5% of the City's portfolio. Issuers shall be rated at least BBB+ by S&P, Baa1 by Moody's or BBB+ by Fitch Ratings, though the dollar-weighted average credit rating of the securities invested pursuant to 8.4.5 must exceed the minimum rating at the time of purchase. Rebalancing shall not be automatically required if the dollar-weighted average credit rating of the securities invested pursuant to 8.4.5 fall below minimum rating.

8.10 State of Delaware Investment Pool

Delaware Local Government Investment Pool (DELGIP) (or equivalent): The investment in this pool or its equivalent is permitted in relation to the City's cash flow and the guidelines set forth by the State of Delaware. The investment in this pool will not exceed 75% of the total funds available and will be monitored by the City's Finance Department on a monthly basis.

8.11 Trading Securities

The Finance Director is hereby authorized to sell securities prior to their stated maturity date in the following circumstances:

1. A security with declining credit may be sold prior to its maturity to minimize loss of principal;
2. A security swap may be executed if it would improve the quality, yield, or target duration of the portfolio;
3. Securities may be sold to provide needed liquidity.

8.12 Internal Control on such transactions

8.12.1 An investment report will be made available to the Council on a quarterly basis.

8.12.2 All investment reporting documents will be provided to the independent auditors.

8.12.3 Investment records will be kept by the City for ten (10) years.

8.12.4 The trading shall not involve any hedge, derivatives and/or borrowing funds for trading purposes.

9.0 Collateralization of City Deposits

If the City deposits funds in any financial institution, those funds will be subject to the following collateralization requirements. The financial institution shall:

- 9.1** Collateralize the City's daily ledger balance(s) if, for any quarter during the most recent eight quarters the bank has not met both of the following two criteria:
- Return on total average assets of 0.50 percent or greater.
 - Average capital ratio (total equity to total assets) of 5.00 percent or greater.
- 9.2** If either criterion in paragraph 8.1 is not satisfied collateral must be pledged and shall consist of one or more of the following securities:
- U.S. Government securities
 - U.S. Government agency securities
 - Federal Home Loan Board letters of credit
 - State of Delaware securities
 - Securities of a political subdivision of the State of Delaware with a rating of A3 or better by Moody's, A- or better by S&P or A- or better by Fitch Ratings.
- 9.3** Ensure that the securities pledged as collateral (except for Federal Home Loan Board letters of credit) have a market value equal to or greater than 103 percent of the ledger balance(s) in the account(s) marked to market each day.
- 9.4** Ensure that securities pledged as collateral are housed at the Federal Reserve Bank or a mutually agreed upon third party depository. (The trust department of the winning vendor will not be acceptable.)
- 9.5** Provide reports on a monthly basis to the City Finance Department detailing the collateral pledged.
- 9.6** Provide a Call Report (Consolidated Report of Condition and Income, FFIEC 031) on a quarterly basis to the City Finance Department.

10.0 Policy Considerations

If securities owned by the City are downgraded by either of the three major credit ratings agencies to a level below the quality required by this Policy, it shall be the City's policy that the Finance Director shall promptly notify City Council and recommend a course of action. If the City has retained a professional investment advisor, in the event of a downgrade below the minimum credit standards, the investment advisor shall promptly notify the Finance Director and recommend a course of action.

11.0 Internal Controls

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. The Finance Director shall also establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Prohibition of physical delivery securities
- Clear, written delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers

12.0 Performance Standards

The City of Milford's investment decisions shall be made with the objective of obtaining a rate of return commensurate with the investment risk constraints and the cash flow needs. On a quarterly basis, the Finance Director shall compare the City's portfolio against a benchmark(s) that shall be reflective of the actual securities being managed and risks undertaken, and the benchmark(s) shall have a similar weighted average maturity and credit profile.

13.0 Reporting

At the end of each calendar quarter, the Finance Director will make available a report of all quarter-ending investments to the Mayor and City Council. Reports shall include the following:

- Listing of individual securities held as of last day of reporting period, sorted by Sector
- Par, market, and amortized cost values of each security
- Coupon, current yield, and final stated maturity date of each security

14.0 Investment Policy Adoption

The City of Milford's investment policy will be adopted by the City Council after review and recommendation of the Finance Committee. The policy will be reviewed at least once every year by the Finance Committee, which is charged with considering the existing policy and any recommendations to modify the policy. Any modifications to the policy must be approved by the City Council.

ATTACHMENT A GLOSSARY

AGENCIES: Federal agency securities, otherwise known as "Government Sponsored Enterprises."

ASSET-BACKED SECURITY: A financial instrument collateralized by an underlying pool of assets – usually ones that generate a cash flow from debt, such as loans, leases, credit card balances, and receivables.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

BANKERS ACCEPTANCE: A short-term credit investment which is created by a non-financial firm and whose payment is guaranteed by a bank.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER: An unsecured obligation issued by a corporation or bank to finance its short-term credit needs. Maturities typically range from one (1) to 270 days.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Milford. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

CORPORATE BONDS: A debt security issued by a corporation based in the United States of America. Such bonds usually have a par value of \$1,000, have a term maturity, and are traded on a major exchange.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns, in an attempt to limit risk.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHM mortgages. The term "passthroughs" is often used to describe Ginnie Mae's.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MORTGAGE-BACKED SECURITIES (MBS): An investment instrument that represents ownership of, and is backed by, an individual interest in a pool of mortgages such as those issued by Ginnie Mae or Freddie Mac. Principal and interest from the individual mortgages is used to pay principal and interest on the MBS.

MUNICIPAL NOTES AND BONDS: Securities issued by a state, city, or local government to finance operations or special projects.

NATIONALLY RANKED STATISTICAL RATING ORGANIZATION (NRSRO): A credit rating agency that is registered under U.S. Securities and Exchange Commission (SEC) Section 15E and issues credit ratings certified by qualified institutional buyers, in accordance with Section 15E(a)(i)(B)(ix), with respect to financial institutions, brokers or dealers; insurance companies; corporate issuers; issuers of asset-backed securities; and issuers of municipal and government securities¹.

¹ <https://www.sec.gov/about/divisions-offices/office-credit-ratings/current-nrsros>

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state--the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: A measure of worth, either at security or aggregate portfolio level, over a period of time. There are many return conventions, including but not limited to yield to maturity at cost, yield to maturity at market, yield to worst, time weighted total return, dollar weighted total return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

REVERSE REPURCHASE AGREEMENT: The purchase of a security by a dealer with the agreement to sell it back to the seller at a fixed price at a later date. Typically used by owners of securities to finance short-term needs without having to liquidate the security.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

TIME DEPOSITS: A savings account or CD held for a fixed term or with the understanding that the customer can withdraw only by giving advanced notice.

TREASURY BILLS: A short-term (less than one year) non-interest-bearing discount security issued by the U.S. Treasury department to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: A non-interest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1: also called net capital rule and net capital ratio.

Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

VARIABLE RATE MASTER DEMAND NOTES: A floating rate security with initial maturities and indexed rates chosen by the investor. The interest rate is adjusted periodically, usually off a standard such as that prevailing on a Treasury Bill or the prime interest rate.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security.

NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

City Council Resolution 2024-05
Adoption of Investment Policy Update

City of Milford



RESOLUTION 2024-05

Adoption of the City of Milford Investment Policy

WHEREAS, it is the policy of the City of Milford to invest public funds under its control in a manner that will provide the highest investment return consistent with the maximum safety of principal, while meeting cash flow needs of the City; and

WHEREAS, the City investment program shall conform to all state and local statutes governing the investment of public funds; and

WHEREAS, the City investment policy is being adopted after the review and recommendation of the Finance and Audit Committee;

WHEREAS, the City Finance and Audit Committee will, no less than once a year, review the Investment Policy for any required updates and amendments; and

WHEREAS, the City Council has determined that it is appropriate and necessary to update the "Investment Policy for the City of Milford" to bring the policies in line with current financial practices, procedures, and strategies of the City of Milford.

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MILFORD, DELAWARE, AS FOLLOWS:

Section 1: The City Council hereby adopts and approves the proposed updates to the Investment Policy.

Section 2: The City Manager is authorized to take action, provide guidance, and create procedures with the input of the City Finance Director, to ensure the investment program authorized by this Resolution is implemented pursuant to the guidelines set forth in the Investment Policy.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Official Seal of the City of Milford to be affixed this 22nd day of April 2024.

Mayor Arthur J. Campbell

Attest:

City Clerk Teresa K. Hudson



THE CITY of

Milford
DELAWARE

Investment Policy Statement

As Approved April 22, 2024

Final Review; City Council Approval, Current: https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/5239	April 22, 2024
Finance & Audit Committee – Review and Discussion: https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/5207	March 11, 2024
Final Review; City Council Approval: https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/3907	March 13, 2023
City Council Workshop – Review and Discussion: https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/3833	February 22, 2023
Finance Committee Final Review; Council Approval: https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/3443 ; https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/3440	November 8, 2021
Finance Committee Review and Discussion: https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/3416	September 13, 2021

1.0 Governing Authority

It is the policy of the City of Milford to invest public funds under its control in a manner that will provide the highest investment return consistent with the maximum safety of principal, while meeting cash flow needs of the City. The investment program shall conform to all state and local statutes governing the investment of public funds. In the event of a conflict, state and local statutes will prevail.

2.0 Scope

This Investment Policy Statement (the "Policy") applies to all financial assets of the City of Milford for which the City retains direct or indirect daily control. Funds for which the City has retained outside investment advisory, fund management and/or brokerage services shall also be governed by this Policy. Bond proceeds shall be governed by the Trust Indenture and related obligation documented in connection with the debt issuance, subject to Internal Revenue Service (IRS) regulations. Police and Firefighter Pension assets, Municipal Employee / Civilian Pension assets, employee-directed post-retirement benefit funds and other pension assets beyond the City's control are not subject to the provisions of this Policy.

The City's investable funds may be segregated into three distinct categories:

2.1 Liquidity

The City's operating cash balances, Equipment Replacement Reserves (ERR) for assets being replaced in the current budget year, reserves restricted for capital projects being undertaken in the current budget year, and any component of the City's Minimum Cash Requirement (MCR) related to operating cash are included in the City's Liquidity investment group. The Liquidity investment group is limited to commercial checking and savings deposit accounts (subject to collateral considerations) and those investments specified in sections 8.1, 8.2, 8.3, 8.6, 8.7 and 8.10 provided that the investments are convertible to cash within one (1) business day.

2.2 Intermediate

The City's ERR and MCR restricted for asset replacement and capital projects scheduled at least one year in advance constitute the City's Intermediate investment group. The Intermediate investment group is eligible for investment in investments specified in all sections of paragraph 8.0, provided that the average duration is no longer than three (3) years and investments are convertible to cash within three (3) business days. Commercial checking and savings deposit accounts (subject to collateral considerations) are also permissible for this investment group.

2.3 Growth

The City's unrestricted cash not required for operations or intermediate capital requirements, the non-operating component of any MCR, and any cash restricted for a purpose at least three (3) years into the future comprise the City's Growth investment group. The Growth investment group is eligible for investment in investments specified in all sections of paragraph 8.0, provided that the average duration is no longer than five (5) years and investments are convertible to cash within five (5) business days. Commercial checking and savings deposit accounts (subject to collateral considerations) are also permissible for this investment group.

3.0 Objectives

The primary objectives of the City of Milford's investment activities, in order of importance shall be:

3.1 Safety

Preservation of principal is the foremost objective of the investment program. To attain this objective, funds shall be diversified among securities of high credit quality and liquidity, so that risk of loss of principal is minimized.

3.2 Liquidity

The City's investments shall be made for such periods as to enable the City to meet all operating requirements that may be scheduled or reasonably anticipated.

3.3 Return on Investments

A goal of the investment program shall be to maximize investment return within the constraints of Sections 3.1 and 3.2.

4.0 Delegation of Authority

Authority to manage the City of Milford's investment program is derived from this Policy, which is approved by City Council. The Finance Director shall be the administrator of all City funds.

The Finance Director shall:

- 1) Review this Policy annually and recommend changes, if any, to City Council;
- 2) Be charged with implementing the Policy, and may delegate authority to act pursuant to this Policy to an investment advisor, fund manager, brokerage firm, or other third-party agent authorized to trade securities (the "advisor"). The Finance Director shall be responsible for all investment transactions and shall establish controls to oversee the activities of any investment advisors.
- 3) Ensure that records of the City's investment activities are retained for a minimum of ten years or the time required by an applicable regulatory authority.

5.0 Prudence, Ethics and Conflicts of Interest

Any official of the City or investment advisor empowered to make investments on behalf of the City of Milford shall comply with the following:

5.1 "Prudent Person" Rule

Investment decisions shall be made with the judgment and care which persons of reasonable intelligence, under circumstances prevailing at the time the investment is made, would exercise in the management of their own investments assuming that their objectives are those shown in Section 3.0 of this policy.

5.2 Ethics and Conflict of Interest

The delegate authorized to make City investments shall act at all times in an ethical manner, and shall not engage in activity that could impair or be perceived to impair their ability to make impartial investment decisions. They shall disclose to the Mayor and City Council any material interests in financial institutions with which the City has financial dealings, and which may be related to the performance of the investment program. Employees and

officers shall refrain from undertaking personal investment transactions with the same individual(s) with whom business is conducted on behalf of the City.

6.0 Authorized Institutions and Dealers

All broker/dealers that desire to become qualified for investment transactions with the City shall meet the following:

1. Primary dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule)
2. Capital of at least \$25,000,000 or capital of \$5,000,000 for firms incorporated in the State of Delaware
3. Registered as a dealer under the Securities Exchange Act of 1934
4. Member of the Financial Industry Regulatory Authority (FINRA)
5. Registered to sell securities in the State of Delaware
6. Engaged in the business of effecting transactions in U.S. government, federal agency, and corporate securities for at least five (5) consecutive years

To the extent the City utilizes the services of an outside Investment Advisor, it shall be the responsibility of the Investment Advisor to maintain an approved list of brokers.

7.0 Safekeeping and Custody

To ensure that securities are deposited in an eligible financial institution prior to the release of funds, all trades of marketable securities will be executed using the delivery vs. payment ("DVP") method.

Further, all securities will be held by an independent third-party custodian, in the name of the City of Milford, and evidenced by safekeeping receipts in the City's name. The custodian shall provide daily confirmation of securities held as well as a monthly transactions and holdings report. Fixed income securities must be reported at both the historical cost plus or minus accretion or amortization, respectively, and at market value quoted by an independent securities pricing service.

8.0 Authorized Investments and Trading of Securities

The Finance Director or authorized investment adviser may invest only in the types of securities listed below. The maximum stated maturity of any security shall be limited to 10 years at time of purchase, unless otherwise stated. For Agency mortgage-backed securities, the maximum maturity shall be defined as the weighted average life ("WAL"). WAL is a convention that estimates the expected weighted amount of time, in years, for the principal amount of an issue to be fully paid. For this sector, WAL shall be limited to 10 years, measured at the original purchase date, provided by Bloomberg Financial Markets or another independent pricing/research firm.

8.1 United States Government Securities

Marketable securities issued by the U.S. Government and supported by the full faith and credit of the U.S. Treasury either by statute or an opinion of the attorney general of the United States. Up to 100% of the portfolio may be invested in this sector.

8.2 Government Agency Securities

Debt securities issued by government-sponsored enterprises ("GSE"), federal agencies, and federal financing banks; the maximum stated maturity of any investment in this sector shall

be limited to 10 years at time of purchase. Up to 100% of the portfolio may be invested in this sector.

8.3 Certificates of Deposit and Time Deposits

8.3.1 Domestic Institutions: Issued or endorsed by a domestic bank, or a savings and loan association, organized and supervised under the laws of the United States and denominated in U.S. dollars; provided, however, that deposits are fully insured or guaranteed by the Federal Deposit Insurance Corporation ("FDIC").

If not insured by the FDIC:

- The banking institution must have assets of not less than \$5 billion; and Issuers must have a short-term rating of A-1 by Standard & Poor's or have an equivalent rating by at least one NRSRO and a long-term rating of AA by Standard & Poor's or have an equivalent rating by at least one NRSRO.

The maximum stated maturity of any investment in this sector shall be limited to 5 years at time of purchase. This sector shall not exceed 25% of the total portfolio. No single issuer shall exceed 5% of the City's portfolio.

8.3.2 Delaware-Domiciled Institutions: Issued by or endorsed by any bank or savings association domiciled in the State of Delaware and organized and supervised under federal or State of Delaware banking laws which does not meet the requirements of Section 8.3.I hereto; provided, however, that:

- For each of the latest two years, the bank or association has had a return on total average assets of 0.50% or greater and an average capital ratio (defined as total equity capital to total assets) of at least 1 to 20, or the instrument is secured as set forth in Section 8, "Collateralization of City Deposits," hereto; and
- Not more than the lesser of \$10 million or 25% of an issuer's total equity capital may be invested in any one issuer. (Investments due to mature in one business day may be excluded from the computation of this percentage.)
- City Council affirms that, consistent with this Policy, Delaware banks and savings associations should be considered as an eligible source of investment.
- The maximum stated maturity of any investment in this sector shall be limited to 5 years at time of purchase. This sector shall not exceed 20% of the total portfolio. No single issuer shall exceed 5% of the City's portfolio.

8.4 Corporate Debt Instruments

Such instruments include commercial paper bankers' acceptances, and non-convertible senior debt securities (bonds and debentures).

8.4.1 Any such instrument must be denominated/issued in U.S. dollars. Many foreign corporations issue debt/securities in the U.S. market, in U.S. dollars.

8.4.2 No single issuer shall exceed 5% of the City's portfolio.

- 8.4.3 Commercial Paper shall be limited to a final stated maturity of 270 days. This sector shall not exceed 25% of the total portfolio. Issuers shall be rated at least A-1 by Standard & Poor's or have an equivalent rating by at least one NRSRO.
- 8.4.4 Bankers' Acceptances shall be limited to a final maturity of 365 days. This sector shall not exceed 20% of the City's Portfolio. Issuers shall be rated at least A-1 by Standard & Poor's or have an equivalent rating by at least one NRSRO.
- 8.4.5 Corporate bonds and debentures shall be limited to a final stated maturity of 15 years. This sector shall not exceed 50% of the total portfolio. Issuers shall hold a long-term rating of at least BBB+ by S&P, Baa1 by Moody's or BBB+ by Fitch Ratings, though the dollar-weighted average credit rating of the securities invested pursuant to 8.4.5 must exceed the minimum rating at the time of purchase. Rebalancing shall not be automatically required if the dollar-weighted average credit rating of the securities invested pursuant to 8.4.5 fall below minimum rating.

8.5 Asset-Backed Securities

8.5.1 Definition: Securities collateralized by pools of auto loan receivables, credit card receivables, and equipment loans; provided that such securities have (i) the highest credit rating from at least two NRSROs and (ii) an average life not to exceed three years from the date of settlement (unless such securities are subject to periodic reset of coupon or interest rate, in which case the average life may not exceed three years from the date of settlement).

8.5.1.2 Percentage Limit: 20% in total

8.6 Repurchase Agreements

The underlying collateral shall consist of U.S. government and/or GSE securities provided, however, that:

- 8.6.1 All repurchase agreements must be governed by a written master repurchase agreement;
- 8.6.2 Agreements will be entered into only with respect to underlying securities in which the investment manager may otherwise invest as described above, and only with a recognized U.S. Government/broker or a bank which meets the requirements set out under paragraph Section 8.3.1 or 8.3.2 above;
- 8.6.3 In the case of repurchase collateral held in book-entry form in the Federal Reserve System, all deliveries of securities must be made, for the transfer thereof, through the Federal Reserve book-entry system to the account designated by the investment manager for such purpose. Securities held in certificated form must be delivered to the investment manager or a custodian as directed by the investment manager.
- 8.6.4 Any collateral employed under this paragraph shall be counted towards the applicable maximum limits set forth within these guidelines for such type of investment, and such collateral shall be valued at market at not less than 103 percent of the maturity value of the agreement and marked-to-the-market as requested by the investment manager.
- 8.6.5 Repurchase agreements shall be limited to a maximum maturity of 90 days from date of purchase. No single issuer shall exceed 25% of the City's portfolio.

8.7 Registered Investment Companies (Money Market Funds)

Money market funds shall not be permitted to invest in or hold securities other than those approved in this Policy. No single fund shall exceed 50% of the City's portfolio. Money market funds shall be rated AAAm by S&P, Aaa-mf by Moody's or AAAMmf by Fitch Ratings. A current prospectus must be obtained before investing in any money market fund, and current holdings reports must be maintained at least each month.

8.8 Mortgage-Backed Securities

Mortgage-backed securities issued by the following: Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Association (FHLMC). This sector shall not exceed 50% of the total portfolio.

8.9 Municipal Obligations

Taxable and tax-exempt securities issued by state and local governments and public authorities in the United States. The maximum stated maturity of any investment in this sector shall be limited to 15 years at time of purchase. This sector shall not exceed 40% of the City's portfolio. No single issuer shall exceed 5% of the City's portfolio. Issuers shall be rated at least BBB+ by S&P, Baa1 by Moody's or BBB+ by Fitch Ratings, though the dollar-weighted average credit rating of the securities invested pursuant to 8.4.5 must exceed the minimum rating at the time of purchase. Rebalancing shall not be automatically required if the dollar-weighted average credit rating of the securities invested pursuant to 8.4.5 fall below minimum rating.

8.10 State of Delaware Investment Pool

Delaware Local Government Investment Pool (DELGIP) (or equivalent): The investment in this pool or its equivalent is permitted in relation to the City's cash flow and the guidelines set forth by the State of Delaware. The investment in this pool will not exceed 75% of the total funds available and will be monitored by the City's Finance Department on a monthly basis.

8.11 Trading Securities

The Finance Director is hereby authorized to sell securities prior to their stated maturity date in the following circumstances:

1. A security with declining credit may be sold prior to its maturity to minimize loss of principal;
2. A security swap may be executed if it would improve the quality, yield, or target duration of the portfolio;
3. Securities may be sold to provide needed liquidity.

8.12 Internal Control on such transactions

8.12.1 An investment report will be made available to the Council on a quarterly basis.

8.12.2 All investment reporting documents will be provided to the independent auditors.

8.12.3 Investment records will be kept by the City for ten (10) years.

8.12.4 The trading shall not involve any hedge, derivatives and/or borrowing funds for trading purposes.

9.0 Collateralization of City Deposits

If the City deposits funds in any financial institution, those funds will be subject to the following collateralization requirements. The financial institution shall:

- 9.1** Collateralize the City's daily ledger balance(s) if, for any quarter during the most recent eight quarters the bank has not met both of the following two criteria:
- Return on total average assets of 0.50 percent or greater.
 - Average capital ratio (total equity to total assets) of 5.00 percent or greater.
- 9.2** If either criterion in paragraph 8.1 is not satisfied collateral must be pledged and shall consist of one or more of the following securities:
- U.S. Government securities
 - U.S. Government agency securities
 - Federal Home Loan Board letters of credit
 - State of Delaware securities
 - Securities of a political subdivision of the State of Delaware with a rating of A3 or better by Moody's, A- or better by S&P or A- or better by Fitch Ratings.
- 9.3** Ensure that the securities pledged as collateral (except for Federal Home Loan Board letters of credit) have a market value equal to or greater than 103 percent of the ledger balance(s) in the account(s) marked to market each day.
- 9.4** Ensure that securities pledged as collateral are housed at the Federal Reserve Bank or a mutually agreed upon third party depository. (The trust department of the winning vendor will not be acceptable.)
- 9.5** Provide reports on a monthly basis to the City Finance Department detailing the collateral pledged.
- 9.6** Provide a Call Report (Consolidated Report of Condition and Income, FFIEC 031) on a quarterly basis to the City Finance Department.

10.0 Policy Considerations

If securities owned by the City are downgraded by either of the three major credit ratings agencies to a level below the quality required by this Policy, it shall be the City's policy that the Finance Director shall promptly notify City Council and recommend a course of action. If the City has retained a professional investment advisor, in the event of a downgrade below the minimum credit standards, the investment advisor shall promptly notify the Finance Director and recommend a course of action.

11.0 Internal Controls

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. The Finance Director shall also establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Prohibition of physical delivery securities
- Clear, written delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers

12.0 Performance Standards

The City of Milford's investment decisions shall be made with the objective of obtaining a rate of return commensurate with the investment risk constraints and the cash flow needs. On a quarterly basis, the Finance Director shall compare the City's portfolio against a benchmark(s) that shall be reflective of the actual securities being managed and risks undertaken, and the benchmark(s) shall have a similar weighted average maturity and credit profile.

13.0 Reporting

At the end of each calendar quarter, the Finance Director will make available a report of all quarter-ending investments to the Mayor and City Council. Reports shall include the following:

- Listing of individual securities held as of last day of reporting period, sorted by Sector
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FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHM mortgages. The term "passthroughs" is often used to describe Ginnie Mae's.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MORTGAGE-BACKED SECURITIES (MBS): An investment instrument that represents ownership of, and is backed by, an individual interest in a pool of mortgages such as those issued by Ginnie Mae or Freddie Mac. Principal and interest from the individual mortgages is used to pay principal and interest on the MBS.

MUNICIPAL NOTES AND BONDS: Securities issued by a state, city, or local government to finance operations or special projects.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state--the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: A measure of worth, either at security or aggregate portfolio level, over a period of time. There are many return conventions, including but not limited to yield to maturity at cost, yield to maturity at market, yield to worst, time weighted total return, dollar weighted total return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

REVERSE REPURCHASE AGREEMENT: The purchase of a security by a dealer with the agreement to sell it back to the seller at a fixed price at a later date. Typically used by owners of securities to finance short-term needs without having to liquidate the security.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

TIME DEPOSITS: A savings account or CD held for a fixed term or with the understanding that the customer can withdraw only by giving advanced notice.

TREASURY BILLS: A short-term (less than one year) non-interest-bearing discount security issued by the U.S. Treasury department to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: A non-interest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1: also called net capital rule and net capital ratio.

Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

VARIABLE RATE MASTER DEMAND NOTES: A floating rate security with initial maturities and indexed rates chosen by the investor. The interest rate is adjusted periodically, usually off a standard such as that prevailing on a Treasury Bill or the prime interest rate.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security.

NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

City Council Resolution 2024-05
Adoption of Investment Policy Update

City of Milford



RESOLUTION 2024-05

Adoption of the City of Milford Investment Policy

WHEREAS, it is the policy of the City of Milford to invest public funds under its control in a manner that will provide the highest investment return consistent with the maximum safety of principal, while meeting cash flow needs of the City; and

WHEREAS, the City investment program shall conform to all state and local statutes governing the investment of public funds; and

WHEREAS, the City investment policy is being adopted after the review and recommendation of the Finance and Audit Committee;

WHEREAS, the City Finance and Audit Committee will, no less than once a year, review the Investment Policy for any required updates and amendments; and

WHEREAS, the City Council has determined that it is appropriate and necessary to update the "Investment Policy for the City of Milford" to bring the policies in line with current financial practices, procedures, and strategies of the City of Milford.

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MILFORD, DELAWARE, AS FOLLOWS:

Section 1: The City Council hereby adopts and approves the proposed updates to the Investment Policy.

Section 2: The City Manager is authorized to take action, provide guidance, and create procedures with the input of the City Finance Director, to ensure the investment program authorized by this Resolution is implemented pursuant to the guidelines set forth in the Investment Policy.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Official Seal of the City of Milford to be affixed this 22nd day of April 2024.

Mayor Arthur J. Campbell

Attest:

City Clerk Teresa K. Hudson

To: Finance and Audit Committee Members
From: Louis C. Vitola
Date: August 8, 2025
Re: S&P Global Affirms City of Milford AA- Credit Rating; Outlook from Stable to Negative

- S&P Global affirmed the City's AA- Credit Rating (High Investment Grade) on Series 2016 GO Bonds
 - The S&P Global press release is attached, which expresses the firm's rationale
 - The rating outlook was updated to "negative" due to the interfund transactions in the governmental funds giving rise to negative net position, but the article buried the lead: S&P Global Affirms Milford, DE AA- Credit Rating
 - The AA- rating is among the strongest for governmental issuers in Delaware¹, three notches from the highest possible rating
 - Notable AAA rated issuers in Delaware
 - State of Delaware
 - New Castle County
 - Notable AA rated issuers in Delaware
 - City of Milford
 - City of Newark
 - City of Dover
 - Town of Middletown
 - Town of Smyrna
 - Notable A rated issuers in Delaware
 - DEMEC
 - Kent County
 - Delaware Electric Cooperative
 - Notable BBB rated issuers in Delaware
 - Sussex County
 - The negative outlook has no impact on the City's financial operations or financing prospects
 - City Management and Financial Management were graded strongly by S&P Global
 - The timing of the FY23 and FY24 audits does not have a material bearing on the quality of the rating
 - The primary hurdle for the rating committee at S&P Global is the negative net position reported in the governmental activities of the general fund, which is directly attributable to an interest cost avoidance initiative that far supersedes the importance of any rating implication, including a multiple-notch downgrade

¹ See enclosed recap of Delaware issuers of government securities rated by S&P Global, Moody's Investor Services and Fitch Ratings

Notable Credit Ratings – State of Delaware Government Issuers

AAA

- New Castle County
 - [AAA] 2025 Long-Term General Obligation Bonds (Fitch, 7/7/2025)

AA

- City of Newark
 - [AA+] 2011 General Obligation Bonds (Fitch, 9/24/2020)
- **City of Milford**
 - **[AA-] 2016 Long-Term General Obligation Bonds (S&P Global, 8/5/2025)**
- Town of Middletown
 - [AA-] 2025 Long-Term Public Improvement Bonds (S&P Global, 4/22/2025)
- City of Dover
 - [AA-] 2018 Long-Term Electric Revenue Bonds (Fitch, 6/27/2025)
- Town of Smyrna
 - [Aa3] 2022 Long-Term General Obligation Bonds (Moody's, 8/24/2022)

A

- Delaware Electric Cooperative
 - [A+] Long-Term Issuer Credit Rating (S&P Global, 1/22/2025)
- DEMEC
 - [A] 2021 Beasley Power Station Revenue Bonds (S&P Global, 6/15/2025)
- Kent County
 - [A-] 2016 Long-Term Project Revenue Bonds (S&P Global, 4/29/2025)

BBB

- Sussex County
 - [BBB-] 2016 Long-Term Project Revenue Bonds (Fitch, 2/21/2025)

August 1, 2025

City of Milford
10 SE Second Street
Milford, DE 19963
Attention: Louis Vitola, Director of Finance

Re: *Milford General Obligation, Delaware*

Dear Louis Vitola

S&P Global Ratings hereby affirms its rating of "AA-" for the above-referenced obligations and changed the outlook to negative from stable. A copy of the rationale supporting the rating and outlook is enclosed.

This letter constitutes S&P Global Ratings' permission for you to disseminate the above-assigned ratings to interested parties in accordance with applicable laws and regulations. However, permission for such dissemination (other than to professional advisors bound by appropriate confidentiality arrangements or to allow the Issuer to comply with its regulatory obligations) will become effective only after we have released the ratings on standardandpoors.com. Any dissemination on any Website by you or your agents shall include the full analysis for the rating, including any updates, where applicable. Any such dissemination shall not be done in a manner that would serve as a substitute for any products and services containing S&P Global Ratings' intellectual property for which a fee is charged.

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Please send hard copies to:

S&P Global Ratings
Public Finance Department
55 Water Street
New York, NY 10041-0003

The rating is subject to the Terms and Conditions, if any, attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions, the rating is subject to the attached Terms and Conditions. The applicable Terms and Conditions are incorporated herein by reference.

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Sincerely yours,

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ts
enclosure

S&P Global Ratings
Terms and Conditions Applicable To Public Finance Credit Ratings

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Research Update:

Milford, DE GO Debt Rating Outlook Revised To Negative From Stable On Weakened General Fund Reserve Position

August 5, 2025

Overview

- S&P Global Ratings revised the outlook to negative from stable and affirmed its 'AA-' long-term rating on [Milford](#), Del.'s existing general obligation (GO) debt.
- The outlook revision reflects our view of the city's negative available general fund reserve position following the use of cash on hand to pay off an outstanding bond anticipation note (BAN). While management expects full reimbursement from the federal government by early 2026 and has reserves in other funds, which can help support operations, we believe the city's weakened reserve position somewhat limits its ability to absorb near-term operating pressures and could result in a downgrade if there are issues with replenishing reserves.
- The rating reflects the application of our "[Methodology For Rating U.S. Governments](#)," Sept. 9, 2024.

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Rationale

Security

The city's full-faith-and-credit pledge secures the debt.

Credit highlights

The rating reflects Milford's historically strong and stable financial position, with historically robust available general fund reserves that, according to the fiscal 2023 audit, declined substantially following paydown of an outstanding BAN that we expect will be reimbursed by 2026, thereby replenishing reserves back to historical levels, but that we believe represents some short-term liquidity risk. The city's historically strong financial position has been supported by a host of formalized financial policies and procedures as well as a growing economy that has more than doubled in market value over the last decade.

Prior to fiscal 2023, the city's available general fund reserves stood at nearly 80% of revenues. The city's reported reserve position notably declined in fiscal 2023 with its use of funds on hand, through an interfund loan to the general fund from its special revenue and electric funds, to repay the first \$7.5 million incurred on its \$16 million BAN originally issued to help fund a \$17.5 million new police station. The final \$8.5 million drawn on the BAN to complete the project was repaid through the U.S. Department of Agriculture (USDA) Community Facilities Loan Program, which makes funding available strictly upon project completion. Management decided to pay off the first half of the BAN during construction, given the increasing interest rates and because of its substantial reserves on hand, not just in the general fund but also in its utilities funds. Management indicates that the project is finished and that it expects to be reimbursed for the balance of the project from the USDA by early 2026.

The accounting treatment of the debt paydown results in a large negative general fund balance of \$3.4 million at the end of fiscal 2023 due to Governmental Accounting Standards Board (GASB) reporting requiring the interfund loan to be classified as a current liability in the form of "due to other funds," whereas the outstanding note would not have been classified as a current liability. Once the city is reimbursed by the USDA, the city will settle the interfund borrowing and available general fund reserves will return to a more normalized level, which management estimates will be at least \$3.7 million, or nearly 49% of revenues, a level we consider robust on a percentage basis and solid on a nominal basis. Although we understand this should occur by 2026, we believe there is some timing risk and that the city has somewhat reduced flexibility to handle unexpected expenditures, mitigated in part by substantial resources outside of the general fund, including \$29 million of cash on hand in its enterprise funds.

For fiscal 2024, although audited results are delayed, management indicates its audit should be completed before year-end. We understand city revenues and expenses largely came in as expected, with break-even results, and that there should be no material change to reserves. In addition, for fiscal 2025, there were no major changes to the budget and management indicates it ended the year ahead of budget, likely resulting in a slight surplus. Management anticipates balanced operations in fiscal 2026, from an operating perspective, and restoration of reserves following reimbursement from the USDA. Furthermore, we understand the timing of audits should be back on track by fiscal 2026.

Overall debt costs are low once the prepayment of principal is accounted for in fiscal 2023. In addition, the city has low retirement costs and liabilities, due in part to the lack of an other postemployment benefits (OPEB) liability.

Milford, which encompasses 9.8 square miles with a population of just over 12,000, is located in Sussex and Kent counties, 18 miles south of Dover, the state capital, and 65 miles south of Wilmington, the closest metropolitan area.

The rating reflects our view of the following factors:

- A primarily residential and rural economic base, with some restaurants, commercial, and retail, that has seen strong market value growth with local incomes that are below that of national levels.
- We consider budgeting assumptions conservative and standard, based on trend analysis as well as monthly monitoring. The city maintains a long-term strategic plan that is updated every two to three years and a formalized five-year capital plan that is updated annually with funding sources identified, though we note the city does not formally update its long-term financial projections annually. An adopted investment management policy follows state guidelines with at least annual reports to the board. The city also maintains a formal debt and cash

management policy, which has stated minimum cash thresholds for each fund that the city must maintain.

- Historically stable operating performance, with fiscal 2023 showing a large drawdown due to the city’s use of an interfund loan to its general fund from its special revenue and electric funds, which was used to pay off an outstanding BAN, and which management expects to be reimbursed by the federal government by early 2026. Otherwise, operations remain stable and management anticipates balanced operating results for fiscal years 2024, 2025, and 2026. Nonetheless, additional draws on reserves could result in a lower rating.
- Debt and liability costs are low, with no significant additional debt plans. The city’s pension plans are fully funded and the city makes annually required contributions. Additionally, we recognize Milford does not pay retiree medical benefits.
- Delaware municipalities have a predictable operating framework. For more information on Delaware municipalities, see "[Institutional Framework Assessment: Delaware Local Governments](#)," Sept. 11, 2024, on RatingsDirect.

Environmental, social, and governance

We have analyzed Milford’s environmental, social, and governance (ESG) factors and view them as neutral in our credit analysis.

Outlook

The negative outlook reflects our view that the city’s overall financial flexibility has been temporarily reduced following the use of general fund reserves to pay off debt. Although we understand the city will be reimbursed by early 2026, thereby restoring general fund reserves to positive levels, we also believe there is some timing risk related to this reimbursement.

Downside scenario

We could lower the rating if the city were to experience additional draws on general fund reserves or if its reserves are not replenished as expected to strong levels, on both nominal and percentage bases over the next two years following reimbursement for a capital project by the USDA. We could also take a negative rating action if the city is unable to provide timely financial statements.

Upside scenario

We could return the outlook to stable if the city’s available general fund reserves are restored to healthy levels in line with peers, while it maintains balanced financial operations.

Milford, Delaware--Credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	2.38
Economy	3.5
Financial performance	2
Reserves and liquidity	2
Management	2.65
Debt and liabilities	1.75

Milford, Delaware--Key credit metrics

	Most recent	2023	2022	2021
Economy				
Real GCP per capita % of U.S.	--	86	88	89
County PCPI % of U.S.	--	98	100	96
Market value (\$000s)	--	2,284,312	1,911,073	1,762,456
Market value per capita (\$)	--	188,118	161,750	153,752
Top 10 taxpayers % of taxable value	--	--	--	--
County unemployment rate (%)	--	3.8	4.2	5.0
Local median household EBI % of U.S.	--	77	86	83
Local per capita EBI % of U.S.	--	73	79	75
Local population	--	12,143	11,815	11,463
Financial performance				
Operating fund revenues (\$000s)	--	7,609	6,782	6,905
Operating fund expenditures (\$000s)	--	30,729	12,359	9,512
Net transfers and other adjustments (\$000s)	--	14,299	5,622	3,148
Operating result (\$000s)	--	(8,821)	45	541
Operating result % of revenues	--	(115.9)	0.7	7.8
Operating result three-year average %	--	(35.8)	1.7	0.9
Reserves and liquidity				
Available reserves % of operating revenues	--	(44.3)	79.2	78.3
Available reserves (\$000s)	--	(3,368)	5,370	5,409
Debt and liabilities				
Debt service cost % of revenues	--	53.2	--	--
Net direct debt per capita (\$)	1,323	1,387	1,298	1,406
Net direct debt (\$000s)	16,064	16,843	15,341	16,122
Direct debt 10-year amortization (%)	64	54	--	--
Pension and OPEB cost % of revenues	--	5.0	6.0	8.0
NPLs per capita (\$)	--	44	--	--
Combined NPLs (\$000s)	--	535	--	--

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List

Outlook Action

	To	From
Local Government		
Milford, DE Limited Tax General Operating Pledge	AA-/Negative	AA-/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have

Milford, DE GO Debt Rating Outlook Revised To Negative From Stable On Weakened General Fund Reserve Position

different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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