



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

Finance & Audit Committee Agenda February 9, 2026

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5:00 PM

15-Minute Public Comment Period*

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

Page

- 1. Public Comment**
- 2. Call to Order – Chair Jason James, Sr.**
- 3. Quarterly Investment Review**
 - a. [Quarterly Investment Report - 20251231](#)  3 - 26
- 4. Reserve Fund Policy**
 - a. [Reserve Policies - FY26 Draft Revisions v2](#)  27 - 68
- 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.

020226



CITY OF MILFORD, DELAWARE

Investment Performance Review For the Quarter Ended December 31, 2025

Client Management Team

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Agenda

- Market Summary
- Account Summary
- Portfolio Review

Market Summary

Summary

- The U.S. government shutdown halted the collection of key economic indicators, requiring the Federal Reserve (Fed) and the market to rely on survey-based anecdotal evidence and private data reports.
- The labor market continued to soften and the unemployment rate edged higher. Core inflation moved lower but remained above the Fed's 2% target. Gaps in data collection due to the government shutdown likely distorted the official data, though other available private sector data pointed to a slowdown in economic momentum.
- The Fed delivered two additional 25 basis point (bps) rate cuts in the quarter, lowering the federal funds target range to 3.50% to 3.75%. The median forecast from the Fed's December "dot plot" showed an additional 25 bps rate cut in both 2026 and 2027, but the wide dispersion in underlying projections underscores growing differences of opinion. Policymakers have acknowledged ongoing challenges to achieving their dual mandate of maximum employment and stable prices.

Economic Snapshot

- U.S. inflation decelerated modestly during the fourth quarter, though data collection issues and technical adjustments caused by the government shutdown may have biased the data lower. Headline CPI fell to 2.7% year-over-year and core CPI (ex food and energy) fell to 2.6% year-over-year. Fed Chair Powell noted inflation excluding tariffs is near 2%, suggesting the Fed is looking through these effects.
- Labor markets continued to cool as net new job creation neared zero and the unemployment rate reached 4.5% in November before falling to 4.4% in December. However, layoffs remained low, suggesting employers are maintaining their "no hire, no fire" approach.
- The first estimate of third quarter real gross domestic product (GDP) showed the economy grew at an annualized pace of 4.3%, the fastest in two years. Growth was driven by strong consumer and business spending and steadier trade dynamics. While the data was from the third quarter, it showed the economy was on solid footing heading into the government shutdown.

Interest Rates

- The U.S. Treasury yield curve steepened further in Q4, led by a decline in short-term yields. Maturities less than six months fell 30-50 basis points as a result of Fed policy.

- The 3-month U.S. Treasury ended the quarter at 3.63%, 31 bps lower. The 2-year Treasuries fell by 14 bps to 3.47%, and the 5-year fell by 2 bps to 3.73%. The 10- and 30-year U.S. Treasury increased by 2 and 11bps to 4.17% and 4.84%, respectively. Bond volatility has continued to fall significantly from April highs and has now reached the lowest levels in four years.
- Bond indexes generated positive total returns for the quarter. The ICE BofA 3-month, 2-year, 5-year, and 10-year U.S. Treasury indexes returned 0.97%, 1.09%, 0.93%, and 0.83% for the quarter, respectively.
- Calendar-year returns for longer-duration indices, except for the 30-year, outperformed shorter-duration indices in 2025. This marks the first time since 2020 that longer maturities have led annual performance. The ICE BofA 3-month, 2-year, 5-year and 10-year U.S. Treasury indexes returned +4.18%, +4.85%, +6.85% and +7.82%, respectively.

Sector Performance

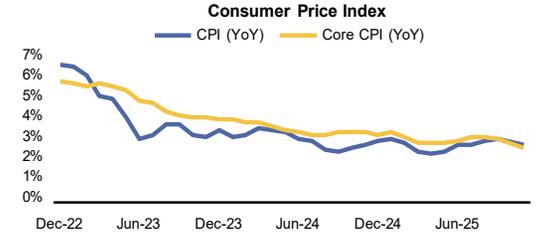
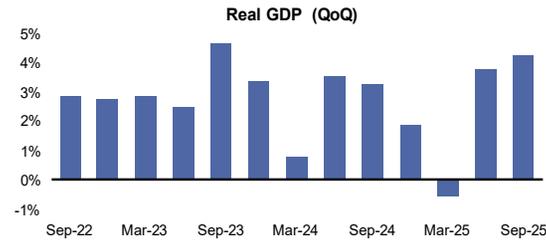
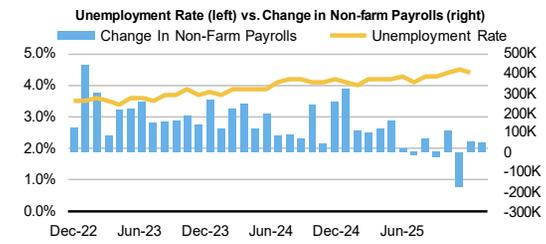
- Excess returns were strong across investment-grade sectors as investor demand and strong fundamentals kept spreads near multi-year lows.
- Federal agency and supranational issuance remained limited, keeping spreads narrow and excess returns muted.
- Investment-grade (IG) corporate bonds generated modest positive excess returns as spreads were relatively stable over the quarter. Lower-quality led performance, supported by strong investor demand. Positive carry remained the primary driver of returns.
- Spreads on asset-backed securities widened marginally, keeping excess returns modest. Auto loan collateral marginally outperformed credit card receivables.
- Agency-backed mortgage-backed securities (MBS) generated solid excess returns in Q4 as lower volatility continues to serve as a tailwind to the sector. Longer-duration collateral (30-year) outperformed shorter-duration (15-year) mortgages. Agency-backed commercial MBS (CMBS) also generated positive excess returns for the quarter but continued to lag residential MBS.
- Short-term credit (commercial paper and negotiable bank CDs) yield spreads remained attractive over the quarter. Month-end funding pressures pushed repo rates above the upper bound of the federal funds rate, which created opportunities in overnight repo and floating rate securities.

Economic Snapshot

Labor Market	Latest	Sep-25	Dec-24	
Unemployment Rate	Dec-25	4.4%	4.4%	4.1%
Change In Non-Farm Payrolls	Dec-25	50,000	108,000	323,000
Average Hourly Earnings (YoY)	Dec-25	3.8%	3.7%	4.0%
Personal Income (YoY)	Sep-25	4.8%	4.8%	5.3%
Initial Jobless Claims (week)	1/3/26	208,000	224,000	209,000

Growth	Latest	Sep-25	Dec-24	
Real GDP (QoQ SAAR)	2025Q3	4.3%	3.8% ¹	3.3% ²
GDP Personal Consumption (QoQ SAAR)	2025Q3	3.5%	2.5% ¹	4.0% ²
Retail Sales (YoY)	Oct-25	3.5%	4.2%	4.6%
ISM Manufacturing Survey (month)	Dec-25	47.9	49.1	49.2
Existing Home Sales SAAR (month)	Nov-25	4.13 mil.	4.05 mil.	4.29 mil.

Inflation / Prices	Latest	Sep-25	Dec-24	
Personal Consumption Expenditures (YoY)	Sep-25	2.8%	2.8%	2.7%
Consumer Price Index (YoY)	Nov-25	2.7%	3.0%	2.9%
Consumer Price Index Core (YoY)	Nov-25	2.6%	3.0%	3.2%
Crude Oil Futures (WTI, per barrel)	Dec-31	\$57.42	\$62.37	\$71.72
Gold Futures (oz.)	Dec-31	\$4,341	\$3,841	\$2,641



1. Data as of Second Quarter 2025.

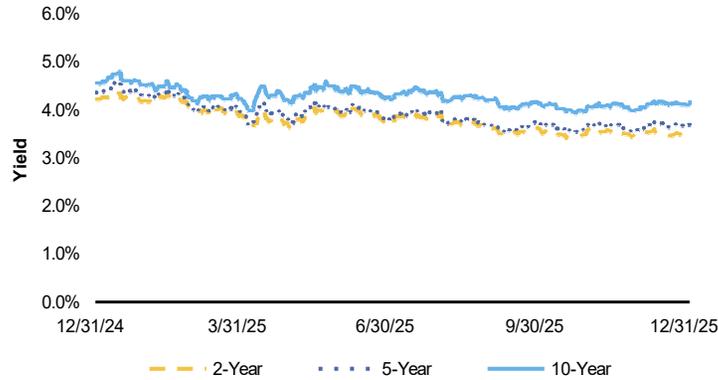
2. Data as of Third Quarter 2024.

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

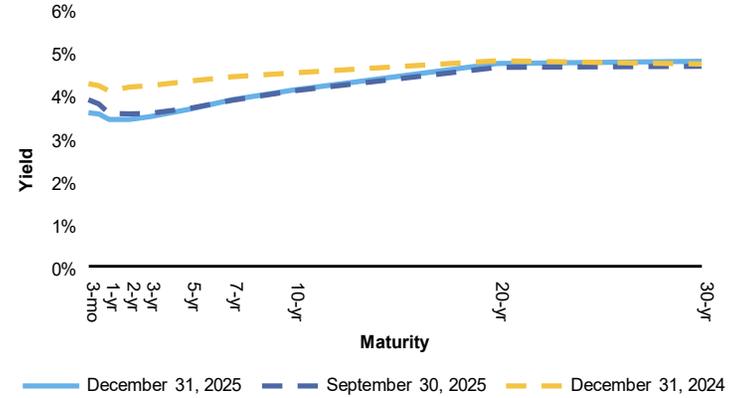
Source: Bloomberg Finance L.P.

Interest Rate Overview

U.S. Treasury Note Yields



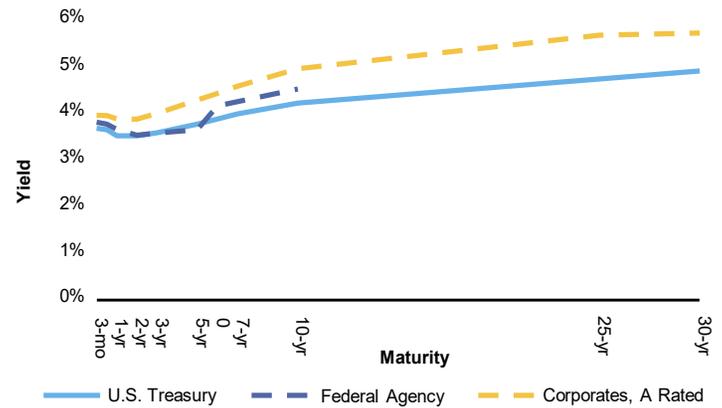
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	Dec-25	Sep-25	Change over Quarter	Dec '24	Change over Year
3-Month	3.63%	3.94%	(0.31%)	4.32%	(0.69%)
1-Year	3.48%	3.62%	(0.14%)	4.15%	(0.67%)
2-Year	3.47%	3.61%	(0.14%)	4.24%	(0.77%)
5-Year	3.73%	3.74%	(0.01%)	4.38%	(0.65%)
10-Year	4.17%	4.15%	0.02%	4.57%	(0.40%)
30-Year	4.84%	4.73%	0.11%	4.78%	0.06%

Yield Curves as of December 31, 2025



ICE BofA Index Returns

December 31, 2025	As of 12/31/2025	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices						
U.S. Treasury	1.83	3.51%	1.12%	5.09%	4.47%	
Federal Agency	1.54	3.54%	1.07%	4.89%	4.63%	
U.S. Corporates, A-AAA rated	1.76	4.00%	1.19%	5.77%	5.41%	
Agency MBS (0 to 3 years)	1.69	4.65%	1.31%	5.68%	4.94%	
Taxable Municipals	1.53	3.78%	1.07%	5.72%	5.12%	
1-5 Year Indices						
U.S. Treasury	2.53	3.56%	1.12%	5.74%	4.48%	
Federal Agency	2.24	3.62%	1.08%	5.37%	4.67%	
U.S. Corporates, A-AAA rated	2.58	4.11%	1.19%	6.61%	5.76%	
Agency MBS (0 to 5 years)	2.44	4.59%	1.46%	7.28%	5.32%	
Taxable Municipals	2.45	3.90%	1.08%	6.22%	5.19%	
Master Indices (Maturities 1 Year or Greater)						
U.S. Treasury	6.09	3.94%	0.74%	6.19%	3.49%	
Federal Agency	3.37	3.78%	1.08%	6.08%	4.71%	
U.S. Corporates, A-AAA rated	6.69	4.68%	0.75%	7.53%	5.64%	
Agency MBS (0 to 30 years)	5.43	4.72%	1.58%	8.33%	4.84%	
Taxable Municipals	8.75	5.06%	0.81%	7.60%	5.34%	

Returns for periods greater than one year are annualized.
 Source: ICE BofA Indices.

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Account Summary

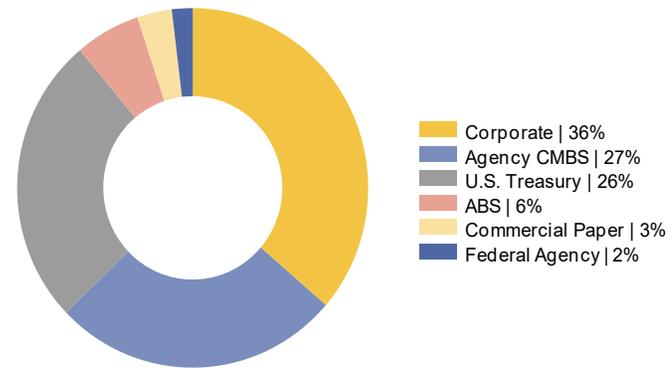
Portfolio Review:
CITY OF MILFORD, DELAWARE

Portfolio Snapshot - CITY OF MILFORD, DELAWARE¹

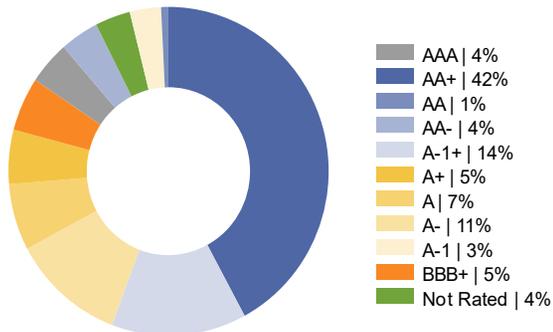
Portfolio Statistics

Total Market Value	\$38,767,797.69
<i>Securities Sub-Total</i>	\$37,574,459.71
<i>Accrued Interest</i>	\$205,149.47
<i>Cash</i>	\$988,188.51
Portfolio Effective Duration	1.79 years
Benchmark Effective Duration	2.02 years
Yield At Cost	4.28%
Yield At Market	3.94%
Portfolio Credit Quality	AA

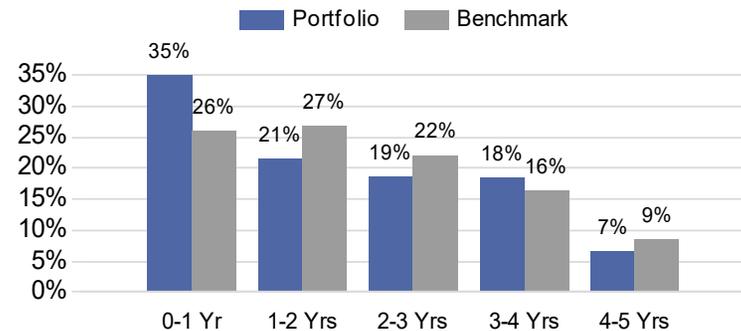
Sector Allocation



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	26.0%	
United States Treasury	26.0%	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	26.4%	
Federal Home Loan Mortgage Corp	24.2%	AA / Aa / AA
Federal National Mortgage Association	2.2%	AA / Aa / AA
Commercial Paper	3.2%	
Barclays PLC	1.0%	A / NR / A
UBS Group AG	2.1%	A / NR / A
Corporate	36.5%	
AbbVie Inc	0.5%	A / A / NR
Accenture PLC	0.3%	AA / Aa / NR
Air Products and Chemicals Inc	0.3%	A / A / NR
Alphabet Inc	1.3%	AA / Aa / NR
American Express Co	0.6%	A / A / A
Amphenol Corp	0.5%	A / A / NR
Analog Devices Inc	0.7%	A / A / A
AstraZeneca PLC	0.6%	A / A / NR
Bank of America Corp	1.1%	A / A / AA
Bank of New York Mellon Corp	0.5%	A / Aa / AA
BlackRock Inc	0.7%	AA / Aa / NR
BP PLC	0.5%	A / A / A
Broadcom Inc	0.3%	A / A / BBB
Canadian Imperial Bank of Commerce	0.7%	A / A / AA

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
Corporate	36.5%	
Cintas Corp	0.3%	A / A / NR
Cisco Systems Inc	1.3%	AA / A / NR
Citigroup Inc	2.4%	A / A / A
Cummins Inc	0.1%	A / A / NR
Deere & Co	0.7%	A / A / A
Eli Lilly & Co	0.4%	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
HSBC Holdings PLC	0.8%	A / A / A
Huntington Bancshares Inc/OH	0.7%	A / A / A
Johnson & Johnson	1.5%	AAA / Aa / NR
JPMorgan Chase & Co	2.1%	A / A / AA
Kenvue Inc	0.5%	A / A / NR
KLA Corp	0.5%	A / A / A
McKesson Corp	0.5%	BBB / A / A
Merck & Co Inc	0.6%	A / Aa / NR
Meta Platforms Inc	0.7%	AA / Aa / NR
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	0.4%	NR / A / A
Novartis AG	0.9%	AA / Aa / NR
PACCAR Inc	0.2%	A / A / NR
Parker-Hannifin Corp	0.5%	BBB / A / A
Realty Income Corp	1.3%	A / A / NR

atings 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, xcluding 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 vested in overnight funds.

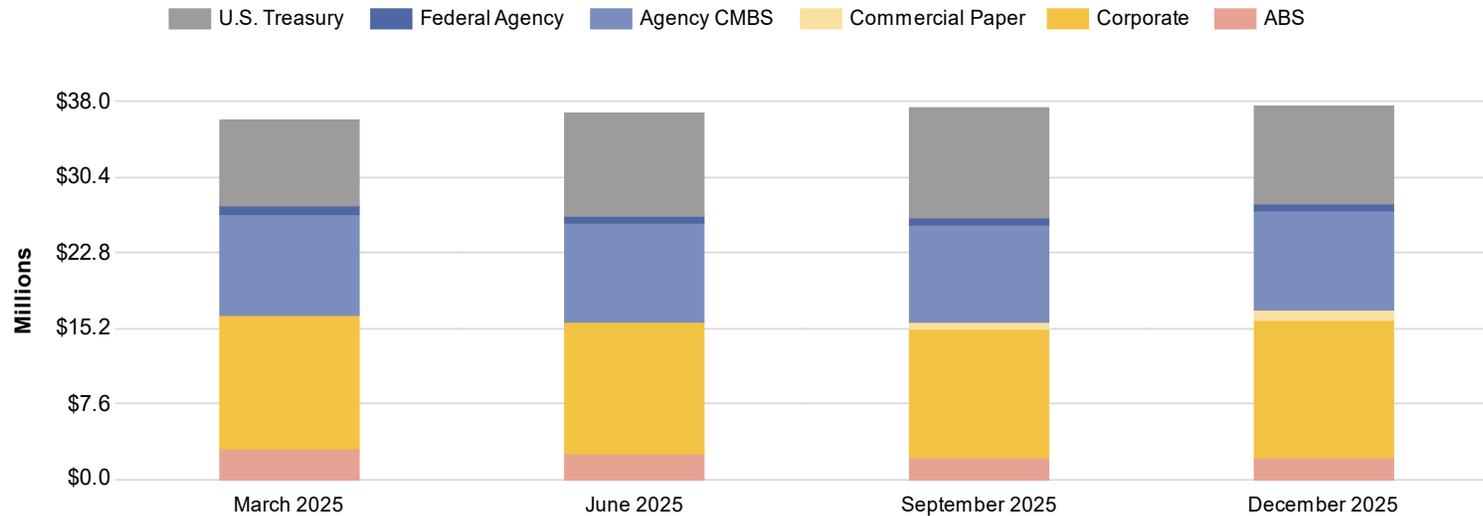
Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
Corporate	36.5%	
Royal Bank of Canada	1.0%	A / A / AA
Sanofi SA	0.7%	AA / Aa / NR
Shell PLC	1.0%	A / Aa / AA
State Street Corp	0.7%	A / Aa / AA
Stryker Corp	0.5%	BBB / A / NR
Target Corp	0.1%	A / A / A
Toronto-Dominion Bank	0.7%	A / A / AA
Toyota Motor Corp	0.3%	A / A / A
Waste Management Inc	0.5%	A / A / A
Wells Fargo & Co	0.4%	BBB / A / A
ABS	6.0%	
Ally Auto Receivables Trust	0.2%	AAA / NR / AAA
BMW Vehicle Lease Trust	0.7%	AAA / NR / AAA
Capital One Financial Corp	0.9%	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	0.6%	NR / Aaa / AAA
Harley-Davidson Inc	0.3%	NR / Aaa / AAA
Honda Auto Receivables Owner Trust	0.5%	AAA / Aaa / AAA
Hyundai Auto Receivables Trust	0.5%	AAA / NR / AAA
Nissan Auto Receivables Owner Trust	0.1%	NR / Aaa / AAA
Verizon Master Trust	0.7%	NR / Aaa / AAA
World Omni Auto Trust	0.3%	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

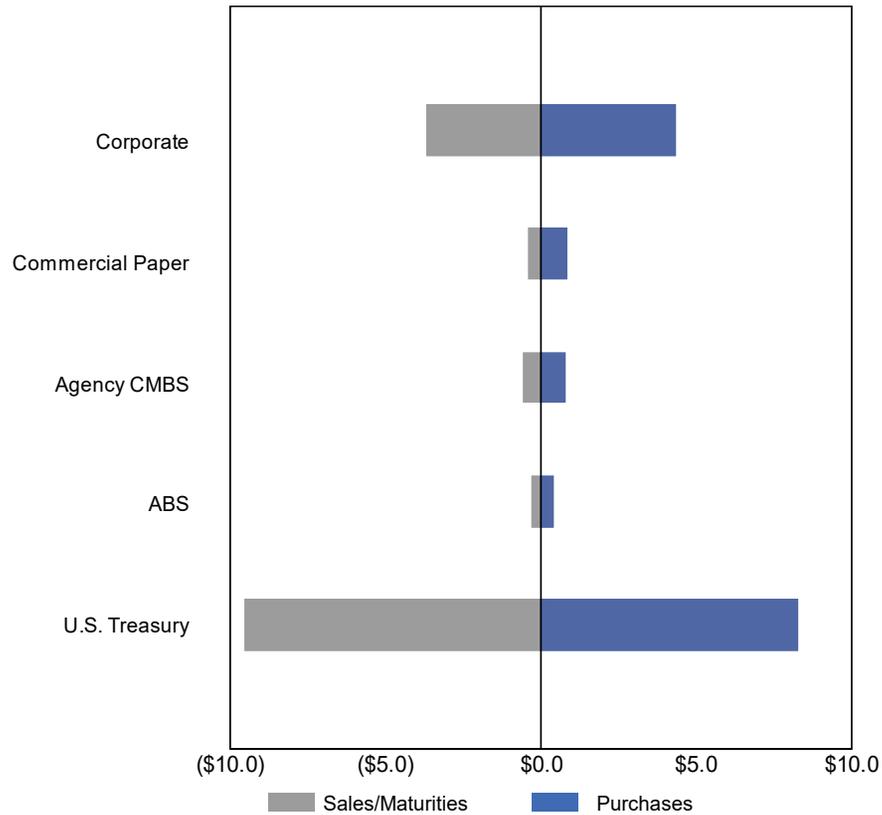
Security Type	Mar-25	% of Total	Jun-25	% of Total	Sep-25	% of Total	Dec-25	% of Total
U.S. Treasury	\$8.6	23.9%	\$10.2	27.8%	\$11.0	29.5%	\$9.8	26.1%
Federal Agency	\$0.7	2.0%	\$0.7	2.0%	\$0.7	1.9%	\$0.7	1.9%
Agency CMBS	\$10.3	28.4%	\$10.0	27.2%	\$9.7	26.0%	\$9.9	26.5%
Commercial Paper	\$0.0	0.0%	\$0.0	0.0%	\$0.8	2.1%	\$1.2	3.2%
Corporate	\$13.4	37.0%	\$13.2	35.9%	\$12.9	34.7%	\$13.7	36.3%
ABS	\$3.1	8.7%	\$2.6	7.1%	\$2.2	5.8%	\$2.3	6.0%
Total	\$36.1	100.0%	\$36.8	100.0%	\$37.3	100.0%	\$37.6	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)

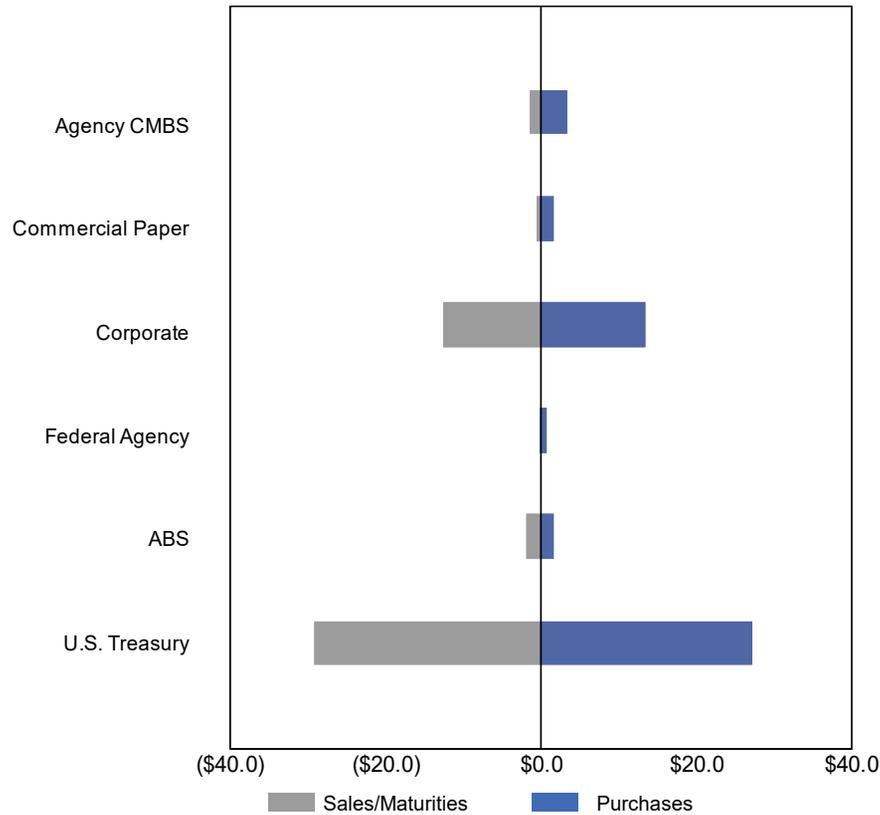


Sector	Net Activity
Corporate	\$668,544
Commercial Paper	\$420,714
Agency CMBS	\$215,534
ABS	\$85,816
U.S. Treasury	(\$1,251,949)
Total Net Activity	\$138,660

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

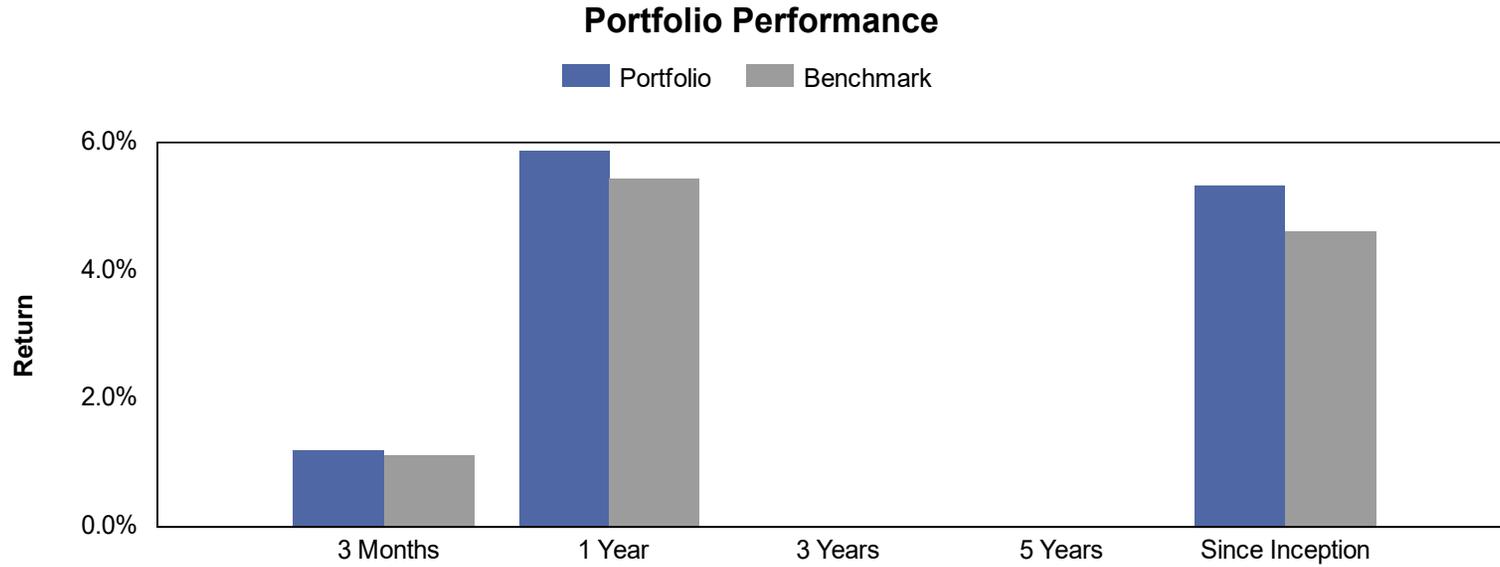
Portfolio Activity (12 Months) - CITY OF MILFORD, DELAWARE

Net Activity by Sector
(\$ millions)



Sector	Net Activity
Agency CMBS	\$1,894,667
Commercial Paper	\$1,180,032
Corporate	\$818,619
Federal Agency	\$714,726
ABS	(\$267,588)
U.S. Treasury	(\$2,040,159)
Total Net Activity	\$2,300,297

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	1.20%	5.88%	-	-	5.33%
Benchmark ³	1.10%	5.44%	-	-	4.62%
Difference	0.09%	0.44%	-	-	0.71%

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.

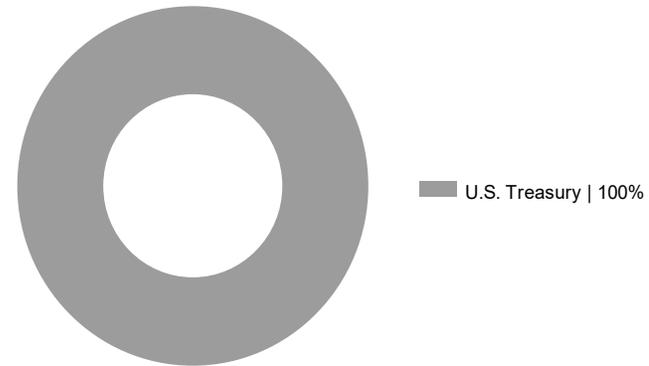
Portfolio Review:
CITY OF MILFORD CASHFLOW ACCOUNT

Portfolio Snapshot - CITY OF MILFORD CASHFLOW ACCOUNT¹

Portfolio Statistics

Total Market Value	\$3,555,681.56
<i>Securities Sub-Total</i>	\$3,555,552.49
<i>Accrued Interest</i>	\$129.07
<i>Cash</i>	\$0.00
Portfolio Effective Duration	3.31 years
Yield At Cost	4.59%
Yield At Market	3.65%
Portfolio Credit Quality	AA

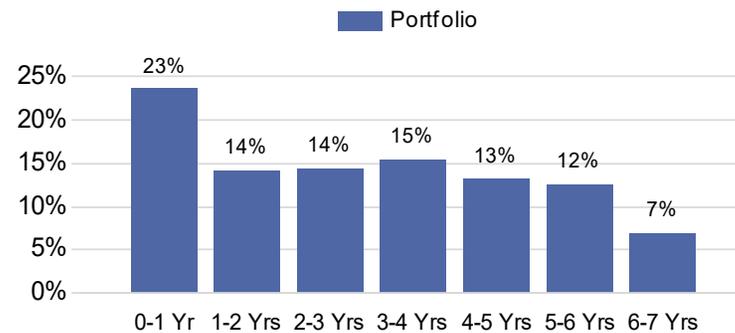
Sector Allocation



Credit Quality - S&P



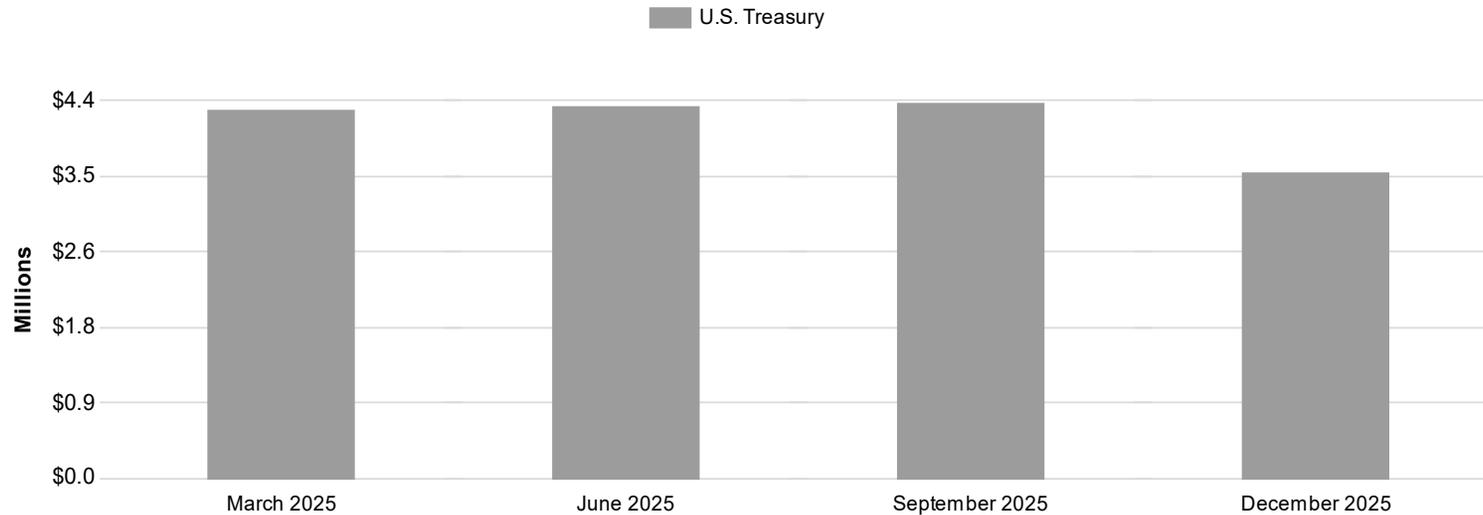
Duration Distribution



Yield and duration calculations exclude cash and cash equivalents. Sector allocation includes market values and accrued interest. 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	Mar-25	% of Total	Jun-25	% of Total	Sep-25	% of Total	Dec-25	% of Total
U.S. Treasury	\$4.3	100.0%	\$4.3	100.0%	\$4.4	100.0%	\$3.6	100.0%
Total	\$4.3	100.0%	\$4.3	100.0%	\$4.4	100.0%	\$3.6	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.

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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.



Cash Reserve Policies
Revision 03 v2 Jan 26, 2026
Approved by City Council _____

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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

<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

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

Draft Revision 03

~~This~~ Revision 03 was introduced at the Finance and Audit Committee on October 27, 2025.

This Revision 03 v2 will be discussed at the Finance and Audit Committee Meeting scheduled for January 26, 2026 (or February 9, 2026 pending weather advisory).

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 Government Facilities Fund
BVA	Net Book Value of Assets; COS Study “PCA Premium”	KCo	Annual Total Kent County Sewer Treatment Charge

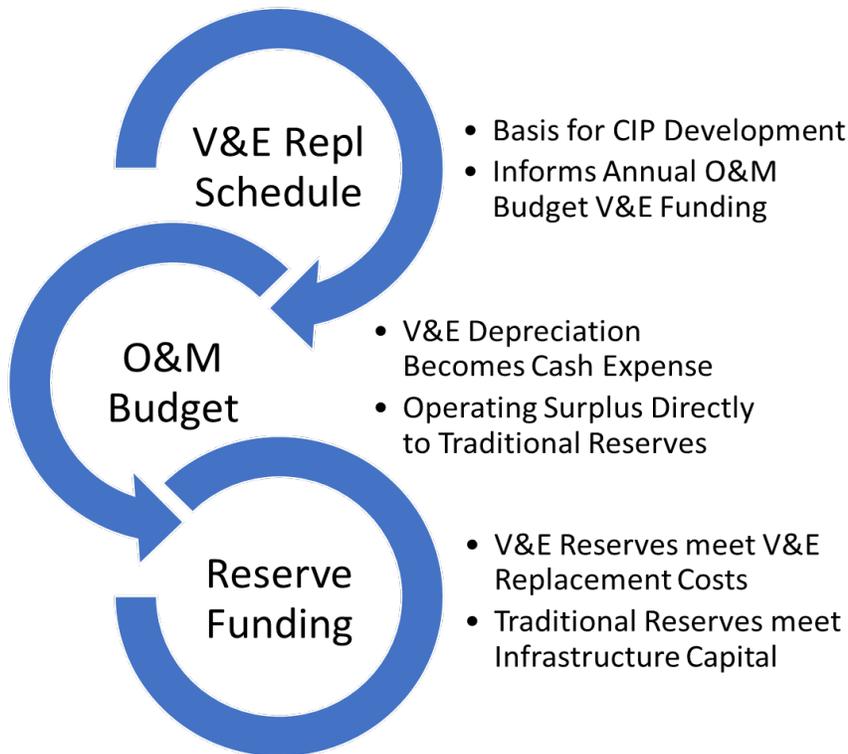
⁶ The calculated MCR/ERR shown in this table and throughout the Policy Document are not intended to serve as the static Policy thresholds; rather, the MCR/ERR formulas in each section capture the dynamic intent of the Policy and all values are for reference purposes only

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
FCF	Fire Company Funds
	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)	\$1,759,174
<u>Equipment Replacement Reserve (ERR)</u>	<u>313,700</u>
Total Minimum Reserve Balance	\$2,072,874

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, excluding discretionary/nonessential spending and nonrecurring items
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	1.1x 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) (T3 Avg)	\$ 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 of 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.

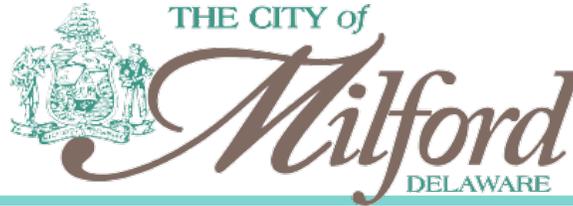
An amount up to 2.5 times the RTT MCR may be assigned to support the General Fund reserve policies, provided that the uncommitted RTT reserve balance remains above \$0 including General Fund support.

Target MCR Formula	Average Receipts in Trailing Five Fiscal Years, less 20-yr minimum
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 to 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

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

MCR Formula	N/A – No minimum (\$0)
Intended Uses	Fire Company Capital Projects, Vehicles and Equipment
Acceptable Uses	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)	\$2,370,640
<u>Equipment Replacement Reserve (ERR)</u>	<u>56,600</u>
Total Minimum Reserve Balance	\$2,427,240

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 and debt-funded projects / assets
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	1.1x 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)	\$2,563,574
<u>Equipment Replacement Reserve (ERR)</u>	<u>104,400</u>
Total Minimum Reserve Balance	\$2,667,974

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 and debt-funded projects / assets
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	1.1x 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)	\$9,087,350
<u>Equipment Replacement Reserve (ERR)</u>	<u>222,800</u>
Total Minimum Reserve Balance	\$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 and debt-funded projects / assets
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	1.1x 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)	\$ 201,000
<u>Equipment Replacement Reserve (ERR)</u>	<u>70,750</u>
Total Minimum Reserve Balance	\$ 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 and debt-funded projects / assets.
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	1.1x 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.

Enterprise Fund Operating Transfers

Annual operating transfers from the City's utility funds (enterprise funds) to the general fund ("general fund transfers" or "utility transfers") are permitted pursuant to the Charter of the City of Milford subject to City Council approval each year as part of the annual budget cycle. Among public power providers, including the City of Milford and all nine public power systems in Delaware, annual operating transfers from the electric fund to the general fund are not only customary but critical components of the budget process, promoting structural balance in the general fund, investment in community services, and mitigation of property tax and other general fund revenue requirements. Also known as Payments in Lieu of Taxes ("PILOTs"), such transfers should be "based on a sound, defensible formula" according to the American Public Power Association ("APPA"). Further, the APPA recommends "an appropriate, predictable level of general fund transfers" to ensure ongoing financial viability of the electric system¹¹. The recommendations of APPA with respect to electric fund transfers can be applied to all utility funds, including water and sewer transfers to the general fund. The City of Milford's utility transfers have been stable and predictable over the long term, particularly in the electric fund, which featured transfers in the 9% to 12.5% range over the last 20 years. Fixed at \$2.5 million annually for an extended historical period, sharp and sustained organic growth across all City operations in more recent years precipitated a change from the fixed amount to a percentage of gross ("top-line") revenue not to exceed 12.5% was approved as part of the FY24, FY25 and FY26 operating budgets. The same maximum of 12.5% of gross revenue was approved for the water and sewer utilities in FY26, with historical transfers ranging from \$0 through FY21 to a fixed amount of \$0.3 million in FY22 through FY24, \$0.315 in FY25, and a maximum of 12.5% in FY26. Operations in the solid waste fund generally produce a break-even surplus of \$0 after setting aside reserves for future vehicle and equipment replacement, and the rate-setting philosophy has generally supported break-even operations. Therefore, transfers from the solid waste fund have been \$0 through

¹¹ American Public Power Association *Public Power Forward – A Guide to Utility Operational Excellence*, 2025



FY26 and are expected to remain \$0 through FY30. However, in the event that future operations generate positive cashflow sufficient to support an operating transfer to the general fund, the transfer shall not exceed the smaller of (a) 50% of the prior fiscal year actual surplus, after cash contributions to vehicle and equipment reserves but excluding non-cash depreciation and amortization expenses, or (b) 5% of the prior fiscal year gross revenue. Whereas the electric, water and sewer utility transfers are based on forecasted gross revenue and approved as part of each fiscal year’s upcoming operating budget, any solid waste transfer to the general fund shall be retroactive based on actual, prior year results.

The following table summarizes the maximum annual utility transfers by enterprise fund and method:

Fund	Minimum	Maximum	Basis	Scope
Electric	0.0%	12.5%	Projected Gross Revenue	Upcoming FY
Water	0.0%	12.5%	Projected Gross Revenue	Upcoming FY
Sewer	0.0%	12.5%	Projected Gross Revenue	Upcoming FY
Solid Waste	0.0%	5.0%, 50%	Actual Gross Rev, Surplus	Previous FY(s)

The rationale for the transfers includes various factors, including (a) the risk premium borne by the general fund associated with comparatively more volatile enterprise fund operations, (b) the avoidance of required returns / investment hurdles inherent in nonprofit, public utility administration vs private utility operations, (c) the avoidance of corporate income taxes inherent in nonprofit, public utility administration vs private utility operations, (d) the ability to secure tax-exempt debt financing available to nonprofit, public utility administration vs private utility operations, (d) benchmarking across all public water, sewer and electric utilities in Delaware, (e) benchmarking across reporting public power utilities¹², (f) analysis of long-term capital and operating needs of each of the City’s four major utilities and the general fund, (g) analysis of reserve levels and reserve policies of each of the City’s four major utilities and the general fund, (h) the degree to which the City’s specific property tax exemptions, discounts, and abatements impact general fund property tax revenue, and (i) periodic consultation with independent rate consultants for the City’s four major utilities.

¹² Including, but not limited to, the 2024 APPA publication *Public Power Pays Back – Payments and Contributions by Public Power Utilities to State and Local Governments in 2022* sourced at https://www.publicpower.org/system/files/documents/Public_Power_Pays_Back_Payments-Contributions-2022_0.pdf



Cash Reserve Policies

Revision ~~0203~~ v2 Jan 26, 2026

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](http://cityofmilford.com/DocumentCenter/View/4898/Milford-Strategic-Plan-080423-002), p. 27

<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

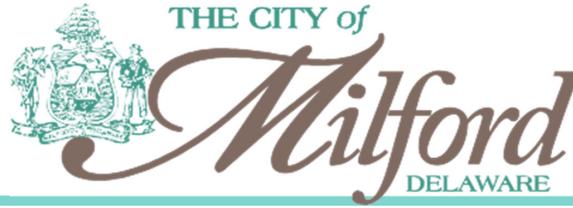
~~This~~ Revision 03 was introduced at the Finance and Audit Committee on October 27, 2025.

This Revision 03 v2 will be discussed at the Finance and Audit Committee Meeting scheduled for January 26, 2026 (or February 9, 2026 pending weather advisory).

Periodic Review Requirement

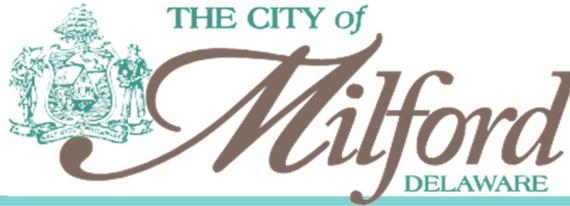
The Minimum Cash Requirements (MCRs) identified throughout this Policy are based on formulas with variable inputs to allow the MCRs to vary with changes in economic conditions over time. The City Manager's annual budget presentation to Council shall include any changes in MCRs due to the incorporation 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

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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

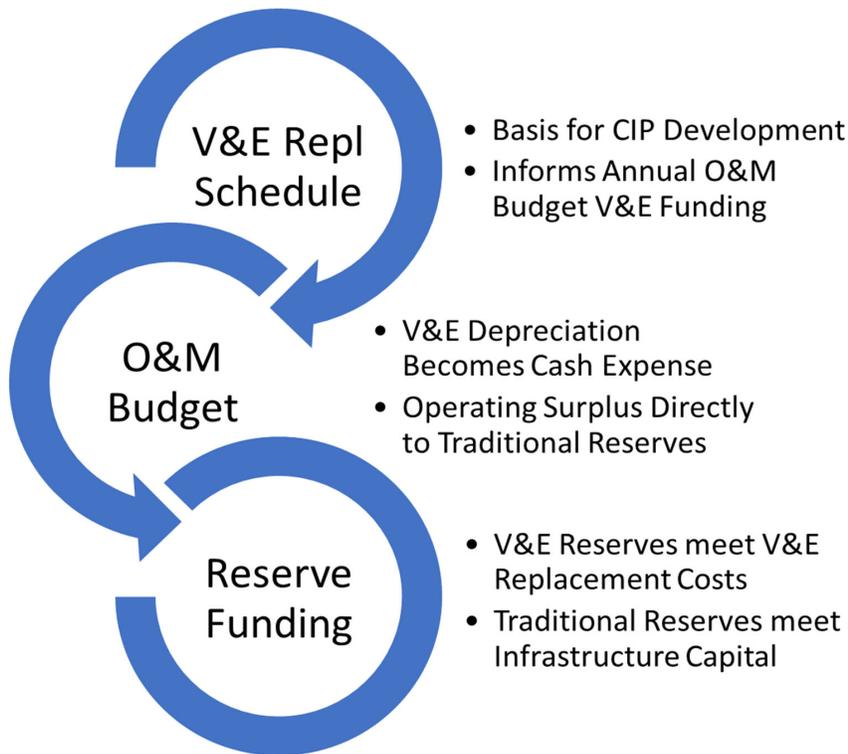
⁶ The calculated MCR/ERR shown in this table and throughout the Policy Document are not intended to serve as the static Policy thresholds; rather, the MCR/ERR formulas in each section capture the dynamic intent of the Policy and all values are for reference purposes only

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

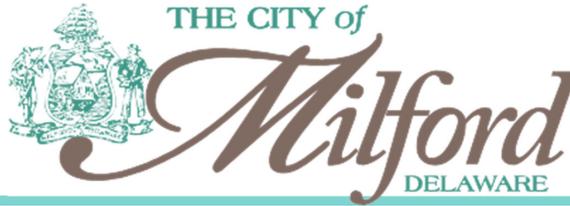
Description

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
CFCE	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,~~130,000~~072,874

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	<u>1.1x</u> 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 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 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

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
Replenishment	N/A – No minimum

Enterprise Fund Reserves

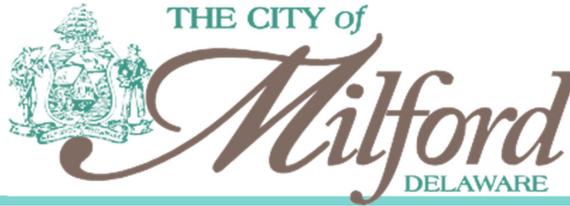
Enterprise Fund Reserves include all sources of funding that are required or intended for reinvestment in utility systems and infrastructure to support the safe, reliable and efficient delivery of utility services to all residential, commercial and industrial customers served by the City of Milford. 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	<u>1.1x</u> 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	2,563,574
Equipment Replacement Reserve (ERR)		
	<u>235,000</u>	<u>104,400</u>
Total Minimum Reserve Balance	\$3,562,000	2,667,974

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	<u>1.1x</u> 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~~ 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	<u>1.1x</u> 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	<u>1.1x</u> 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
<hr/>		
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

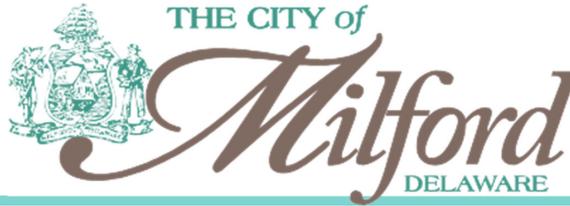
Interfund loans are generally permitted between the Governmental Funds and Enterprise Funds. However, in no event may MSA, RTT, PD, CFC or any Impact Fee Funds be borrowed by or transferred to any other fund for any other reason with the exception of the reimbursement of an actual expense incurred in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

Enterprise Fund Operating Transfers

Annual operating transfers from the City's utility funds (enterprise funds) to the general fund ("general fund transfers" or "utility transfers") are permitted pursuant to the Charter of the City of Milford subject to City Council approval each year as part of the annual budget cycle. Among public power providers, including the City of Milford and all nine public power systems in Delaware, annual operating transfers from the electric fund to the general fund are not only customary but critical components of the budget process, promoting structural balance in the general fund, investment in community services, and mitigation of property tax and other general fund revenue requirements. Also known as Payments in Lieu of Taxes ("PILOTs"), such transfers should be "based on a sound, defensible formula" according to the American Public Power Association ("APPA"). Further, the APPA recommends "an appropriate, predictable level of general fund transfers" to ensure ongoing financial viability of the electric system¹¹. The recommendations of APPA with respect to electric fund transfers can be applied to all utility funds, including water and sewer transfers to the general fund. The City of Milford's utility transfers have been stable and predictable over the long term, particularly in the electric fund, which featured transfers in the 9% to 12.5% range over the last 20 years. Fixed at \$2.5 million annually for an extended historical period, sharp and sustained organic growth across all City operations in more recent years precipitated a change from the fixed amount to a percentage of gross ("top-line") revenue not to exceed 12.5% was approved as part of the FY24, FY25 and FY26 operating budgets. The same maximum of 12.5% of gross revenue was approved for the water and sewer utilities in FY26, with historical transfers ranging from \$0 through FY21 to a fixed amount of \$0.3 million in FY22 through FY24, \$0.315 in FY25, and a maximum of 12.5% in FY26. Operations in the solid waste fund generally produce a break-even surplus of \$0 after setting aside reserves for future vehicle and equipment replacement, and the rate-setting philosophy has generally supported break-even operations. Therefore, transfers from the solid waste fund have been \$0 through

¹¹ American Public Power Association *Public Power Forward – A Guide to Utility Operational Excellence, 2025*



FY26 and are expected to remain \$0 through FY30. However, in the event that future operations generate positive cashflow sufficient to support an operating transfer to the general fund, the transfer shall not exceed the smaller of (a) 50% of the prior fiscal year actual surplus, after cash contributions to vehicle and equipment reserves but excluding non-cash depreciation and amortization expenses, or (b) 5% of the prior fiscal year gross revenue. Whereas the electric, water and sewer utility transfers are based on forecasted gross revenue and approved as part of each fiscal year’s upcoming operating budget, any solid waste transfer to the general fund shall be retroactive based on actual, prior year results.

The following table summarizes the maximum annual utility transfers by enterprise fund and method:

<u>Fund</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Basis</u>	<u>Scope</u>
<u>Electric</u>	<u>0.0%</u>	<u>12.5%</u>	<u>Projected Gross Revenue</u>	<u>Upcoming FY</u>
<u>Water</u>	<u>0.0%</u>	<u>12.5%</u>	<u>Projected Gross Revenue</u>	<u>Upcoming FY</u>
<u>Sewer</u>	<u>0.0%</u>	<u>12.5%</u>	<u>Projected Gross Revenue</u>	<u>Upcoming FY</u>
<u>Solid Waste</u>	<u>0.0%</u>	<u>5.0%, 50%</u>	<u>Actual Gross Rev, Surplus</u>	<u>Previous FY(s)</u>

The rationale for the transfers includes various factors, including (a) the risk premium borne by the general fund associated with comparatively more volatile enterprise fund operations, (b) the avoidance of required returns / investment hurdles inherent in nonprofit, public utility administration vs private utility operations, (c) the avoidance of corporate income taxes inherent in nonprofit, public utility administration vs private utility operations, (d) the ability to secure tax-exempt debt financing available to nonprofit, public utility administration vs private utility operations, (d) benchmarking across all public water, sewer and electric utilities in Delaware, (e) benchmarking across reporting public power utilities¹², (f) analysis of long-term capital and operating needs of each of the City’s four major utilities and the general fund, (g) analysis of reserve levels and reserve policies of each of the City’s four major utilities and the general fund, (h) the degree to which the City’s specific property tax exemptions, discounts, and abatements impact general fund property tax revenue, and (i) periodic consultation with independent rate consultants for the City’s four major utilities.

¹² Including, but not limited to, the 2024 APPA publication *Public Power Pays Back – Payments and Contributions by Public Power Utilities to State and Local Governments in 2022* sourced at https://www.publicpower.org/system/files/documents/Public_Power_Pays_Back_Payments-Contributions-2022_0.pdf