



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

Finance and Audit Committee Meeting Agenda October 27, 2025

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Call 301 715 8592 Webinar ID: 922 0747 0768

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, Sr.

3. Quarterly Investment Report - September 30, 2025

a. [Quarterly Investment Report - 20250930](#)

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4. Financial Policy Review

a. [Financial Policies - Memo w Cash Reserve Detail 10272025](#)

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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.

102025



CITY OF MILFORD, DELAWARE

Investment Performance Review For the Quarter Ended September 30, 2025

Client Management Team

Jeffrey Fasino, Senior Managing Consultant
Marty Hammond, Managing Director
Kecia Vaughn, Key Account Manager

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Agenda

- Market Summary
- Account Summary
- Portfolio Review

Market Summary

Summary

- The third quarter of 2025 saw a gradual easing of uncertainty as markets digested the lingering effects of a complex tariff rollout. While the effective tariff rate remains elevated, the avoidance of worst-case trade outcomes helped stabilize investor sentiment. Equity and bond markets rebounded, supported by steady consumer spending and business investment.
- The labor market continued to soften as job creation surprised to the downside in July and August. The unemployment rate rose during the quarter but remained below its 30-year average.
- Rising goods prices and sticky services costs continued to keep core inflation well above the Federal Reserve's (Fed) 2% target. Certain import-reliant goods showed signs of modest tariff passthroughs.
- In September, the Fed delivered its first rate cut of 2025, lowering the federal funds target range to 4.00% to 4.25%. Fed Chair Jerome Powell described it as a "risk management cut" reflecting growing concerns over the labor market. The median forecast from the Fed's September "dot plot" showed an additional 50 basis points (bps) of rate cuts this year, 25 bps more than its June projections.

Economic Snapshot

- U.S. inflation accelerated modestly during the third quarter as certain goods categories began to reflect tariff-related cost pressures and services inflation remained sticky. Headline CPI rose to 2.9% year-over-year, and core CPI (ex-food and energy) edged up to 3.1%. Fed Chair Powell noted tariffs have begun to push up goods prices though these effects are expected to be short-lived.
- U.S. real gross domestic product (GDP) rebounded to 3.8% in the second quarter, driven by a reversal of the trade and inventory dynamics that weighed on Q1 growth. Despite labor market softness, consumer spending proved resilient, largely supported by continued spending from higher-income households. Business investment also remained strong.
- The labor market continued to cool with new net job creation nearing zero and the unemployment rate ticked up to 4.3%. Despite these signs of slowing, layoffs remained low, suggesting employers are adopting a "no hire, no fire" approach.

Interest Rates

- The U.S. Treasury yield curve steepened further in Q3, led by a decline in short-term yields. Maturities less than one year fell 30-40 bps as markets reflected new Fed rate-cutting expectations. Longer-dated maturity yields from three to 30 years also fell but to a lesser extent after concerns over fiscal deficits and tariff-related inflation eased slightly.
- The 3-month U.S. Treasury ended the quarter at 3.94%, over 35 bps lower. The 2- and 5-year Treasuries fell by 11 and 6 bps to 3.61% and 3.74% respectively. The 10- and 30-year U.S. Treasury fell by 8 and 4 bps to 4.15% and 4.73% respectively. Bond volatility has continued to fall significantly from April highs and has now reached the lowest levels in three years.
- As a result of lower yields over the quarter, bond indexes generated positive total returns for the quarter. The ICE BofA 3-month, 2-, 5-, and 10-year U.S. Treasury indices returned 1.08%, 1.01%, 1.17%, and 1.81% for the quarter, respectively.

Sector Performance

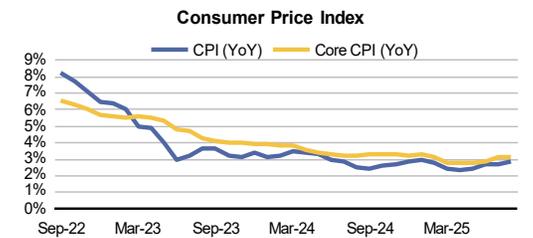
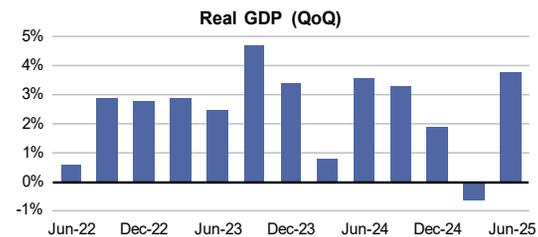
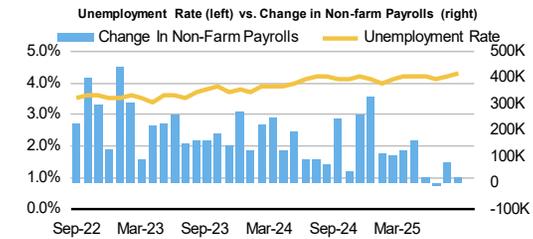
- Excess returns were strong across investment grade sectors as April's spread widening fully reversed on positive trade news and resilient economic data.
- Federal agency and supranational spreads remained low and traded in a narrow range throughout Q3. Excess returns remained muted in part due to limited issuance, which is a trend we expect to continue.
- Investment-grade (IG) corporate bonds generated strong excess returns as spreads narrowed to multi-year lows across most maturities. Lower-quality and longer-duration bonds led performance, supported by strong investor demand.
- Asset-backed securities (ABS) spreads tightened but remain modestly elevated versus 12-month lows. While excess returns were positive, they lagged those of IG corporates. Auto loan collateral modestly outperformed credit card-backed securities.
- Agency-backed mortgage-backed securities (MBS) delivered solid performance with positive excess returns across the board. Longer-duration MBS stood out as a top-performing IG sector in Q3. Agency-backed commercial MBS (CMBS) also posted positive excess returns for the quarter.
- Short-term credit (commercial paper and negotiable bank CDs) yields declined as Treasury issuance surged and the Fed cut rates. Short-end yield spreads widened over the quarter and demand remained strong as investors viewed the sector as a hedge against future rate cuts.

Economic Snapshot

Labor Market	Latest	Jun '25	Sep '24	
Unemployment Rate	Aug-25	4.3%	4.1%	4.1%
Change In Non-Farm Payrolls	Aug-25	22,000	-13,000	240,000
Average Hourly Earnings (YoY)	Aug-25	3.7%	3.7%	3.9%
Personal Income (YoY)	Aug-25	5.1%	4.7%	5.3%
Initial Jobless Claims (week)	9/20/25	218,000	232,000	227,000

Growth	Latest	Jun '25	Sep '24	
Real GDP (QoQ SAAR)	2025Q2	3.8%	-0.6% ¹	3.6% ²
GDP Personal Consumption (QoQ SAAR)	2025Q2	2.5%	0.6% ¹	3.9% ²
Retail Sales (YoY)	Aug-25	5.0%	4.4%	2.0%
ISM Manufacturing Survey (month)	Sep-25	49.1	49.0	47.5
Existing Home Sales SAAR (month)	Aug-25	4.00 mil.	3.93 mil.	3.90 mil.

Inflation/ Prices	Latest	Jun '25	Sep '24	
Personal Consumption Expenditures (YoY)	Aug-25	2.7%	2.6%	2.3%
Consumer Price Index (YoY)	Aug-25	2.9%	2.7%	2.4%
Consumer Price Index Core (YoY)	Aug-25	3.1%	2.9%	3.3%
Crude Oil Futures (WTI, per barrel)	Sep 30	\$62.37	\$65.11	\$68.17
Gold Futures (oz.)	Sep 30	\$3,841	\$3,308	\$2,636



1. Data as of First Quarter 2025.

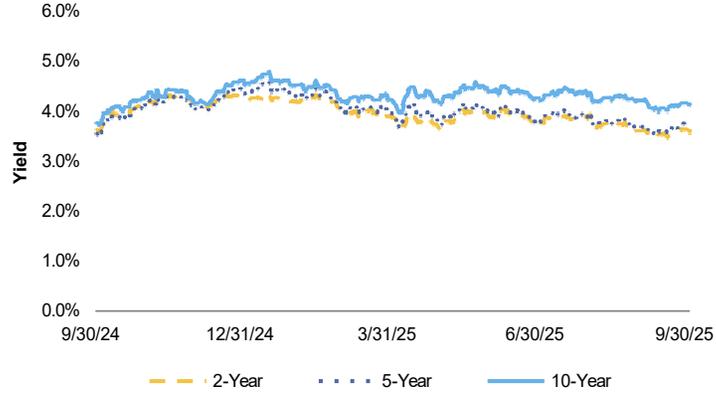
2. Data as of Second Quarter 2024.

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

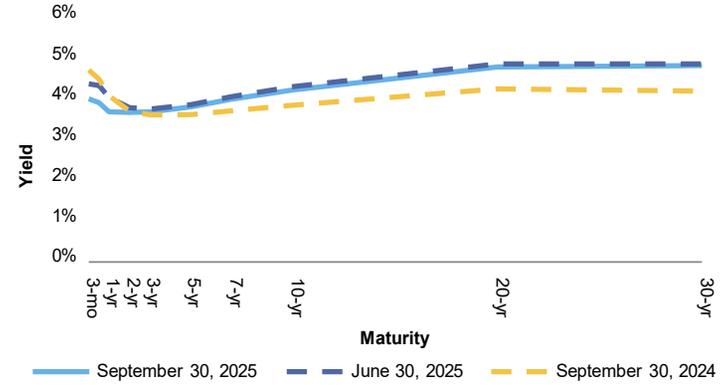
Source: Bloomberg Finance L.P.

Interest Rate Overview

U.S. Treasury Note Yields



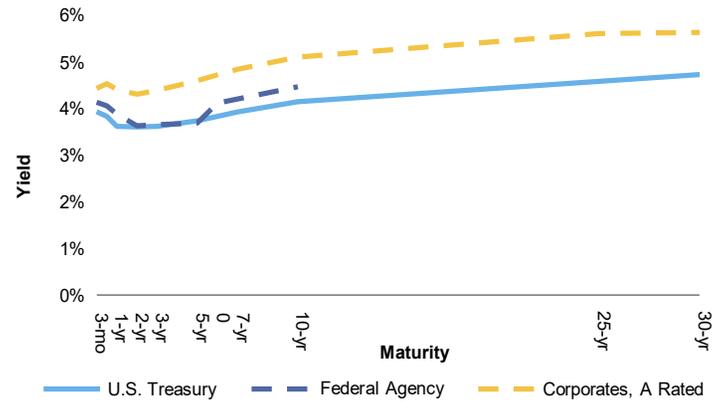
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	Sep '25	Jun '25	Change over Quarter	Sep '24	Change over Year
3-Month	3.94%	4.30%	(0.36%)	4.63%	(0.69%)
1-Year	3.62%	3.97%	(0.35%)	4.01%	(0.39%)
2-Year	3.61%	3.72%	(0.11%)	3.64%	(0.03%)
5-Year	3.74%	3.80%	(0.06%)	3.56%	0.18%
10-Year	4.15%	4.23%	(0.08%)	3.78%	0.37%
30-Year	4.73%	4.78%	(0.05%)	4.12%	0.61%

Yield Curves as of September 30, 2025



ICE BofA Index Returns

As of 09/30/2025

Returns for Periods ended 09/30/2025

September 30, 2025	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.83	3.65%	1.12%	3.87%	4.34%
Federal Agency	1.47	3.68%	1.17%	4.04%	4.50%
U.S. Corporates, A-AAA rated	1.82	4.13%	1.40%	4.65%	5.44%
Agency MBS (0 to 3 years)	1.78	4.50%	1.15%	4.25%	5.03%
Taxable Municipals	1.71	3.83%	1.48%	4.73%	5.14%
1-5 Year Indices					
U.S. Treasury	2.54	3.66%	1.14%	3.77%	4.42%
Federal Agency	2.18	3.72%	1.20%	4.11%	4.60%
U.S. Corporates, A-AAA rated	2.64	4.38%	1.69%	7.06%	4.63%
Agency MBS (0 to 5 years)	2.56	4.70%	1.43%	4.81%	5.57%
Taxable Municipals	2.59	3.97%	1.73%	4.65%	5.19%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.13	3.97%	1.56%	1.89%	3.48%
Federal Agency	3.37	3.85%	1.45%	3.67%	4.65%
U.S. Corporates, A-AAA rated	6.75	4.68%	2.51%	3.39%	6.43%
Agency MBS (0 to 30 years)	5.50	4.79%	2.40%	3.26%	5.00%
Taxable Municipals	8.86	5.06%	2.95%	2.13%	5.56%

Returns for periods greater than one year are annualized.

Source: ICE BofA Indices.

Disclosures

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Account Summary

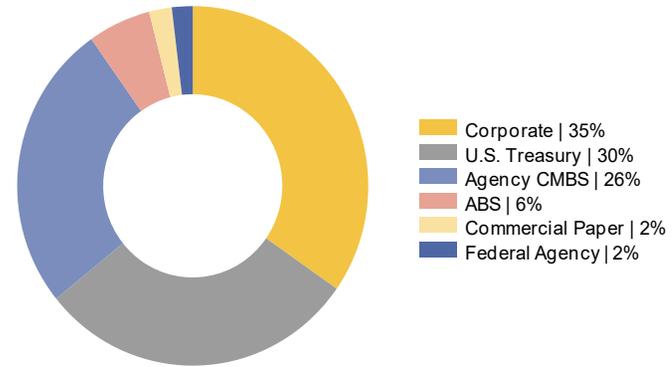
Portfolio Review:
CITY OF MILFORD, DELAWARE

Portfolio Snapshot - CITY OF MILFORD, DELAWARE¹

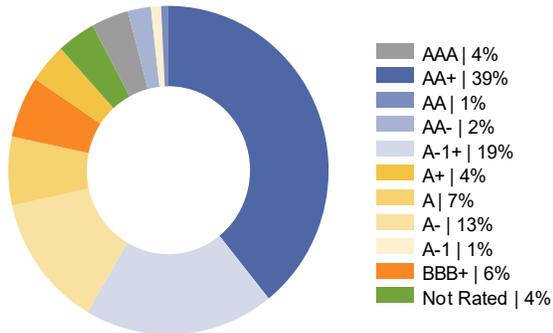
Portfolio Statistics

Total Market Value	\$37,489,096.92
<i>Securities Sub-Total</i>	\$37,288,787.89
<i>Accrued Interest</i>	\$188,204.30
<i>Cash</i>	\$12,104.73
Portfolio Effective Duration	1.70 years
Benchmark Effective Duration	2.04 years
Yield At Cost	4.40%
Yield At Market	4.18%
Portfolio Credit Quality	AA

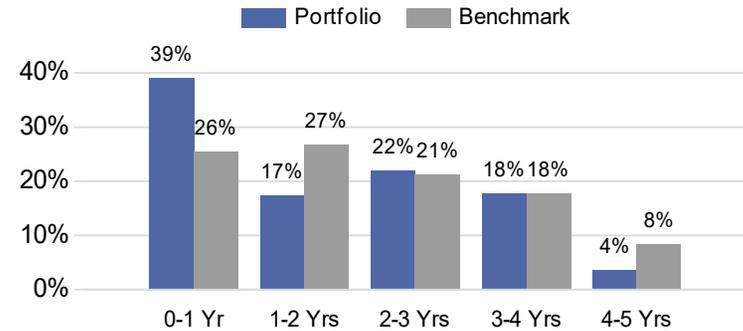
Sector Allocation



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	29.4%	
United States Treasury	29.4%	AA / Aa / AA
Federal Agency	1.9%	
Federal Home Loan Banks	1.0%	AA / Aa / NR
Federal Home Loan Mortgage Corp	0.9%	AA / Aa / AA
Agency CMBS	26.0%	
Federal Home Loan Mortgage Corp	23.7%	AA / Aa / AA
Federal National Mortgage Association	2.2%	AA / Aa / AA
Commercial Paper	2.0%	
Barclays PLC	1.0%	A / NR / A
Toyota Motor Corp	1.0%	AA / Aa / A
Corporate	34.8%	
AbbVie Inc	0.5%	A / A / NR
Accenture PLC	0.3%	AA / Aa / NR
Air Products and Chemicals Inc	0.4%	A / A / NR
American Express Co	0.8%	A / A / A
Analog Devices Inc	1.0%	A / A / A
AstraZeneca PLC	0.6%	A / A / NR
Bank of America Corp	2.7%	A / A / AA
Bank of Montreal	0.3%	A / A / AA
Bank of New York Mellon Corp	0.5%	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	0.5%	A / A / A
Bristol-Myers Squibb Co	0.6%	A / A / NR

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
Corporate	34.8%	
Broadcom Inc	0.2%	A / A / BBB
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
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	0.8%	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	0.5%	A / A / 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%	A / 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

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.

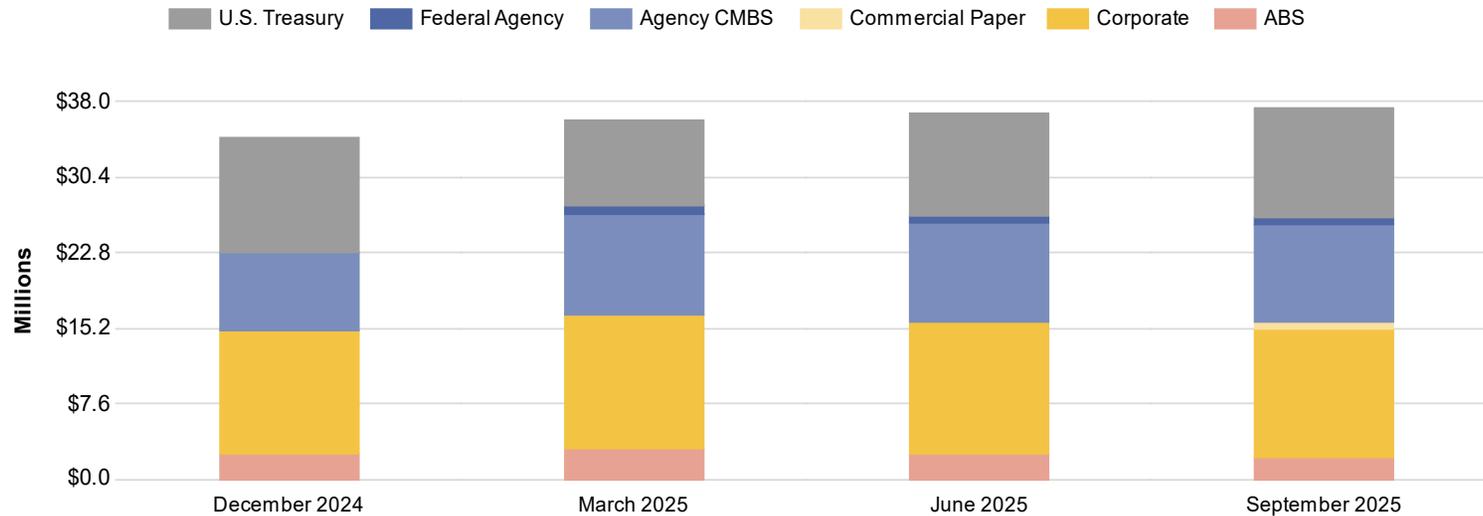
Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
Corporate	34.8%	
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
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	5.8%	
BMW Vehicle Lease Trust	0.3%	AAA / NR / AAA
Capital One Financial Corp	0.6%	AAA / NR / AAA
CNH Equipment Trust	0.2%	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	0.4%	NR / Aaa / AAA
Honda Auto Receivables Owner Trust	0.6%	AAA / Aaa / AAA
Hyundai Auto Receivables Trust	0.6%	AAA / NR / AAA
Nissan Auto Receivables Owner Trust	0.2%	NR / Aaa / AAA
Verizon Master Trust	0.7%	NR / Aaa / AAA
World Omni Auto Trust	0.5%	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

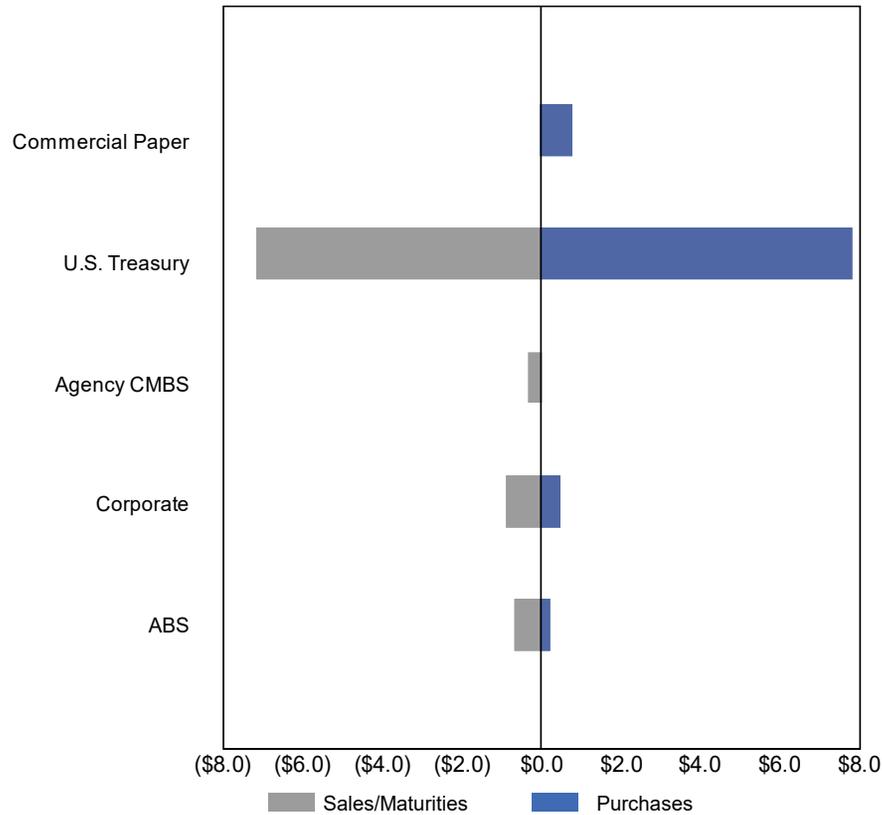
Security Type	Dec-24	% of Total	Mar-25	% of Total	Jun-25	% of Total	Sep-25	% of Total
U.S. Treasury	\$11.5	33.4%	\$8.6	23.9%	\$10.2	27.8%	\$11.0	29.5%
Federal Agency	\$0.0	0.0%	\$0.7	2.0%	\$0.7	2.0%	\$0.7	1.9%
Agency CMBS	\$7.9	22.9%	\$10.3	28.4%	\$10.0	27.2%	\$9.7	26.0%
Commercial Paper	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%	\$0.8	2.1%
Corporate	\$12.5	36.4%	\$13.4	37.0%	\$13.2	35.9%	\$12.9	34.7%
ABS	\$2.5	7.3%	\$3.1	8.7%	\$2.6	7.1%	\$2.2	5.8%
Total	\$34.3	100.0%	\$36.1	100.0%	\$36.8	100.0%	\$37.3	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.

Portfolio Activity - CITY OF MILFORD, DELAWARE

Net Activity by Sector
(\$ millions)

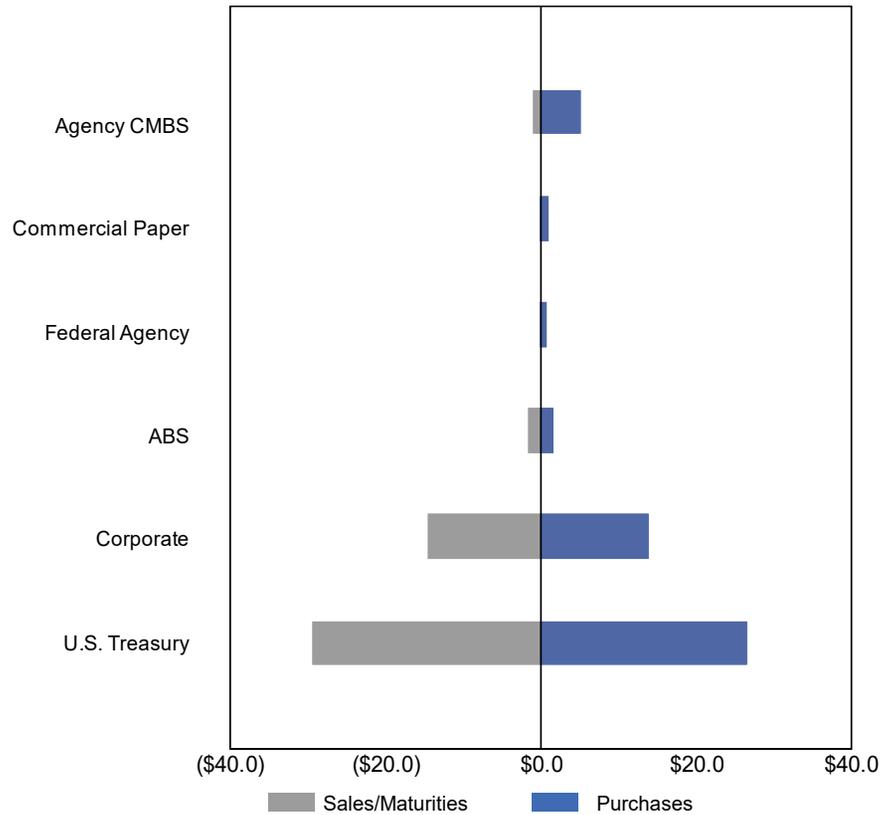


Sector	Net Activity
Commercial Paper	\$759,317
U.S. Treasury	\$698,184
Agency CMBS	(\$317,699)
Corporate	(\$382,768)
ABS	(\$419,242)
Total Net Activity	\$337,792

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

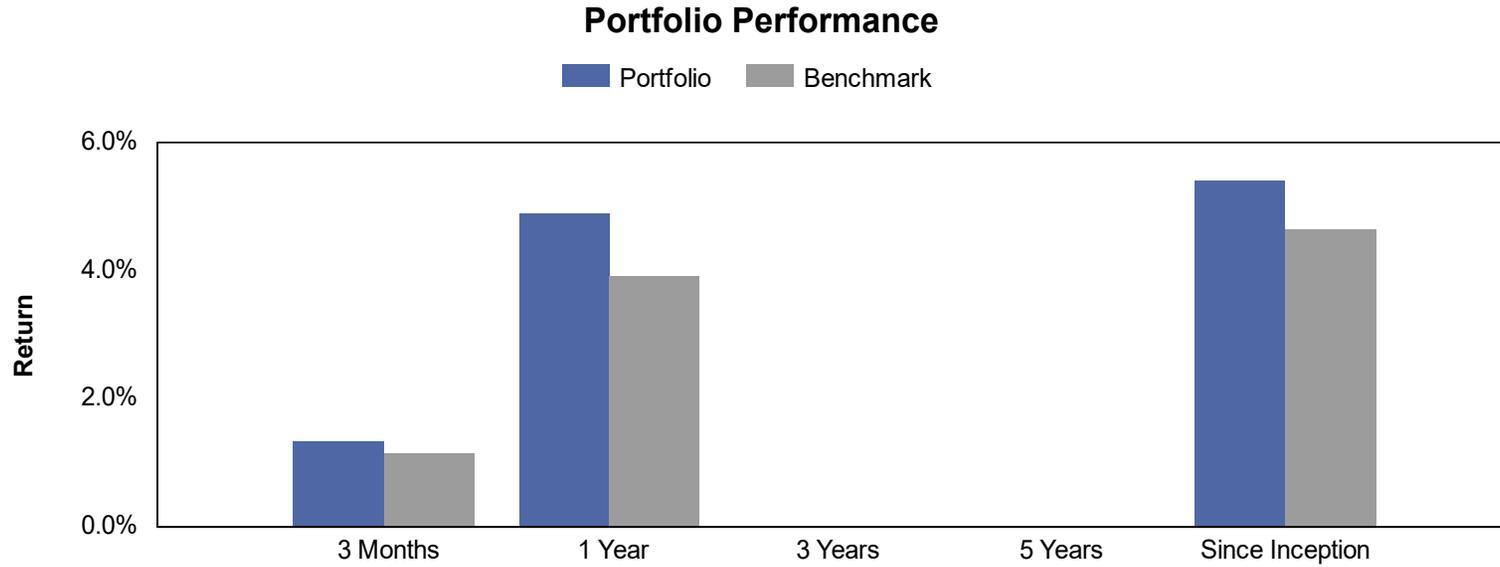
Portfolio Activity (12 Months) - CITY OF MILFORD, DELAWARE

Net Activity by Sector
(\$ millions)



Sector	Net Activity
Agency CMBS	\$4,247,058
Commercial Paper	\$759,317
Federal Agency	\$714,726
ABS	(\$72,300)
Corporate	(\$710,167)
U.S. Treasury	(\$2,994,107)
Total Net Activity	\$1,944,529

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



Total Return ²	3 Months	1 Year	3 Years	5 Years	Since Inception ¹
Portfolio	1.33%	4.88%	-	-	5.40%
Benchmark ³	1.15%	3.91%	-	-	4.65%
Difference	0.18%	0.97%	-	-	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. 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.

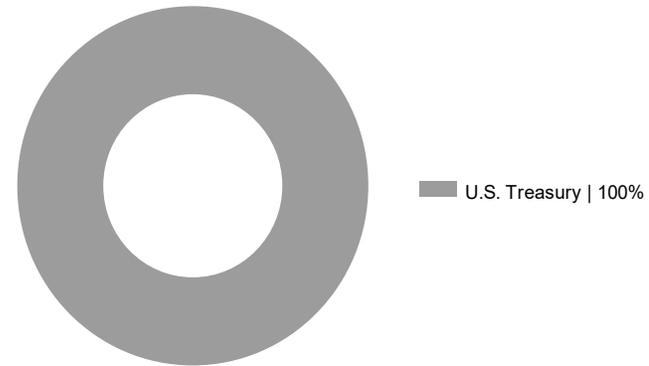
Portfolio Review:
CITY OF MILFORD CASHFLOW ACCOUNT

Portfolio Snapshot - CITY OF MILFORD CASHFLOW ACCOUNT¹

Portfolio Statistics

Total Market Value	\$4,381,928.81
<i>Securities Sub-Total</i>	\$4,369,316.01
<i>Accrued Interest</i>	\$12,612.80
<i>Cash</i>	\$0.00
Portfolio Effective Duration	2.91 years
Yield At Cost	4.64%
Yield At Market	3.85%
Portfolio Credit Quality	AA

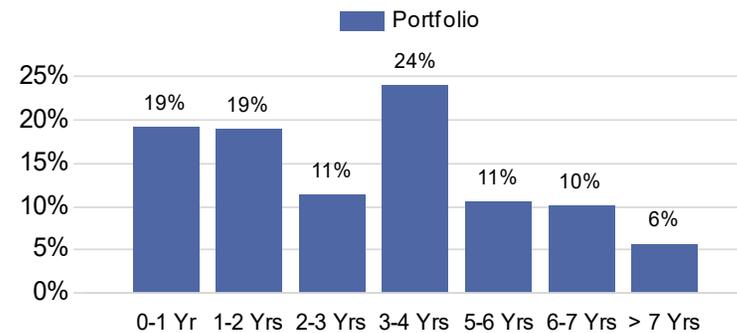
Sector Allocation



Credit Quality - S&P



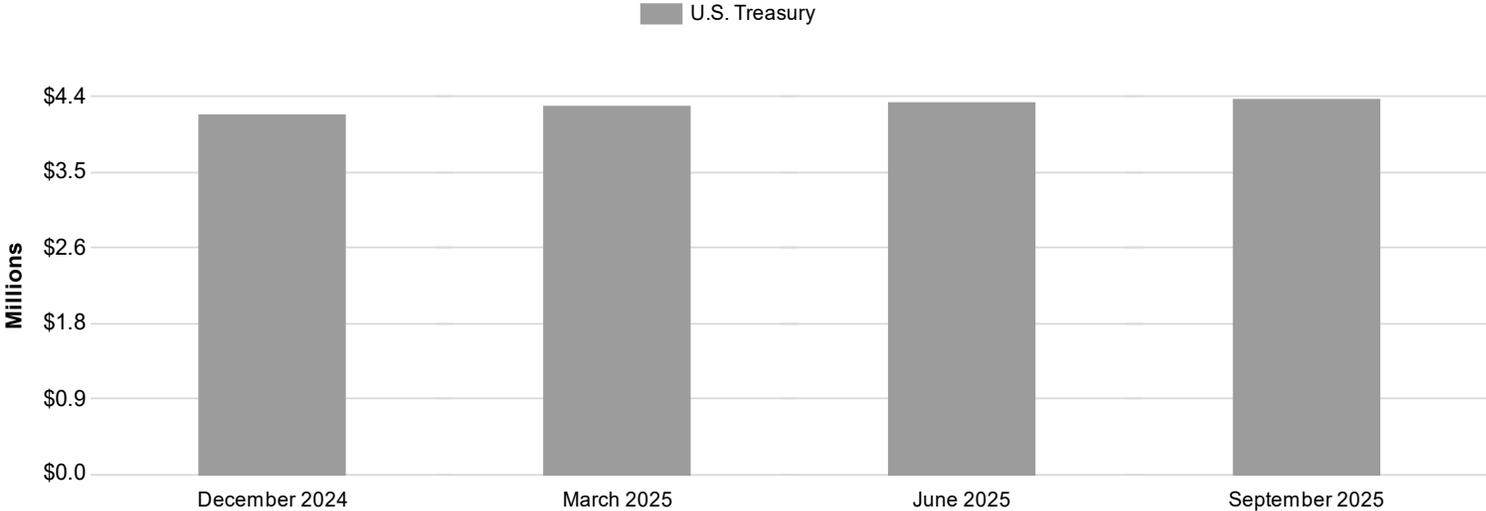
Duration Distribution



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	Dec-24	% of Total	Mar-25	% of Total	Jun-25	% of Total	Sep-25	% of Total
U.S. Treasury	\$4.2	100.0%	\$4.3	100.0%	\$4.3	100.0%	\$4.4	100.0%
Total	\$4.2	100.0%	\$4.3	100.0%	\$4.3	100.0%	\$4.4	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

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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.

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- 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 or 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.



Date: October 24, 2025
To: Finance and Audit Committee
From: Louis C. Vitola
Re: Financial Policy Review

CASH RESERVE POLICIES (together, the “Policy”)

The Cash Reserve Policy was approved by City Council on July 12, 2021. By design, the Policy’s dynamic parameters minimized the need for regular review, but staff suggest a review this fall with an update by the end of FY26. An excerpt of the July 12, 2021 City Council Minutes, the existing, in-force Policy (Revision 02), and a redline preliminary draft (Revision 03) are included in this packet.

LONG-TERM OPERATING PLAN

The City’s Strategic Plan recommends the development of a ten-year operating forecast. Staff agree with the need to develop such a forecast. Staff recommend a phased approach, with the development of a two-year operating forecast to coincide with the FY27 budget process (FY27 budget and FY28 forecast), followed by a five-year operating forecast the following year (FY28 budget with FY29-FY32 forecast), which would coincide with and be informed by the five-year Capital Improvement Plan (CIP). Only with an expanded 10-year CIP could staff realistically move forward with a ten-year operating forecast.

The operating plan is a discussion item only; no attachments are included with the packet.

EXCERPT FROM CITY COUNCIL MINUTES

JULY 12, 2021

ADOPTION/FUND BALANCE POLICIES

With nothing new to report from the Finance Director, Councilmember James informed Council this was an item on the Finance and Public Works agenda earlier this evening. The policy has been through two submission and two reviews, each time an opportunity was provided for comment from both the Council as a whole, and the Committee.

He explained the policy is designed to give guardrails and guidance to Council, on minimum cash reserve policies and equipment replacement policies as was required in our Strategic Plan initiatives. It accomplishes those things in a dynamic manner and includes formulas making it appropriate for many years to come.

It is the recommendation of the Finance and Public Works Committee, that Council adopt the Fund Balance Policy.

Councilmember Boyle moved to adopt the Fund Balance Policies as presented to Council, seconded by Councilmember Culotta. Motion carried by unanimous voice vote.

ADOPTION/CITY EMERGENCY PLAN

City Manager Whitfield said the need for an Emergency Operations Plan was identified in the Strategic Plan. The last update to the plan was done in 1972. AARC from Missouri was hired to assist the City in its preparation. Included was extensive staff input and he especially wished to thank Lieutenant Huey for his work, as well as Director Svaby, who had the lion's share of putting it together.

The funding for the plan came from a grant through Delaware Emergency Management Association (DEMA) in the amount of \$45,000. The total cost is approximately \$56,000.

Councilmember Fulton moved to adopt the updated City of Milford Emergency Plan as presented, seconded by Councilmember Culotta. Motion carried with no one opposed.

EXECUTIVE SESSION

Councilmember Culotta moved to go into Executive Session reference the below statutes, seconded by Councilman Fulton:

Pursuant to 29 Del. C. §10004(b)(2) Preliminary discussions on-site Acquisitions for any Publicly Funded Capital Improvements, or Sales or Leases of real property

Pursuant to 29 Del. C. §10004(b)(4) Strategy sessions, including those involving legal advice or opinion from an attorney-at-law, with respect to collective bargaining or pending or potential litigation

Motion carried.

Mayor Campbell recessed the Council Meeting at 8:10 p.m. for the purposes as permitted by the Delaware Freedom of Information Act.

Return to Open Session

Councilmember James moved to return to Open Session, seconded by Councilmember Culotta. Motion carried.

Council returned to Open Session at 8:28 p.m.

Potential Vote/Land Purchase Matter

Potential Vote/Labor Negotiations

CASH RESERVE POLICIES - REVISION 02
AS APPROVED 7/12/2021



Cash Reserve Policies
Revision 02
Approved by City Council July 12, 2021

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Background

Authority

The Financial Procedures outlined in Article VI of the Charter of the City of Milford specify the responsibility of City Council to approve the Operating Budget and Capital Program, which implicitly includes changes in financial policy. In connection with the budget formulation and presentation to Council for approval, the City Manager is responsible for proposing and explaining changes to financial policies¹. The following policies, if approved, will impact the Operating Budgets and Capital Programs that follow.

Policy Objectives

These Cash Reserve Policies were developed in an effort to meet the following objectives:

1. To **identify and define** those attributes of the City's major governmental, enterprise and special purpose cash reserve funds most critical to the development of the City's annual operating budget and Capital Improvement Plan (CIP).
 - a. Initial funding sources
 - b. replenishment funding sources and timing
 - c. permitted and intended uses of funds, and
 - d. minimum balance targets
2. To **serve a reference guide** to
 - a. the City's elected officials responsible for authorizing the annual budget and CIP
 - b. the staff responsible for developing and implementing the annual budget and CIP
3. To **improve the City's internal control environment** through best practices in
 - a. long-term financial management
 - b. capital asset utilization, efficiency and safety

¹ [Milford City Charter, Article VI. – Financial Procedures](#)

Justification of Need

The Government Finance Officers Association (GFOA)² recommends that governments establish formal policies to address the maintenance of unrestricted fund balances, including the identification of minimum cash reserves, acceptable uses of reserves, replenishment methods and timing, and the policy impacts to the budget process³, such as rate-driven revenue budgeting.

Milford City Council and City Management have demonstrated decades-long agreement with GFOA recommended practices, as evidenced by the establishment and maintenance of no less than a dozen separate reserve accounts across the governmental, enterprise and special purpose funds.

Council publicly embraced this guidance in 2017 through its strategic planning process, having identified *the achievement and maintenance of fiscally-sound balances and reserves for all of the City's various funds* a key strategy in support of its fiscal responsibility objectives⁴.

On November 17, 2020, City Council held a public Council Workshop / Retreat⁵ to address emerging issues and topics related to the City's financial management, during which a framework for the establishment of formal reserve policies was discussed. The City Manager and Finance Director were charged with drafting and recommending formal reserve policies consistent with the concepts discussed during the workshop.

² The GFOA, a non-profit, multi-national educator and advocate for government financial management professionals, strives to promote excellence in state and local financial management through best practice guidance and distribution of government finance and accounting subject-matter expertise <https://www.gfoa.org/membership>

³ <https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund>

⁴ *Press Play: Vision 2023* Strategic Plan for the City of Milford, Delaware, p.28

<http://cityofmilford.com/DocumentCenter/View/2555/2017-Strategic-Plan-FINAL?bidId=>

⁵ <https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/3191>

Approval History

Draft Revision 00 – January 11, 2021

Revision 00 existed in draft form and was reviewed only topically by the Finance and Public Works Committee on January 11, 2021. It was removed from the Council agenda with direction to staff to incorporate vehicle and equipment replacement reserve funding into the Policy.

Draft Revision 01 – May 10, 2021

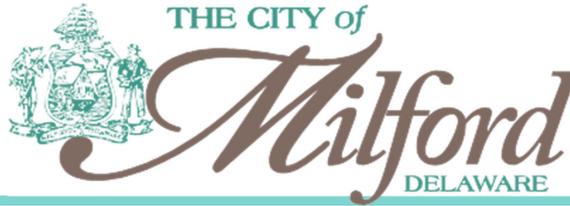
Revision 01 superseded revision 00 and remained in unapproved draft form. The updated draft was reviewed in detail by the Finance and Public Works Committee on May 10, 2021 and subsequently scheduled for final review by the Finance Committee with potential City Council action on July 12, 2021.

Council Approved Revision 02

This Revision 02 was approved by Council on July 12, 2021.

Periodic Review Requirement

The Minimum Cash Requirements (MCRs) identified throughout this Policy are based on formulas with variable inputs to allow the MCRs to vary with changes in economic conditions over time. The City Manager's annual budget presentation to Council shall include any changes in MCRs due to the incorporation of the most recently completed independent financial statement audit. City Management may also use unaudited, pro forma financial statement data where appropriate or necessary to accomplish goals unique to each annual budget. For the foregoing reasons, this Policy sets forth no mandatory requirement for periodic review or approval by City Council or any subcommittee of Council. However, changes to a formula or any other substantive changes in the Policy language must be approved by City Council. Minor grammatical errors and formatting inconsistencies may be corrected by City Management without City Council approval.



Policy Summary

The most critical components of this Policy are the *Minimum Cash Requirement (MCR) & Equipment Replacement Reserve (ERR)*, which identify the minimum target level of unassigned cash reserves for each reserve account. “Equipment” is intended to mean “Vehicles & Equipment.” This section of the Policy identifies the formula and variable inputs for each MCR/ERR, exhibits the calculated MCR/ERR based on the most recent financial statement data⁶ and summarizes intended uses of funds.

Fund Type	Reserve	Intended Uses	MCR Formula	MCR (\$000)
Governmental Funds	General Fund	Governmental Capital Spending	45d PY GF \$OpEx	\$ 1,358
	GF Equip Repl	Governmental Vehicles & Equipment	PY Veh & Equip Deprec	772
Special Revenue Funds (Governmental)	RTT	Governmental Capital Spending	Avg Receipts - Trailing 5 FYs	912
	MSA	Street Improvements & Repair	No minimum (\$0)	-
	PD	Police Facility Upgrades	No minimum (\$0)	-
	CFC	Carlisle Fire Co Capital Spending	No minimum (\$0)	-
	GI	Governmental Capital Spending	No minimum (\$0)	-
Enterprise Funds	Electric	Electric Capital & Infrastructure	45d \$OpEx + 56d Whl Pwr + DSR + 5% BVA + 3% HVA + 20% CIPxV/E	6,329
	Elec V/E Repl	Electric Vehicles & Equipment	Max of Next FY V/E CIP, 20% V/E CIP	97
	Water	Water Capital & Infrastructure	45d \$OpEx + DSR + 1%HVA + 20% CIPxV/E	2,333
	Water V/E Repl	Water Vehicles & Equipment	Max of Next FY V/E CIP, 20% V/E CIP	101
	Sewer	Sewer Capital & Infrastructure	45d \$OpEx + KCo + DSR + 1%HVA + 20% CIPxV/E	3,327
	Sewer V/E Repl	Sewer Vehicles & Equipment	Max of Next FY V/E CIP, 20% V/E CIP	235
	Solid Waste	Solid Waste Capital	45d \$OpEx + DSR + 3%HVA + 20% CIP xV/E	178
Impact Fee Reserves	SW V/E Repl	Solid Waste Vehicles & Equipment	Max of Next FY V/E CIP, 20% V/E CIP	239
	Electric I/F	Elec Infra / Capacity Expansion	No minimum (\$0)	-
	Water I/F	Water Infra / Capacity Expansion	No minimum (\$0)	-
	Sewer I/F	Sewer Infra / Capacity Expansion	No minimum (\$0)	-

Notation	Meaning	Notation	Meaning
d	Pro-rata portion in days of annual amt	I/F	Impact Fee
PY	Prior Fiscal Year	V/E	Vehicle & Equipment
FY	Fiscal Year	RTT	Realty Transfer Tax Fund
\$OpEx	Cash Operating Expenditures	MSA	Municipal Street Aid Fund
Whl Pwr	Annual Wholesale Power Purchases	GI	General Improvement Fund
DSR	Annual Debt Service Requirement	ED	Economic Development Fund
CIP	Cash portion of 5-year Capital Plan	CFC	Carlisle Fire Company Fund
HVA	Historical Value of Assets; COS Study “Historical Rate Base”	PD	Police & General Government Facilities Fund
BVA	Net Book Value of Assets; COS Study “PCA Premium”	KCo	Annual Total Kent County Sewer Treatment Charge

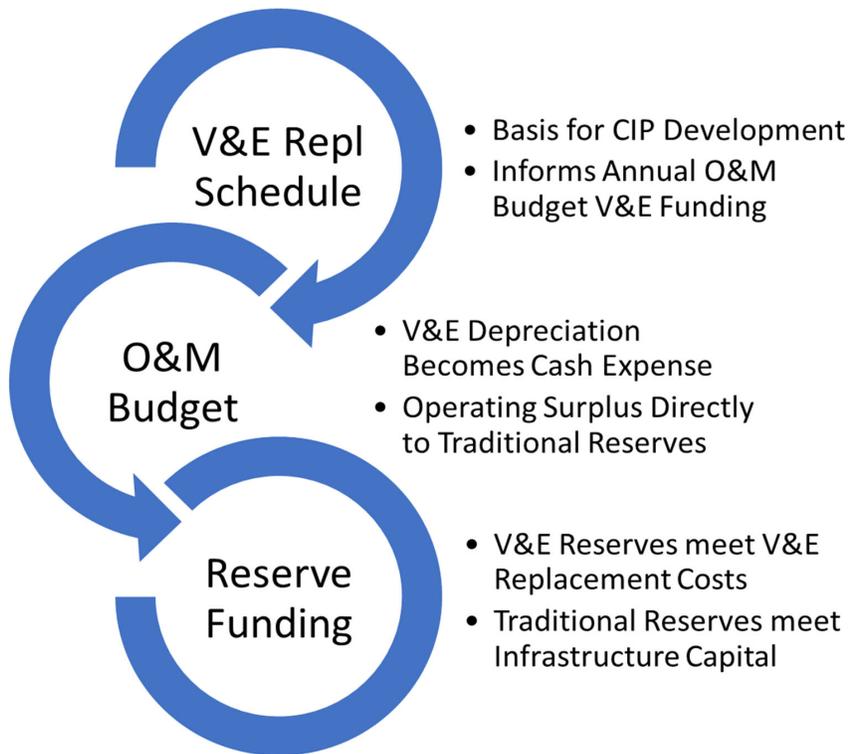
⁶ The calculated MCR/ERR shown in this table and throughout the Policy Document are not intended to serve as the static Policy thresholds; rather, the MCR/ERR formulas in each section capture the dynamic intent of the Policy and all values are for reference purposes only

Execution of Policy

This Policy will be executed jointly by the Public Works and Finance Departments with input from vehicle and equipment operators and supervisory staff, direction from the City Manager, and oversight by City Council.

Each year, in connection with the development of the upcoming fiscal year Capital Improvement Plan, the Public Works Department will update a comprehensive vehicle and equipment replacement schedule. The schedule will specify the vehicles and equipment that should be replaced in all five years of the CIP with replacement cost estimates. The combination of the CIP document and this Policy will guide the Finance Department in its preparation of the Operating Budget, which will include the annually recurring vehicle and equipment replacement funding as a cash operating expense as contemplated in this Policy. The replacement funding and the value of the upcoming year's scheduled replacements determines the magnitude of the draws on the City's Equipment Replacement Reserves, which are subject to the provisions of this Policy, further informing the CIP and Operating Budget with respect to any additional funding requirements or considerations.

The schematic below summarizes the intent of the Policy.





General Fund (GF) Reserves

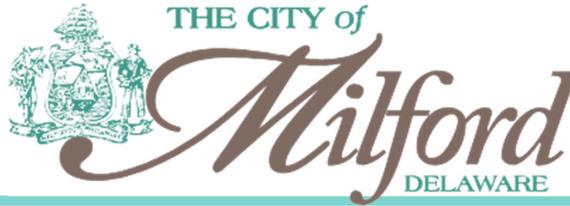
Description

GF Reserves include all sources of funding that are required or intended to be used for general governmental purposes. This includes the existing “General Fund Capital Reserves” account, which consists of accumulated internal surplus funding generated by and set aside for future needs of the general governmental funds and departments of the City.

In this policy document, GF Reserves are broadened to include special purpose funds that are legally restricted to general governmental purposes by local, state or federal regulations, or otherwise committed or assigned to general governmental purposes by City Council. Such special purpose funds include the following existing funds:

RTT	Realty Transfer Tax Fund
MSA	Municipal Street Aid Fund
PD	Police & General Government Facilities Fund
CFC	Carlisle Fire Company Fund
GI	General Improvement Fund
ED	Economic Development Fund

Any funds created after the current revision of this Policy having local, state or federal restrictions for general government spending are intended to be included with and subject to the general provisions of this GF Reserves Policy section and if applicable, will be specifically enumerated in future revisions of the Policy.



General Fund Reserve Policy Summary:

Minimum Cash Reserve (MCR)	\$1,358,000
Equipment Replacement Reserve (ERR)	772,000
<hr/>	
Total Minimum Reserve Balance	\$2,130,000

GF Capital Reserve

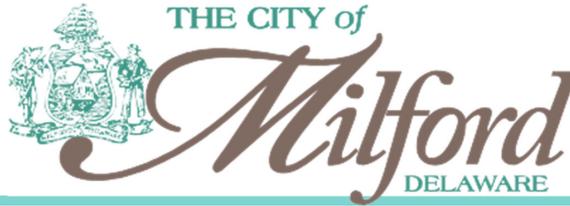
GF Capital Reserves consist of accumulated internal surplus funding generated by and set aside for future needs of the general governmental funds and departments of the City. However, the structural balance challenge faced by the General Fund resulted in the near depletion of the unassigned reserve balance. The formula specified in this Policy for the MCR and Equipment Replacement Reserve are far in excess of an amount that could be achieved by the internal operations of the General Fund within a reasonable time period. For that reason, the GF Capital Reserve MCR will be met in part by the assignment of a portion of the existing RTT reserve balance.

Target MCR Formula	1.5 Months (45 days) Prior Year GF Operating Expenditures
Intended Uses	Governmental Capital Spending
Acceptable Uses	Any Governmental Spending
Funding Source(s)	Accumulation of GF Operating Surpluses; Transfers In; RTT
Replenishment Timing	Up to five years
Replenishment Source(s)	Permanent or Temporary Property Tax Increase, Interfund Loan, Interfund Transfer, Debt Issuance

GF Equipment Replacement Reserve

GF Equipment Replacement Reserves have not been established prior to the approval of this Policy. The structural balance challenge faced by the General Fund prevented the specific assignment of the GF Capital Reserve balance to equipment replacement. The formula specified in this Policy for the MCR and Equipment Replacement Reserve are far in excess of an amount that could be achieved by the internal operations of the General Fund within a reasonable time period. For that reason, the GF Equipment Replacement MCR will be met in part by the assignment of a portion of the existing RTT reserve balance.

Target ERR Formula	Next Fiscal Year GF Vehicle & Equipment Replacement Costs
Intended Uses	Governmental Vehicles & Equipment
Acceptable Uses	Any Governmental Spending
Funding Source(s)	Capitalization of PY GF Vehicle & Equipment depreciation expense or a cash-basis, forward-looking proxy based on the GF Vehicle & Equipment Replacement Schedule; Accumulation of GF Operating Surpluses; Transfers In; RTT
Replenishment Timing	Up to five years
Replenishment Source(s)	Permanent or Temporary Property Tax Increase, Interfund Loan, Interfund Transfer, Debt Issuance



Realty Transfer Tax (RTT) Reserve

RTT Reserve Policy Summary:

Minimum Cash Reserve (MCR) \$ 912,000

RTT are levied by the State of Delaware and collected upon settlement of real estate transaction settlements. Each County distributes a percentage of the tax to cities and towns for settlements occurring within municipal boundaries on a monthly basis. Despite the structural balance challenge faced by the General Fund and the annually recurring need to utilize current RTT receipts on operating and capital expenditures, the RTT Reserve has grown to a level sufficiently healthy to permit the establishment the recommended MCR in addition to the assignment of funding in support of both the GF Capital Reserve MCR and the GF Equipment Replacement MCR.

Target MCR Formula	Average Receipts in Trailing Five Fiscal Years
Intended Uses	Governmental Capital Spending
Acceptable Uses	Governmental Spending Authorized in State of Delaware Code
Funding Source(s)	RTT levied by State of Delaware; Processed by Counties monthly
Replenishment Timing	Up to five years
Replenishment Source(s)	RTT levied by State of Delaware; Processed by Counties monthly

Municipal Street Aid (MSA) Reserve

MSA Funding is appropriated by the State of Delaware Legislature in the annual Bond and Capital Improvement Act. In all but one of the last 20 years, an amount ranging from \$4 million to \$6 million has been appropriated and allocated to all Delaware municipalities on a pro rata basis of population and street mileage. Based on Milford's relative proportion of population and street mileage among Delaware's 57 municipalities in recent years, the City receives about \$45,000 of every \$1 million appropriated, or about \$270,000 in each of the last two fiscal years. Given the annual capital investment of \$800,000 per year required maintain the City's streets and roads, it is anticipated that 100% of all annual funding will be directed to ongoing street improvement projects and no funding will accumulate in the MSA reserve account. For that reason, the MSA Reserve is not subject to a MCR.

Target MCR Formula	N/A – No minimum (\$0)
Intended Uses	Annual Street Improvements & Repairs
Acceptable Uses	Street-related Operating and Capital Expenditures Authorized in State of Delaware Code
Funding Source(s)	State of Delaware Bond Bill Appropriation; Processed quarterly
Replenishment Timing	N/A – No minimum
Replenishment Source(s)	State of Delaware Bond Bill Appropriation; Processed quarterly

Other Special Revenue Funds

Other Special Revenue Funds were created by City Council and/or City Management with specific revenue sources and specifically assigned or committed uses. For that reason, none of the following reserve funds are subject to a MCR.

Police & General Government Facilities (PD) Fund

MCR Formula	N/A – No minimum (\$0)
Intended Uses	City of Milford Police Facilities & Other Police Capital
Acceptable Uses	Any Governmental Spending
Funding Source(s)	Percentage-based fee collected on building permits
Replenishment	N/A – No minimum

Carlisle Fire Company (CFC) Fund

MCR Formula	N/A – No minimum (\$0)
Intended Uses	Carlisle Fire Company Capital Projects, Vehicles and Equipment
Acceptable Uses	Carlisle Fire Company Capital Projects, Vehicles and Equipment
Funding Source(s)	Percentage-based fee collected on building permits
Replenishment	N/A – No minimum

General Improvement (GI) Fund

MCR Formula	N/A – No minimum (\$0)
Intended Uses	Government / Public Facilities & Improvements
Acceptable Uses	Any Governmental Spending
Funding Source(s)	Internal
Replenishment	N/A – No minimum

Economic Development (ED) Fund

MCR Formula	N/A – No minimum (\$0)
Intended Uses	Economic Development Investments & Initiatives
Acceptable Uses	Any Governmental Spending
Funding Source(s)	Internal; Lot Sales at Business Park
Replenishment	N/A – No minimum

Enterprise Fund Reserves

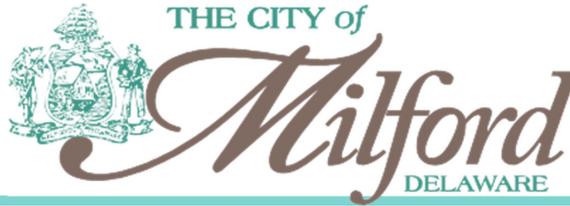
Enterprise Fund Reserves include all sources of funding that are required or intended for reinvestment in utility systems and infrastructure to support the safe, reliable and efficient delivery of utility services to all residential, commercial and industrial customers served by the City of Milford. This includes the existing Water, Sewer and Electric Reserve accounts, which consist of accumulated internal surplus funding generated by and set aside for the ongoing investment required to maintain the City's utility operations.

In this policy document, the existing MCRs in place for each enterprise fund as developed in the most recent independently developed Cost of Service (COS) studies will be separated into two distinct cash requirements:

1. Minimum Cash Requirement (MCR) to account for long-term capital planning and contingencies related to operations and infrastructure reinvestment, and
2. Equipment Replacement Reserve (ERR) to support the routine, scheduled replacement of vehicles and equipment as set forth in the City's Vehicle and Equipment Replacement Schedule, which is used to inform the vehicle and equipment expenditures in the current five-year Capital Improvement Plan (CIP).

Any differences in methodology between the COS studies and this Policy are disclosed in the individual Reserve Policy for each utility in the following sections.

Any funds created after the current revision of this Policy that are generated from the establishment of user rates in support of utility operations are intended to be included with and subject to the general provisions of this Enterprise Fund Reserve Policy section and if applicable, will be specifically enumerated in future revisions of the Policy.



Water Fund Reserve

Water Fund Reserve Policy Summary:

Minimum Cash Reserve (MCR)	\$2,333,000
<u>Equipment Replacement Reserve (ERR)</u>	<u>101,000</u>
Total Minimum Reserve Balance	\$2,434,000

The MCR and ERR developed for the Water Fund Reserve Policy are driven entirely by the most recent Cost of Service (COS) Study with no changes in methodology.

Water Fund Minimum Cash Requirement (MCR)

Target MCR Formula	45 days PY Operating Expenses excluding non-cash expenditures + Current Year Debt Service Requirement + 1.0% of Historical Rate Base, defined as Historical Value of Water System Fixed Assets + 20% of cash-funded CIP, excluding vehicles & equipment
Intended Uses	Planned Capital Investments in Water Systems & Infrastructure
Acceptable Uses	Any Water System Capital or Operating Expenditure
Funding Source(s)	Water Utility User Fees and Consumption Charges
Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Water Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance

Water Fund Equipment Replacement Reserve (ERR)

Target ERR Formula	Next FY Water Fund Vehicle & Equipment Replacement Costs
Intended Uses	Planned Replacement of Water Department Vehicles & Equipment
Acceptable Uses	Any Water System Capital or Operating Expenditure
Funding Source(s)	Water Utility User Fees and Consumption Charges
Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Water Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance



Sewer Fund Reserve

Sewer Fund Reserve Policy Summary:

Minimum Cash Reserve (MCR)	\$3,327,000
<u>Equipment Replacement Reserve (ERR)</u>	<u>235,000</u>
Total Minimum Reserve Balance	\$3,562,000

The MCR and ERR developed for the Sewer Fund Reserve Policy are driven entirely by the most recent Cost of Service (COS) Study with no changes in methodology.

Sewer Fund Minimum Cash Requirement (MCR)

Target MCR Formula	45 days PY Operating Expenses excluding non-cash expenditures + Current Year Debt Service Requirement + 100% of PY Kent County Passthrough Sewer Treatment Charge + 1.0% of Historical Rate Base, defined as Historical Value of Sewer System Fixed Assets + 20% of cash-funded CIP, excluding vehicles & equipment
Intended Uses	Planned Capital Investments in Sewer Systems & Infrastructure
Acceptable Uses	Any Sewer System Capital or Operating Expenditure
Funding Source(s)	Sewer Utility User Fees and Consumption Charges
Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Sewer Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance

Sewer Fund Equipment Replacement Reserve (ERR)

Target ERR Formula	Next FY Sewer Fund Vehicle & Equipment Replacement Costs
Intended Uses	Planned Replacement of Sewer Department Vehicles & Equipment
Acceptable Uses	Any Sewer System Capital or Operating Expenditure
Funding Source(s)	Sewer Utility User Fees and Consumption Charges
Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Sewer Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance



Electric Fund Reserve

Electric Fund Reserve Policy Summary:

Minimum Cash Requirement (MCR)	\$6,329,000
<u>Equipment Replacement Reserve (ERR)</u>	<u>97,000</u>
Total Minimum Reserve Balance	\$6,426,000

The MCR and ERR developed for the Electric Fund Reserve Policy are largely driven by the most recent Cost of Service (COS) Study. The following change in methodology was implemented for the Electric Reserve Policy:

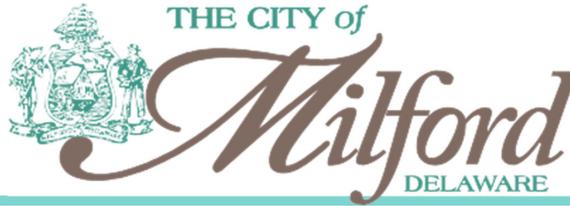
- The provision for the loss of a large customer equal to \$1.2 million in the most recent COS Study was eliminated. The City of Milford is a full-requirements member of the Delaware Municipal Electric Corporation (DEMEC). Full-requirements members are indirectly protected against the loss of a large customer. The Electric Fund will certainly be impacted by the loss of a large customer, but only to the extent of the lost gross margin attributable to the customer, and only for the remainder of the current fiscal year. The City is protected from the far greater potential impact of being “long” in its power supply position (power purchase commitments exceed customer demand), which exposes risk of financial loss due to the disposition of the excess power in the competitive market. As such, this Policy excludes the lost customer component from the MCR calculation.

Electric Fund Minimum Cash Requirement (MCR)

Target MCR Formula	45 days PY Operating Expenses excluding non-cash expenditures + 56 days Current Year Wholesale Power Purchases + Current Year Debt Service Requirement + 3.0% of Historical Rate Base, defined as Historical Value of Electric System Fixed Assets + "PCA Premium," defined as 5.0% of Net Book Value of Electric System Fixed Assets + 20% of cash-funded CIP, excluding vehicles & equipment
Intended Uses	Planned Capital Investments in Electric Systems & Infrastructure
Acceptable Uses	Any Electric System Capital or Operating Expenditure
Funding Source(s)	Electric Utility User Fees and Consumption Charges
Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Electric Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance

Electric Fund Equipment Replacement Reserve (ERR)

Target ERR Formula	Next FY Electric Fund Vehicle & Equipment Replacement Costs
Intended Uses	Planned Replacement of Electric Department Vehicles & Equipment
Acceptable Uses	Any Electric System Capital or Operating Expenditure
Funding Source(s)	Electric Utility User Fees and Consumption Charges
Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Electric Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance



Solid Waste Fund Reserve

Solid Waste Fund Reserve Policy Summary:

Minimum Cash Requirement (MCR)	\$ 178,000
<u>Equipment Replacement Reserve (ERR)</u>	<u>239,000</u>
Total Minimum Reserve Balance	\$ 417,000

The MCR and ERR developed for the Solid Waste Fund Reserve Policy are largely driven by the most recent Cost of Service (COS) Study. The following change in methodology was implemented for the Solid Waste Reserve Policy:

- Target MCR
 - The 60-day requirements for both non-contractual and contractual (landfill fees) cash-based operating expenditures in the COS was consolidated to a single, 45-day requirement for all cash-based operating expenditures in this Policy
 - The DSR requirement of 83% in the COS was increased to 100% in this Policy

Solid Waste Fund Minimum Cash Requirement (MCR)

Target MCR Formula	45 days PY Operating Expenses excluding non-cash expenditures + Current Year Debt Service Requirement + 3.0% of Historical Rate Base, defined as Historical Value of Solid Waste System Fixed Assets + 20% of cash-funded CIP, excluding vehicles & equipment
Intended Uses	Planned Capital Investments in Solid Waste Systems & Equipment
Acceptable Uses	Any Solid Waste Capital or Operating Expenditure
Funding Source(s)	Solid Waste User Fees and Service Charges
Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment source is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Solid Waste Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance

Solid Waste Fund Equipment Replacement Reserve (ERR)

Target ERR Formula	Next FY Solid Waste Fund Vehicle & Equipment Replacement Costs
Intended Uses	Planned Replacement of Solid Waste Vehicles & Equipment
Acceptable Uses	Any Solid Waste System Capital or Operating Expenditure
Funding Source(s)	Solid Waste User Fees and Service Charges
Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment source is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Solid Waste Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance



Impact Fee Reserves

Impact Fee Reserve Policy Summary:

Minimum Cash Requirement (MCR)	\$	0
Equipment Replacement Reserve (ERR)		0
Total Minimum Reserve Balance	\$	0

Impact Fee Reserves are eligible to fund investments in the City’s utility systems and infrastructure required to increase system capacity or otherwise improve, upgrade, maintain or replace existing systems and infrastructure to meet demands arising from usage, growth, expansion or other emergent utility system maintenance requirements. Impact Fee Reserves are also eligible to satisfy debt service requirements resulting from any debt issued for the purpose of financing impact-fee-eligible projects and expenditures.

All Impact Fees collected shall be segregated into separate reserve accounts for each utility. Generally, Impact Fees should be used within the time period during which the improvements necessitating the fee are completed.

Given the requirement to utilize impact fees specifically for investments in utility system and infrastructure within a defined time period, and given the unsustainable nature of impact fee collections, the Impact Fee Reserves are not subject to any MCR. Similarly, provided that impact fees are generally not eligible for the acquisition of vehicles or most equipment⁷, no Equipment Replacement Reserve will be established for any Impact Fee Reserves.

Target MCR Formula	N/A – No minimum (\$0)
Intended Uses	Investments in Utility Systems & Infrastructure
Acceptable Uses	Construction, Maintenance and Expansion of the City’s [Wastewater ⁸ / Water ⁹ / Electric ¹⁰] Systems
Funding Source(s)	Impact Fees established by the City of Milford
Replenishment	N/A – No minimum

⁷ Long-life, permanent installations of equipment required to support growth-related investments utility systems and infrastructure is eligible to be funded with impact fee collections; short-life, mobile, non-infrastructure equipment is generally not eligible.

⁸ [Milford City Code Chapter 185, Article III](#)

⁹ [Milford City Code Chapter 222-31](#)

¹⁰ [Milford City Code Appendix B, Section 4.5](#)

Interfund Loans

Interfund loans are generally permitted between the Governmental Funds and Enterprise Funds. However, in no event may MSA, RTT, PD, CFC or any Impact Fee Funds be borrowed by or transferred to any other fund for any other reason with the exception of the reimbursement of an actual expense incurred in the recipient fund for a legally permissible use of the transferring fund.

For instance, the surplus RTT funds will be used to support the initial, unfunded MCR and Equipment Replacement Reserves identified in this Policy for the General Fund. However, this Policy does not authorize the transfer of such unfunded amounts directly to the General Fund. Instead, the surplus RTT reserve funds shall remain in the separate RTT reserve account as required by Delaware code. The RTT support of the General Fund Reserve Policy will be represented by notional offsetting entries in the City's monthly financial reporting package, and it will materialize over time as RTT-eligible projects and expenditures targeted for General Fund Capital Reserve funding are instead met with RTT funding.

DRAFT – REVISION 03

REDLINE



Cash Reserve Policies

Revision ~~0203~~

Approved by City Council _____ ~~July 12, 2021~~

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Background

Authority

The Financial Procedures outlined in Article VI of the Charter of the City of Milford specify the responsibility of City Council to approve the Operating Budget and Capital Program, which implicitly includes changes in financial policy. In connection with the budget formulation and presentation to Council for approval, the City Manager is responsible for proposing and explaining changes to financial policies¹. The following policies, if approved, will impact the Operating Budgets and Capital Programs that follow.

Policy Objectives

These Cash Reserve Policies were developed in an effort to meet the following objectives:

1. To **identify and define** those attributes of the City's major governmental, enterprise and special purpose cash reserve funds most critical to the development of the City's annual operating budget and Capital Improvement Plan (CIP).
 - a. Initial funding sources
 - b. replenishment funding sources and timing
 - c. permitted and intended uses of funds, and
 - d. minimum balance targets
2. To **serve a reference guide** to
 - a. the City's elected officials responsible for authorizing the annual budget and CIP
 - b. the staff responsible for developing and implementing the annual budget and CIP
3. To **improve the City's internal control environment** through best practices in
 - a. long-term financial management
 - b. capital asset utilization, efficiency and safety

¹ [Milford City Charter, Article VI. – Financial Procedures](#)

Justification of Need

The Government Finance Officers Association (GFOA)² recommends that governments establish formal policies to address the maintenance of unrestricted fund balances, including the identification of minimum cash reserves, acceptable uses of reserves, replenishment methods and timing, and the policy impacts to the budget process³, such as rate-driven revenue budgeting.

Milford City Council and City Management have demonstrated decades-long agreement with GFOA recommended practices, as evidenced by the establishment and maintenance of no less than a dozen separate reserve accounts across the governmental, enterprise and special purpose funds.

Council publicly embraced this guidance in 2017 and again in 2023 through its strategic planning process, having identified *the achievement and maintenance of fiscally-sound balances and reserves for all of the City's various funds* a key strategy in support of its fiscal responsibility objectives⁴.

On November 17, 2020, City Council held a public Council Workshop / Retreat⁵ to address emerging issues and topics related to the City's financial management, during which a framework for the establishment of formal reserve policies was discussed. The City Manager and Finance Director were charged with drafting and recommending formal reserve policies consistent with the concepts discussed during the workshop.

The Cash Reserve Policies, Revision 02 (the "Policy") has proven its value since adoption. From July 2021 forward, cash and investment reserve calculations, including reserve requirements and estimated funding availability, have been reported to City Council with each monthly financial reporting package. As part of the monthly report, reserve calculations have been published regularly for public consumption with City Council packet materials and the City's Finance Department website, promoting transparency among all residents and stakeholders in the City while arming Milford's leadership with data-driven support for decision-making. Further, the reserve calculations have been updated with each new budget year, proving the dynamic nature of the Policy was successful in two ways: first, the reserve calculations remained relevant on a fund by fund basis as the City's budgets grew and changed, and second, the Policy demonstrated efficiency by minimizing the time and effort required by staff, City Council, and the Finance and Audit Committee to review the policy with greater frequency.

² The GFOA, a non-profit, multi-national educator and advocate for government financial management professionals, strives to promote excellence in state and local financial management through best practice guidance and distribution of government finance and accounting subject-matter expertise <https://www.gfoa.org/membership>

³ <https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund>

⁴ *Press Play: Vision 2023 Strategic Plan for the City of Milford, Delaware, adopted April 2018*, p.28

<http://cityofmilford.com/DocumentCenter/View/2555/2017-Strategic-Plan-FINAL?bidId=>

[and the Strategic Plan for the City of Milford, Delaware, Adopted August 28, 2023, p. 27](http://cityofmilford.com/DocumentCenter/View/4898/Milford-Strategic-Plan-080423-002)

<https://www.cityofmilford.com/DocumentCenter/View/4898/Milford-Strategic-Plan-080423-002>

⁵ <https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/3191>

Approval History

Draft Revision 00 – January 11, 2021

Revision 00 existed in draft form and was reviewed only topically by the Finance and Public Works Committee on January 11, 2021. It was removed from the Council agenda with direction to staff to incorporate vehicle and equipment replacement reserve funding into the Policy.

Draft Revision 01 – May 10, 2021

Revision 01 superseded revision 00 and remained in unapproved draft form. The updated draft was reviewed in detail by the Finance and Public Works Committee on May 10, 2021 and subsequently scheduled for final review by the Finance Committee with potential City Council action on July 12, 2021.

Council Approved Revision 02

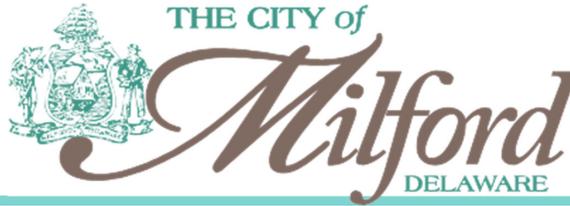
~~This~~ Revision 02 was approved by Council on July 12, 2021.

Draft Revision 03

This Revision 03 will be reviewed by the Finance and Audit Committee on October 27, 2025.

Periodic Review Requirement

The Minimum Cash Requirements (MCRs) identified throughout this Policy are based on formulas with variable inputs to allow the MCRs to vary with changes in economic conditions over time. The City Manager's annual budget presentation to Council shall include any changes in MCRs due to the incorporation of the most recently completed independent financial statement audit. City Management may also use unaudited, pro forma financial statement data where appropriate or necessary to accomplish goals unique to each annual budget. For the foregoing reasons, this Policy sets forth no mandatory requirement for periodic review or approval by City Council or any subcommittee of Council. However, changes to a formula or any other substantive changes in the Policy language must be approved by City Council. Minor grammatical errors and formatting inconsistencies may be corrected by City Management without City Council approval.



Policy Summary

The most critical components of this Policy are the *Minimum Cash Requirement (MCR)* & *Equipment Replacement Reserve (ERR)*, which identify the minimum target level of unassigned cash reserves for each reserve account. “Equipment” is intended to mean “Vehicles & Equipment.” This section of the Policy identifies the formula and variable inputs for each MCR/ERR, exhibits the calculated MCR/ERR based on the most recent financial statement data⁶ and summarizes intended uses of funds.

[Following Table to be Updated with Production of Final Approved Version]

Fund Type	Reserve	Intended Uses	MCR Formula	MCR (\$000)
Governmental Funds	General Fund	Governmental Capital Spending	45d PY GF \$OpEx	\$ 1,358
	GF Equip Repl	Governmental Vehicles & Equipment	PY Veh & Equip Deprec	772
Special Revenue Funds (Governmental)	RTT	Governmental Capital Spending	Avg Receipts - Trailing 5 FYs	912
	MSA	Street Improvements & Repair	No minimum (\$0)	-
	PD	Police Facility Upgrades	No minimum (\$0)	-
	CFC	Carlisle Fire Co Capital Spending	No minimum (\$0)	-
	GI	Governmental Capital Spending	No minimum (\$0)	-
	ED	Economic Development Initiatives	No minimum (\$0)	-
Enterprise Funds	Electric	Electric Capital & Infrastructure	45d \$OpEx + 56d Whl Pwr + DSR + 5% BVA + 3% HVA + 20% CIPxV/E	6,329
	Elec V/E Repl	Electric Vehicles & Equipment	Max of Next FY V/E CIP, 20% V/E CIP	97
	Water	Water Capital & Infrastructure	45d \$OpEx + DSR + 1%HVA + 20% CIPxV/E	2,333
	Water V/E Repl	Water Vehicles & Equipment	Max of Next FY V/E CIP, 20% V/E CIP	101
	Sewer	Sewer Capital & Infrastructure	45d \$OpEx + KCo + DSR + 1%HVA + 20% CIPxV/E	3,327
	Sewer V/E Repl	Sewer Vehicles & Equipment	Max of Next FY V/E CIP, 20% V/E CIP	235
	Solid Waste	Solid Waste Capital	45d \$OpEx + DSR + 3%HVA + 20% CIP xV/E	178
Impact Fee Reserves	SW V/E Repl	Solid Waste Vehicles & Equipment	Max of Next FY V/E CIP, 20% V/E CIP	239
	Electric I/F	Elec Infra / Capacity Expansion	No minimum (\$0)	-
	Water I/F	Water Infra / Capacity Expansion	No minimum (\$0)	-
	Sewer I/F	Sewer Infra / Capacity Expansion	No minimum (\$0)	-

Notation	Meaning	Notation	Meaning
d	Pro-rata portion in days of annual amt	I/F	Impact Fee
PY	Prior Fiscal Year	V/E	Vehicle & Equipment
FY	Fiscal Year	RTT	Realty Transfer Tax Fund
\$OpEx	Cash Operating Expenditures	MSA	Municipal Street Aid Fund
Whl Pwr	Annual Wholesale Power Purchases	GI	General Improvement Fund
DSR	Annual Debt Service Requirement	ED	Economic Development Fund
CIP	Cash portion of 5-year Capital Plan	CFC	Carlisle Fire Company Fund
HVA	Historical Value of Assets; COS Study “Historical Rate Base”	PD	Police & General
BVA	Net Book Value of Assets; COS Study “PCA Premium”	KCo	Government Facilities Fund Annual Total Kent County Sewer Treatment Charge

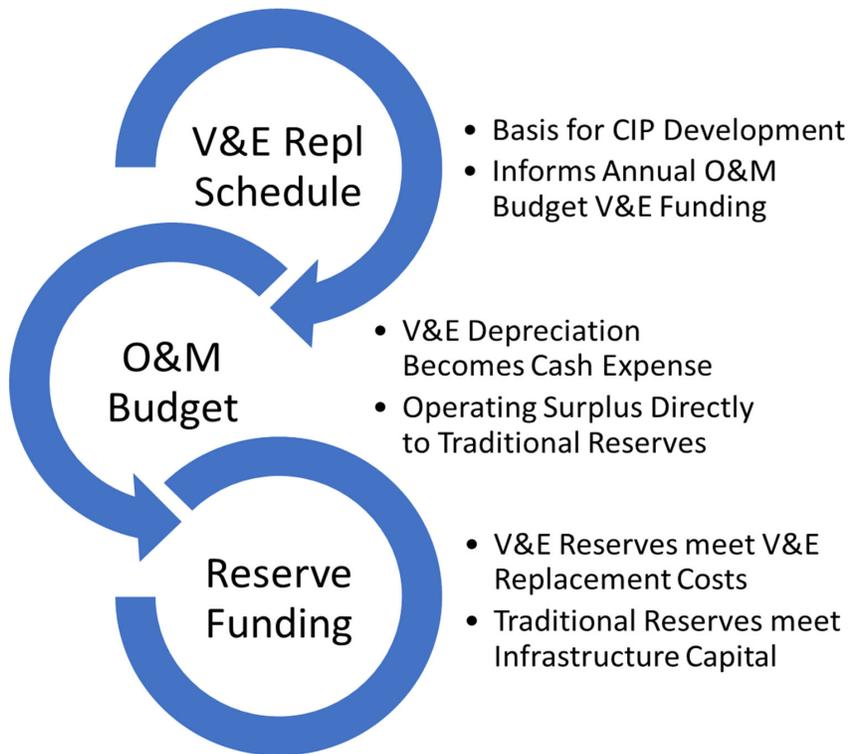
⁶ The calculated MCR/ERR shown in this table and throughout the Policy Document are not intended to serve as the static Policy thresholds; rather, the MCR/ERR formulas in each section capture the dynamic intent of the Policy and all values are for reference purposes only

Execution of Policy

This Policy will be executed jointly by the Public Works and Finance Departments with input from vehicle and equipment operators and supervisory staff, direction from the City Manager, and oversight by City Council.

Each year, in connection with the development of the upcoming fiscal year Capital Improvement Plan, the Public Works Department will update a comprehensive vehicle and equipment replacement schedule. The schedule will specify the vehicles and equipment that should be replaced in all five years of the CIP with replacement cost estimates. The combination of the CIP document and this Policy will guide the Finance Department in its preparation of the Operating Budget, which will include the annually recurring vehicle and equipment replacement funding as a cash operating expense as contemplated in this Policy. The replacement funding and the value of the upcoming year's scheduled replacements determines the magnitude of the draws on the City's Equipment Replacement Reserves, which are subject to the provisions of this Policy, further informing the CIP and Operating Budget with respect to any additional funding requirements or considerations.

The schematic below summarizes the intent of the Policy.





General Fund (GF) Reserves

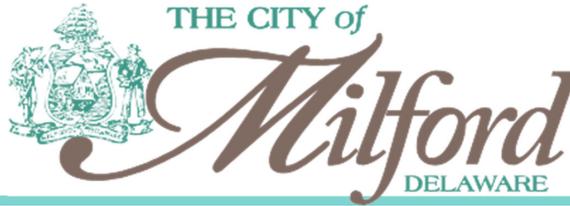
Description

GF Reserves include all sources of funding that are required or intended to be used for general governmental purposes. This includes the existing “General Fund Capital Reserves” account, which consists of accumulated internal surplus funding generated by and set aside for future needs of the general governmental funds and departments of the City.

In this policy document, GF Reserves are broadened to include special purpose funds that are legally restricted to general governmental purposes by local, state or federal regulations, or otherwise committed or assigned to general governmental purposes by City Council. Such special purpose funds include the following existing funds:

RTT	Realty Transfer Tax Fund
MSA	Municipal Street Aid Fund
PD	Police & General Government Facilities Fund
CFC	Carlisle -Fire Company Funds
	<u>CFC – Carlisle Fire Company Fund</u>
GI	General Improvement Fund
ED	Economic Development Fund

Any funds created after the current revision of this Policy having local, state or federal restrictions for general government spending are intended to be included with and subject to the general provisions of this GF Reserves Policy section and if applicable, will be specifically enumerated in future revisions of the Policy.



General Fund Reserve Policy Summary:

Minimum Cash Reserve (MCR)	\$1, 358,000 759,174
Equipment Replacement Reserve (ERR)	772,000 313,700
Total Minimum Reserve Balance	\$2,130,000072,874

GF Capital Reserve

GF Capital Reserves consist of accumulated internal surplus funding generated by and set aside for future needs of the general governmental funds and departments of the City. However, the structural balance challenge faced by the General Fund resulted in the near depletion of the unassigned reserve balance. The formula specified in this Policy for the MCR and Equipment Replacement Reserve are far in excess of an amount that could be achieved by the internal operations of the General Fund within a reasonable time period. For that reason, the GF Capital Reserve MCR will be met in part by the assignment of a portion of the existing RTT reserve balance.

Target MCR Formula	—————1.5 Months (45 days) Prior Year GF Operating Expenditures, <u>excluding discretionary/nonessential spending and nonrecurring items</u>
Intended Uses	Governmental Capital Spending
Acceptable Uses	Any Governmental Spending
Funding Source(s)	Accumulation of GF Operating Surpluses; Transfers In; RTT
Replenishment Timing	Up to five years
Replenishment Source(s)	Permanent or Temporary Property Tax Increase, Interfund Loan, Interfund Transfer, Debt Issuance

GF Equipment Replacement Reserve

GF Equipment Replacement Reserves have not been established prior to the approval of this Policy. The structural balance challenge faced by the General Fund prevented the specific assignment of the GF Capital Reserve balance to equipment replacement. The formula specified in this Policy for the MCR and Equipment Replacement Reserve are far in excess of an amount that could be achieved by the internal operations of the General Fund within a reasonable time period. For that reason, the GF Equipment Replacement MCR will be met in part by the assignment of a portion of the existing RTT reserve balance.

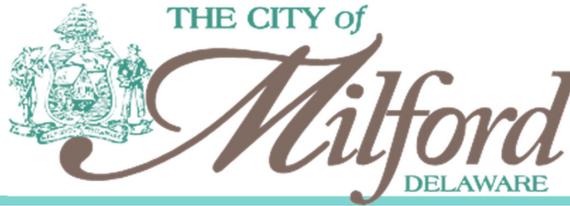
Target ERR Formula	Next Fiscal Year GF Vehicle & Equipment Replacement Costs
Intended Uses	Governmental Vehicles & Equipment
Acceptable Uses	Any Governmental Spending
Funding Source(s)	Capitalization of PY GF Vehicle & Equipment depreciation expense or a cash-basis, forward-looking proxy based on the GF Vehicle & Equipment Replacement Schedule; Accumulation of GF Operating Surpluses; Transfers In; RTT
Replenishment Timing	Up to five years

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Replenishment Source(s)	Permanent or Temporary Property Tax Increase, Interfund Loan, Interfund Transfer, Debt Issuance
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Realty Transfer Tax (RTT) Reserve

RTT Reserve Policy Summary:

Minimum Cash Reserve (MCR) (T3 Avg)	\$
912,000 1,564,000	
Minimum Cash Reserve (MCR) (T5 Avg)	\$ 1,470,000
Minimum Cash Reserve (MCR) (T5 Avg – T20 Min)	\$ 1,209,000

RTT are levied by the State of Delaware and collected upon settlement of real estate transaction settlements. Each County distributes a percentage of the tax to cities and towns for settlements occurring within municipal boundaries on a monthly basis. Despite the structural balance challenge faced by the General Fund and the annually recurring need to utilize current RTT receipts on operating and capital expenditures, the RTT Reserve has grown to a level sufficiently healthy to permit the establishment the recommended MCR in addition to the assignment of funding in support of both the GF Capital Reserve MCR and the GF Equipment Replacement MCR.

An amount up to 2.5 times the RTT MCR may be assigned to support the General Fund reserve policies, provided that the uncommitted RTT reserve balance remains above \$0 including such General Fund support.

Target MCR Formula	Average Receipts in Trailing Three-Five Fiscal Years, <u>less 20-yr minimum</u>
Intended Uses	Governmental Capital Spending
Acceptable Uses	Governmental Spending Authorized in State of Delaware Code
Funding Source(s)	RTT levied by State of Delaware; Processed by Counties monthly
Replenishment Timing	Up to five years
Replenishment Source(s)	RTT levied by State of Delaware; Processed by Counties monthly

Municipal Street Aid (MSA) Reserve

MSA Funding is appropriated by the State of Delaware Legislature in the annual Bond and Capital Improvement Act. In all but one of the last 20 years, an amount ranging from \$4 million to \$6 million has been appropriated and allocated to all Delaware municipalities on a pro rata basis of population and street mileage. Based on Milford’s relative proportion of population and street mileage among Delaware’s 57 municipalities in recent years, the City receives about \$45,000 of every \$1 million appropriated, or about \$270,000 in each of the last two fiscal years. Given the annual capital investment of \$800,000 per year required maintain the City’s streets and roads, it is anticipated that 100% of all annual funding will be directed to ongoing street improvement projects and no funding will accumulate in the MSA reserve account. For that reason, the MSA Reserve is not subject to a MCR.

Target MCR Formula	N/A – No minimum (\$0)
Intended Uses	Annual Street Improvements & Repairs
Acceptable Uses	Street-related Operating and Capital Expenditures



Funding Source(s)	Authorized in State of Delaware Code
Replenishment Timing	State of Delaware Bond Bill Appropriation; Processed quarterly
Replenishment Source(s)	N/A – No minimum State of Delaware Bond Bill Appropriation; Processed quarterly

Other Special Revenue Funds

Other Special Revenue Funds were created by City Council and/or City Management with specific revenue sources and specifically assigned or committed uses. For that reason, none of the following reserve funds are subject to a MCR.

Police & General Government Facilities (PD) Fund

MCR Formula	N/A – No minimum (\$0)
Intended Uses	City of Milford Police Facilities & Other Police Capital
Acceptable Uses	Any Governmental Spending
Funding Source(s)	Percentage-based fee collected on building permits
Replenishment	N/A – No minimum

Fire Company Funds (FC), including the Carlisle Fire Company (CFC) Fund

MCR Formula	N/A – No minimum (\$0)
Intended Uses	Carlisle Fire Company Capital Projects, Vehicles and Equipment
Acceptable Uses	Carlisle Fire Company Capital Projects, Vehicles and Equipment
Funding Source(s)	Percentage-based fee collected on building permits
Replenishment	N/A – No minimum

General Improvement (GI) Fund

MCR Formula	N/A – No minimum (\$0)
Intended Uses	Government / Public Facilities & Improvements
Acceptable Uses	Any Governmental Spending
Funding Source(s)	Internal
Replenishment	N/A – No minimum

Economic Development (ED) Fund

MCR Formula	N/A – No minimum (\$0)
Intended Uses	Economic Development Investments & Initiatives
Acceptable Uses	Any Governmental Spending
Funding Source(s)	Internal; Lot Sales at Business Park

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Replenishment

N/A – No minimum

Enterprise Fund Reserves

Enterprise Fund Reserves include all sources of funding that are required or intended for reinvestment in utility systems and infrastructure to support the safe, reliable and efficient delivery of utility services to all residential, commercial and industrial customers served by the City of Milford. This includes the existing Water, Sewer and Electric Reserve accounts, which consist of accumulated internal surplus funding generated by and set aside for the ongoing investment required to maintain the City's utility operations.

In this policy document, the existing MCRs in place for each enterprise fund as developed in the most recent independently developed Cost of Service (COS) studies will be separated into two distinct cash requirements:

1. Minimum Cash Requirement (MCR) to account for long-term capital planning and contingencies related to operations and infrastructure reinvestment, and
2. Equipment Replacement Reserve (ERR) to support the routine, scheduled replacement of vehicles and equipment as set forth in the City's Vehicle and Equipment Replacement Schedule, which is used to inform the vehicle and equipment expenditures in the current five-year Capital Improvement Plan (CIP).

Any differences in methodology between the COS studies and this Policy are disclosed in the individual Reserve Policy for each utility in the following sections.

Any funds created after the current revision of this Policy that are generated from the establishment of user rates in support of utility operations are intended to be included with and subject to the general provisions of this Enterprise Fund Reserve Policy section and if applicable, will be specifically enumerated in future revisions of the Policy.



Water Fund Reserve

Water Fund Reserve Policy Summary:

Minimum Cash Reserve (MCR)	\$ 2,333,000 <u>2,370,640</u>
Equipment Replacement Reserve (ERR)	<u>101,000</u>
<u>56,600</u>	
Total Minimum Reserve Balance	\$ 2,434,000 <u>2,427,240</u>

The MCR and ERR developed for the Water Fund Reserve Policy are driven entirely by the most recent Cost of Service (COS) Study with no changes in methodology.

Water Fund Minimum Cash Requirement (MCR)

Target MCR Formula	45 days PY Operating Expenses excluding non-cash expenditures + Current Year Debt Service Requirement + 1.0% of Historical Rate Base, defined as Historical Value of Water System Fixed Assets + 20% of cash-funded CIP, excluding vehicles & equipment <u>and debt-funded projects / assets</u>
Intended Uses	Planned Capital Investments in Water Systems & Infrastructure
Acceptable Uses	Any Water System Capital or Operating Expenditure
Funding Source(s)	Water Utility User Fees and Consumption Charges
Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Water Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance

Water Fund Equipment Replacement Reserve (ERR)

Target ERR Formula	Next FY Water Fund Vehicle & Equipment Replacement Costs
Intended Uses	Planned Replacement of Water Department Vehicles & Equipment
Acceptable Uses	Any Water System Capital or Operating Expenditure
Funding Source(s)	Water Utility User Fees and Consumption Charges
Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Water Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance



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Sewer Fund Reserve

Sewer Fund Reserve Policy Summary:

Minimum Cash Reserve (MCR)	\$ 3,327,000 <u>2,563,574</u>
Equipment Replacement Reserve (ERR)	<u>235,000</u> <u>104,400</u>
Total Minimum Reserve Balance	\$ 3,562,000 <u>2,667,974</u>

The MCR and ERR developed for the Sewer Fund Reserve Policy are driven entirely by the most recent Cost of Service (COS) Study with no changes in methodology.

Sewer Fund Minimum Cash Requirement (MCR)

Target MCR Formula	45 days PY Operating Expenses excluding non-cash expenditures + Current Year Debt Service Requirement + 100% of PY Kent County Passthrough Sewer Treatment Charge + 1.0% of Historical Rate Base, defined as Historical Value of Sewer System Fixed Assets + 20% of cash-funded CIP, excluding vehicles & equipment <u>and debt-funded projects / assets</u>
Intended Uses	Planned Capital Investments in Sewer Systems & Infrastructure
Acceptable Uses	Any Sewer System Capital or Operating Expenditure
Funding Source(s)	Sewer Utility User Fees and Consumption Charges
Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Sewer Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance

Sewer Fund Equipment Replacement Reserve (ERR)

Target ERR Formula	Next FY Sewer Fund Vehicle & Equipment Replacement Costs
Intended Uses	Planned Replacement of Sewer Department Vehicles & Equipment
Acceptable Uses	Any Sewer System Capital or Operating Expenditure
Funding Source(s)	Sewer Utility User Fees and Consumption Charges
Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Sewer Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance



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Electric Fund Reserve

Electric Fund Reserve Policy Summary:

Minimum Cash Requirement (MCR)

~~\$6,329,000~~ 9,087,350

Equipment Replacement Reserve (ERR)

~~97,000~~ 222,800

Total Minimum Reserve Balance

~~\$6,426,000~~ 9,310,150

The MCR and ERR developed for the Electric Fund Reserve Policy are largely driven by the most recent Cost of Service (COS) Study. The following change in methodology was implemented for the Electric Reserve Policy:

- The provision for the loss of a large customer equal to \$1.2 million in the most recent COS Study was eliminated. The City of Milford is a full-requirements member of the Delaware Municipal Electric Corporation (DEMEC). Full-requirements members are indirectly protected against the loss of a large customer. The Electric Fund will certainly be impacted by the loss of a large customer, but only to the extent of the lost gross margin attributable to the customer, and only for the remainder of the current fiscal year. The City is protected from the far greater potential impact of being “long” in its power supply position (power purchase commitments exceed customer demand), which exposes risk of financial loss due to the disposition of the excess power in the competitive market. As such, this Policy excludes the lost customer component from the MCR calculation.



Electric Fund Minimum Cash Requirement (MCR)

Target MCR Formula	45 days PY Operating Expenses excluding non-cash expenditures + 56 days Current Year Wholesale Power Purchases + Current Year Debt Service Requirement + 3.0% of Historical Rate Base, defined as Historical Value of Electric System Fixed Assets + "PCA Premium," defined as 5.0% of Net Book Value of Electric System Fixed Assets + 20% of cash-funded CIP, excluding vehicles & equipment <u>and debt-funded projects / assets</u>
Intended Uses	Planned Capital Investments in Electric Systems & Infrastructure
Acceptable Uses	Any Electric System Capital or Operating Expenditure
Funding Source(s)	Electric Utility User Fees and Consumption Charges
Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Electric Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance

Electric Fund Equipment Replacement Reserve (ERR)

Target ERR Formula	Next FY Electric Fund Vehicle & Equipment Replacement Costs
Intended Uses	Planned Replacement of Electric Department Vehicles & Equipment
Acceptable Uses	Any Electric System Capital or Operating Expenditure
Funding Source(s)	Electric Utility User Fees and Consumption Charges
Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Electric Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance



Solid Waste Fund Reserve

Solid Waste Fund Reserve Policy Summary:

Minimum Cash Requirement (MCR)	\$
178,000 201,000	
Equipment Replacement Reserve (ERR)	\$
239,000 70,750	
Total Minimum Reserve Balance	\$
417,000 271,750	

The MCR and ERR developed for the Solid Waste Fund Reserve Policy are largely driven by the most recent Cost of Service (COS) Study. The following change in methodology was implemented for the Solid Waste Reserve Policy:

- Target MCR
 - The 60-day requirements for both non-contractual and contractual (landfill fees) cash-based operating expenditures in the COS was consolidated to a single, 45-day requirement for all cash-based operating expenditures in this Policy
 - The DSR requirement of 83% in the COS was increased to 100% in this Policy

Solid Waste Fund Minimum Cash Requirement (MCR)

Target MCR Formula	45 days PY Operating Expenses excluding non-cash expenditures + Current Year Debt Service Requirement + 3.0% of Historical Rate Base, defined as Historical Value of Solid Waste System Fixed Assets + 20% of cash-funded CIP, excluding vehicles & equipment <u>and debt-funded projects / assets.</u>
Intended Uses	Planned Capital Investments in Solid Waste Systems & Equipment
Acceptable Uses	Any Solid Waste Capital or Operating Expenditure
Funding Source(s)	Solid Waste User Fees and Service Charges
Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment source is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Solid Waste Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance

Solid Waste Fund Equipment Replacement Reserve (ERR)

Target ERR Formula	Next FY Solid Waste Fund Vehicle & Equipment Replacement Costs
Intended Uses	Planned Replacement of Solid Waste Vehicles & Equipment
Acceptable Uses	Any Solid Waste System Capital or Operating Expenditure
Funding Source(s)	Solid Waste User Fees and Service Charges



Replenishment Timing	Up to ten years for most replenishment sources; up to five years if replenishment source is debt issuance authorized by Council resolution
Replenishment Source(s)	Permanent or Temporary Solid Waste Rate Increase, Interfund Loan, Interfund Transfer, Debt Issuance



Impact Fee Reserves

Impact Fee Reserve Policy Summary:

Minimum Cash Requirement (MCR)	\$	0
Equipment Replacement Reserve (ERR)		0
Total Minimum Reserve Balance	\$	0

Impact Fee Reserves are eligible to fund investments in the City’s utility systems and infrastructure required to increase system capacity or otherwise improve, upgrade, maintain or replace existing systems and infrastructure to meet demands arising from usage, growth, expansion or other emergent utility system maintenance requirements. Impact Fee Reserves are also eligible to satisfy debt service requirements resulting from any debt issued for the purpose of financing impact-fee-eligible projects and expenditures.

All Impact Fees collected shall be segregated into separate reserve accounts for each utility. Generally, Impact Fees should be used within the time period during which the improvements necessitating the fee are completed.

Given the requirement to utilize impact fees specifically for investments in utility system and infrastructure within a defined time period, and given the unsustainable nature of impact fee collections, the Impact Fee Reserves are not subject to any MCR. Similarly, provided that impact fees are generally not eligible for the acquisition of vehicles or most equipment⁷, no Equipment Replacement Reserve will be established for any Impact Fee Reserves.

Target MCR Formula	N/A – No minimum (\$0)
Intended Uses	Investments in Utility Systems & Infrastructure
Acceptable Uses	Construction, Maintenance and Expansion of the City’s [Wastewater ⁸ / Water ⁹ / Electric ¹⁰] Systems
Funding Source(s)	Impact Fees established by the City of Milford
Replenishment	N/A – No minimum

⁷ Long-life, permanent installations of equipment required to support growth-related investments utility systems and infrastructure is eligible to be funded with impact fee collections; short-life, mobile, non-infrastructure equipment is generally not eligible.

⁸ [Milford City Code Chapter 185, Article III](#)

⁹ [Milford City Code Chapter 222-31](#)

¹⁰ [Milford City Code Appendix B, Section 4.5](#)

Interfund Loans

Interfund loans are generally permitted between the Governmental Funds and Enterprise Funds. However, in no event may MSA, RTT, PD, CFC or any Impact Fee Funds be borrowed by or transferred to any other fund for any other reason with the exception of the reimbursement of an actual expense incurred in the recipient fund for a legally permissible use of the transferring fund.

For instance, the surplus RTT funds will be used to support the initial, unfunded MCR and Equipment Replacement Reserves identified in this Policy for the General Fund. However, this Policy does not authorize the transfer of such unfunded amounts directly to the General Fund. Instead, the surplus RTT reserve funds shall remain in the separate RTT reserve account as required by Delaware code. The RTT support of the General Fund Reserve Policy will be represented by notional offsetting entries in the City's monthly financial reporting package, and it will materialize over time as RTT-eligible projects and expenditures targeted for General Fund Capital Reserve funding are instead met with RTT funding.