

City of Milford



CITY COUNCIL AGENDA Tuesday, November 17, 2020

In accordance with the State of Emergency Declaration issued by Governor John Carney that became effective on March 13, 2020, and as extended, all public meetings of the City of Milford shall be conducted electronically through Zoom until further notice to prevent unnecessary public gatherings.

*This meeting is available for viewing by the public by accessing the following link: <https://zoom.us/s/94854880806>
If the above button is not clickable, try copying and pasting the following link into the address bar of your web browser:
<https://zoom.us/s/94854880806>*

*Members of the public may also call in using the following number:
[Telephone 1 301 715 8592](tel:13017158592) [Webinar ID: 948 5488 0806](https://zoom.us/j/94854880806)*

Public Comments are encouraged on the items as noted on the agenda and must be submitted via email to cityclerk@milford-de.gov no later than the start of the meeting. Attendees may also alert the City Clerk that they wish to speak at the appropriate time by submitting their name, address, and agenda item on which they would like to comment via the Zoom Q&A function or by using the Raise Your Hand function during the meeting. All public comments received will be read into the record at the meeting.

COUNCIL WORKSHOP/RETREAT 5:30 PM

Call to Order - Mayor Archie Campbell

General Fund Strategies

- General Real Estate Tax
- Real Estate Transfer Tax
- General Fund Reserve Funding Police Officers
- Real Estate Transfer Tax Funding of Police Officers
- Funding for Equipment Replacement Fund
- Funding for General Fund portion of Customer Service expenses
- Interdepartmental Fund transfers

Economic Development Funding

- Sale of Business Lots
- DMI
- KEP
- Internal Economic Development position

Capital Project Funding

- MSA
- Real Estate Transfer Tax

Police Station Funding

 New Building Cost

 Funding Options

Policies for Fund Balances/Reserve Funds

Utility Rate Increases/Cost of Services Study

Adjournment

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

**SUPPORTING DOCUMENTS MUST BE SUBMITTED TO THE CITY CLERK IN ELECTRONIC FORMAT
NO LATER THAN ONE WEEK PRIOR TO MEETING; NO PAPER DOCUMENTS WILL BE ACCEPTED OR DISTRIBUTED
AFTER PACKET HAS BEEN POSTED ON THE CITY OF MILFORD WEBSITE.**

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Date: November 13, 2020
 To: Mayor and City Council
 Through: Mark A. Whitfield, City Manager
 From: Louis C. Vitola, Finance Director
 Re: Responses to Inquiries Raised at the November 9, 2020 Meeting of Council

The Finance Department Staff Report included with the packet materials for the November 9, 2020 meeting of City Council expressed past due property taxes in the format shown in the table at right, which raised several questions from Council, all of which can be answered using the updated table below, which exhibits the total invoice count, the unique parcel count, and the past due

Property Tax Levy	Past Due
2020	\$ 229,290
2019 & Prior	249,788
Total	\$ 479,078

Period	Count	Unique Count	Past Due
2020	844	695	\$ 214,564
2016-2019	344	132	218,064
2011-2015	71	10	25,032
2006-2010	34	5	5,645
2001-2005	9	3	900
1997-2000	4	1	20
Grand Total	1,306	846	\$ 464,226

property tax balance in five-year incremental subtotals (with the exception of the first and last buckets). The parcel-level data generated on November 13, 2020 in response to this question shows a lower grand total than the initial summary provided in the packet because payments have been received since the initial report was generated on November 5, 2020.

Q1: How far back is the “prior” in “2019 & Prior?”

A1: The prior past due taxes include one parcel with billings dating back to 1997, although the activity from 2016 and forward accounts for 98% of the parcels and 93% of the past due balance.

Q2: How many parcels make up the 2020 balance due?

A2: A total of 844 parcels have not yet made a payment against their 2020 property tax levy.

Q3: How many parcels that have a past due balance from their 2020 property tax levy also have a balance remaining from 2019 or prior?

A3: A total of 149 parcels that have a past due balance from their 2020 property tax levy are also carrying balance(s) from the 2019 levy and/or prior (844 total count, less 695 unique count).

Thank you for raising these important questions; I look forward to making improvements to the City’s property tax collection efforts.

cc: Jeff Portmann, Finance Director
 Suzannah Frederick, Customer Service Manager



Date: November 16, 2020
To: Mayor and City Council
Through: Mark A. Whitfield, City Manager
From: Louis C. Vitola, Finance Director
Re: General Fund Strategies

The packet materials published with the November 9, 2020 meeting of the Finance and Public Works Committee (FPWC) included a FY'22 General Fund Operating Budget Advisory¹, which reinforced concerns related to the unsustainability of revenue required to support ongoing General Fund expenditures first expressed with the delivery of the FY'21 operating budget recommendation². The topics introduced in the two prior settings are examined further in this memo as outlined below, which is largely based on the first agenda item for the November 17, 2020 Council Workshop:

General Fund Strategies

Property Tax.....	2
General Fund Structural Imbalance	5
Sustainability of Realty Transfer Tax (RTT).....	5
RTT-Funded Police Department Personnel Expenses	6
Sustainability of General Fund Reserves	6
Reserve-Funded Police Department Personnel Expenses.....	6
Reserve-Funded Operating Deficit	7
Interfund Transfers.....	7
Equipment Replacement Funding.....	8

¹ Enclosed; from <https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/3188> (p.15-16)

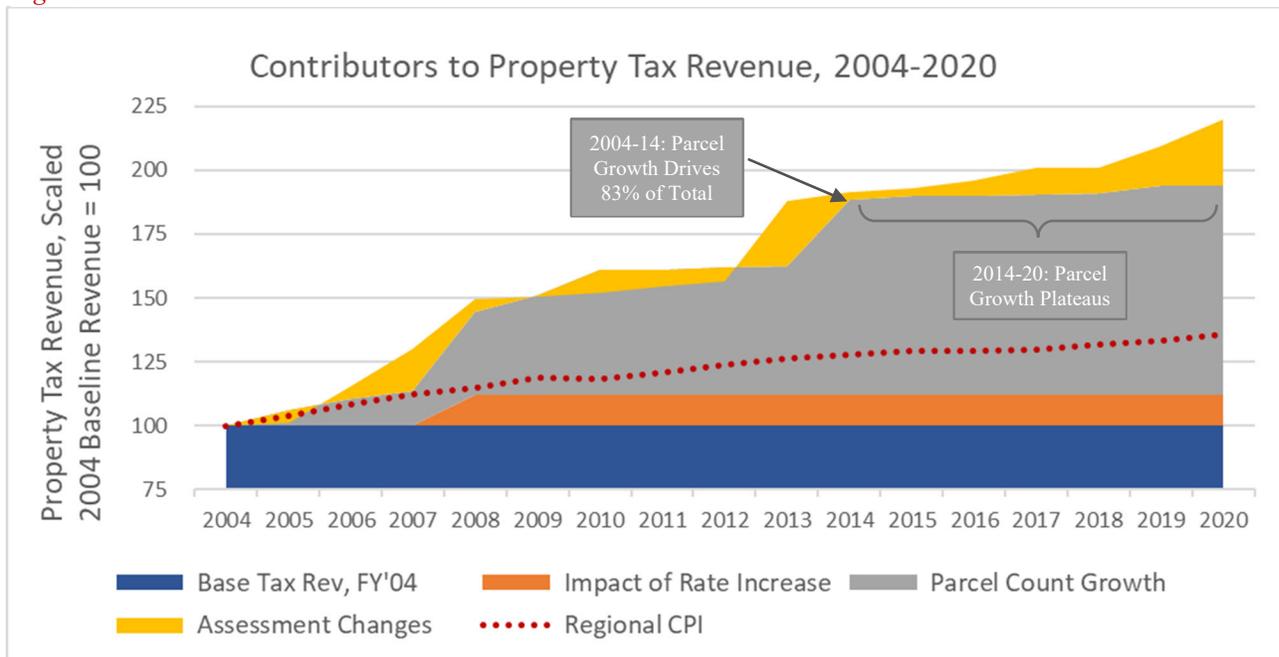
² Enclosed

Property Tax

The City of Milford’s property tax rate has not changed since 2007, when it increased from \$0.41 to its current level of \$0.46 per \$100 of assessed value (AV). At the time, City administration astutely acknowledged the global financial crisis and its far-reaching impact on state and local governmental revenues, noting “building permits...have declined, along with...transfer taxes, which we have become accustomed to using for our capital needs and police services³.”

To be fair, total property tax revenue is not driven by the millage rate alone. The City’s development growth, along with gradual, market-driven increases in AV over time, have contributed to increases in property tax revenue over and above the rate increase. Figure A exhibits the primary contributors to Milford’s total property tax revenue growth since 2004.

Figure A



- 2004 Baseline
 - The blue rectangle forming the foundation of the graph represents the 2004 property tax revenue of \$1.9 million, scaled to a baseline index of 100
- 2007 Tax Rate Increase
 - The orange rectangle emerging in 2007 represents the incremental property tax revenue generated by virtue of the rate increase alone
- Tax Base Growth (Parcel Count)
 - The gray polygon represents the incremental tax revenue attributable to development growth in terms of parcel *count* over time, highlighted in Figure A and supported with additional data in Figure B at right

Figure B

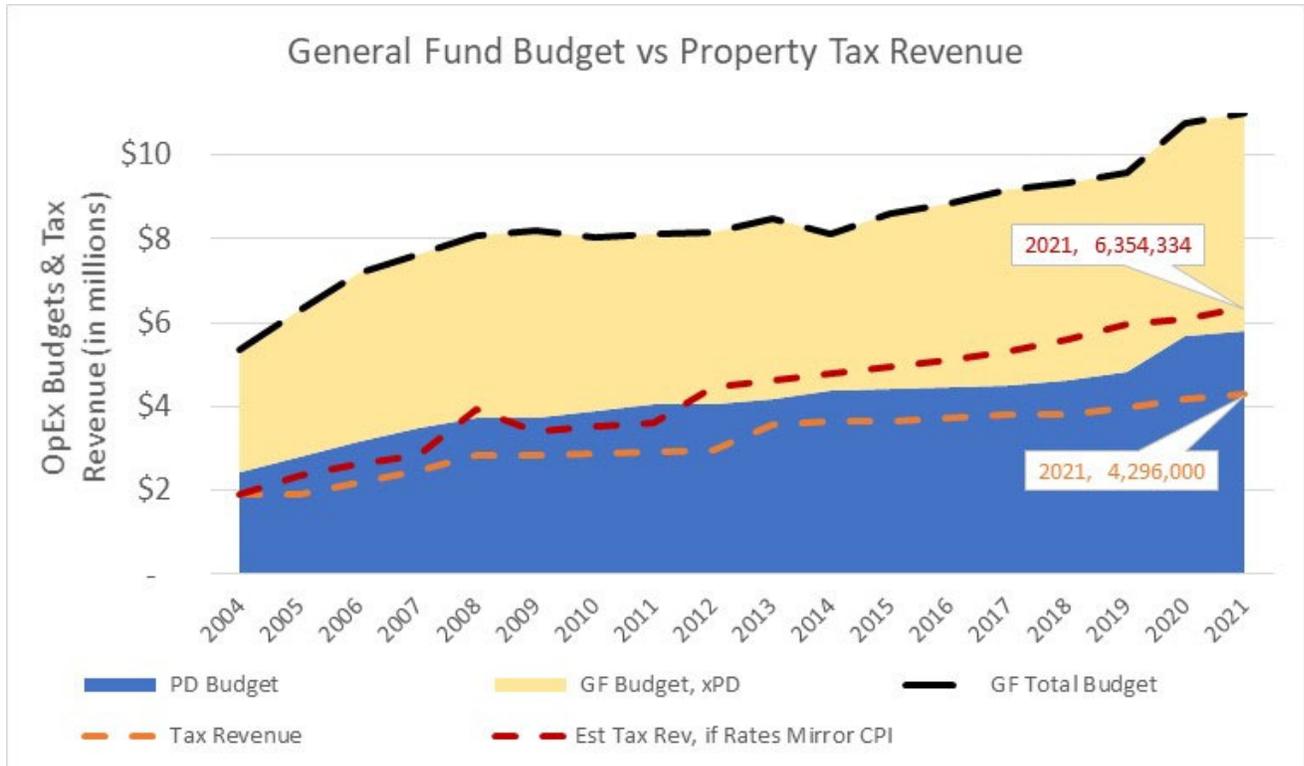
Parcel Growth

Period	Count	Compound Annual Growth Rate	Contribution to Tot Revenue
2004-2014	3,610 - 6,361	5.8%	83.3%
2014-2020	6,361 - 6,566	0.5%	20.1%

³ <https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/948> p.1

- Tax Base Growth (Assessed Value)
 - The yellow polygon represents the incremental property tax revenue attributable to the changes in the average per-parcel *assessed value* over time
 - While the AV per parcel increased from an average of \$128,306 in 2004 to \$140,717 in 2020, the increases have not resulted in a significant impact on total property tax revenue
- Inflationary Index
 - The dotted red line (in Figure A, above) represents the regional Consumer Price Index (CPI)⁴ from 2004 to June 2020, which exceeds the pace of Milford property tax rate increases by 21%
 - While *total* property tax revenue growth exceeds CPI due primarily to tax base growth, rate adjustments similar to CPI are justified – regardless of underlying development growth – to ensure that the composition of revenue growth matches the composition of expenditure growth over time
 - In other words, Milford’s general fund expenditures from 2004 through 2020 faced compounding pressure from both inflation *and* growth; while property tax revenue increased almost exclusively due to growth alone
 - As a result, the total General Fund budgeted expenditures increased at higher rate than property tax revenue over the analysis period, as illustrated in Figure C below (the black expenditure line is steeper than the orange revenue line)
 - Had the property tax rate been increased over the analysis period at the greater of the regional CPI or \$0.01 per \$100 AV, the City would have closed the funding gap by more than \$2 million, and the steepness of the revenue line would have mirrored that of the expenditure line, even if total general fund expenditures continued to far exceed property tax revenue

Figure C



⁴ US Bureau of Labor Statistics, Series ID CUURS12BSA0, CUUSS12BSA0; All Items in Philadelphia-Camden-Wilmington, PA-NJ-DE-MD

The key takeaway in the Property Tax analysis from 2004 to 2020 is that regular, incremental increases in the property tax rate will assist Milford in its endeavor to achieve a structurally balanced General Fund budget. Staff strongly recommends a recalibration of the property tax rate in concert with the development of the FY'22 General Fund budget, which is set to open with a known deficit from the start. At a minimum, the property tax rate must be increased sufficiently to eliminate any projected deficit, while initiatives to remedy the existing structural imbalance may follow, though such initiatives must follow closely behind. In order to balance the FY'22 General Fund budget and close the deficit, a tax increase estimated at \$0.108 per \$100 of AV is required.

A summary of issues identified with the development of the FY'21 budget and following into the FY'22 preliminary planning process is presented in Figure D below:

Figure D

Preliminary Overview of FY'22 General Fund Operating Budget Concerns

GENERAL FUND			
FY'21 Budgeted Revenue, excl Carry-Fwd	10,677,383		
FY'21 Budgeted Expenditures	11,011,759		
Surplus (Deficit)	(334,376)		
FY'22 General Fund Budget Estimates	Full Impact	Moderated	Notes
Carry forward FY'21 Deficit	(334,376)	(334,376)	Based on FY'21 Budget - with no change, this will present itself again
Diversion of RTT to Capital Program - Structural Balance	(500,000)	-	Not recommended based on Strategic Plan for Structural Balance, but can attempt again
Reserve-Funded OpEx - 4th Year of PD Officers	(453,398)	(453,398)	The General Fund Reserve Balance is too low to support a 4th year of funding
Full Cost Allocation - Interservice Funds	(320,204)	-	Not recommended based on Strategic Plan for Structural Balance, but may keep in place another fiscal year if absolutely necessary
Full year impact of partial FY'21 positions	(158,051)	(71,850)	Possible partial reductions
Equipment Replacement Reserve Funding Target: 100% of Vehicle & Equipment Depreciation	(576,288)	-	Not recommended based on Strategic Plan for Structural Balance
15-year Compound Annual Growth Rate (CAGR) of 2.7% Increases in General Fund Expenditures	(297,317)	(148,659)	Contractual wage & benefit costs and ERP implementation goals may prevent significant moderation, but target is 50% cut
Total Potential Increases to FY'22 General Fund Budget	(2,639,635)	(1,008,283)	
Equivalent Rate Increase	0.283	0.108	
Monthly Impact on average parcel	\$ 33.14	\$ 12.66	

General Fund Structural Imbalance

The Government Finance Officers Association (GFOA) recommends that governmental policies “should include parameters for achieving and maintaining structural balance where recurring revenues are equal to recurring expenditures⁵.” The City of Milford has publicly embraced this guidance through its strategic planning process, having identified the achievement of a structurally balanced budget as a key strategy in support of its fiscal responsibility objectives⁶.

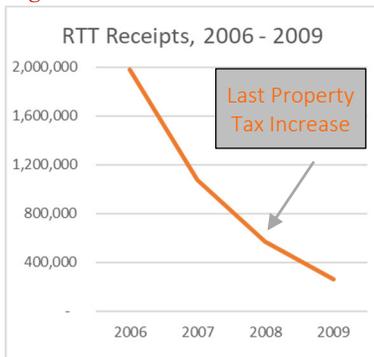
Years prior to articulating this objective in a defined fiscal strategy, the actions taken in 2007 in response to changes in the economy speak volumes to the importance of structural balance in governmental budgeting. A sudden, sharp decline in non-recurring revenue was replaced with an enhancement to property tax revenue – a controllable, calculable, reliable, annually recurring revenue source. Unfortunately, the clarity of such a balanced funding approach can be obscured by the apparent recovery of non-recurring revenue, tempting leadership to revert to the customary and familiar dependence on more volatile funding streams.

Sustainability of Realty Transfer Tax (RTT)

A Realty Transfer Tax (RTT) equal to 4.0% of the price consideration in transfers of real property in Delaware is imposed by the State of Delaware on all applicable property transactions. The State has allocated 1.5% of the property sales price to the county governments, but through enabling legislation, Delaware towns and cities may receive the allocation attributable to property transactions within municipal borders. Milford is among the cities that receives the RTT on property sales.

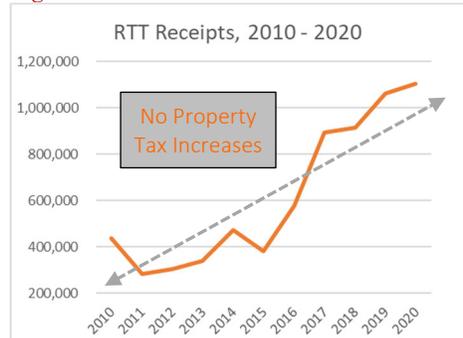
RTT revenue appears to be recurring and sustainable year after year. After all, Milford has received almost \$11 million in RTT in the last fifteen years. However, the funding source cannot be considered reliable or sustainable in the context of a structurally balanced budget.

Figure F



The funding is not reliable due to its unpredictability and sensitivity to conditions beyond the City’s control. Over the last 15 years, RTT receipts have ranged from a low of \$260,000 to a high of nearly \$2 million. Unfortunately, those two extreme values were observed just three years apart, and in reverse order, as illustrated in Figure E at left (2006 to 2009).

Figure E



The ensuing volatility in RTT receipts is exhibited in Figure F at right (2010 to 2020).

⁵ <https://www.gfoa.org/materials/achieving-a-structurally-balanced-budget>

⁶ *Press Play: Vision 2023 Strategic Plan for the City of Milford, Delaware*, p.28
<http://cityofmilford.com/DocumentCenter/View/2555/2017-Strategic-Plan-FINAL?bidId=>

The unpredictability of RTT receipts can be further illustrated by the wide variance in receipts from year to year, as measured by the 15-year sample standard deviation of \$0.5 million on average annual receipts of \$0.7 million. The data imply that if we would like to estimate next year's receipts with 99% certainty, the revenue will fall somewhere between \$0 and \$2.3 million; there is no predictive value in our own data.

Finally, RTT is not only unreliable in an economic sense, but in a regulatory sense as well. The ability to receive RTT funding is beyond the City's control, as it rests with State legislature. A change in state law could reduce, eliminate or otherwise impact the availability of RTT receipts.

RTT-Funded Police Department Personnel Expenses

The use of RTT receipts to support ongoing operating expenditures, such as the funding of personnel expenditures in any department, perpetuates the structural imbalance of the General Fund budget. For the reasons articulated in the prior section, staff recommends that RTT receipts be excluded from the current year operating revenue budget and instead reserved for capital expenditures pursuant to a RTT Fund Reserve Policy. A draft policy is underway with the recommendation that the RTT Reserve Fund carry a balance no less than the average of the previous three fiscal years, and that the fund balance, while remaining unrestricted for any use permitted by Delaware code, will be committed to capital expenditures and improvements.

The current RTT Reserve Fund balance exceeds \$3.1 million, which is greater than the trailing three-year average of \$1.0 million, signaling the ability to deploy RTT reserves for eligible purposes in the upcoming fiscal year(s) to help bridge the transition to a structurally balanced budget.

Sustainability of General Fund Reserves

General Fund Reserves, which stood at \$3 million a year ago, are expected to shrink from \$2.1 million today to less than \$0.3 million by the end of the fiscal year in just seven-and-a-half short months. The notion of sustainability generally refers to a multi-year proposition. In the case of General Fund Reserves, questions of survivability and recoverability emerge.

Reserve-Funded Police Department Personnel Expenses

For the third and final year, General Fund Reserves – a classic example of non-recurring revenue – are being used to support routine, annually recurring personnel expenses, contributing to the structural imbalance in the General Fund. Considering the General Fund Reserve is expected to be depleted in advance of the FY'22 budget year, it goes without saying that an alternate funding source is required to maintain the payroll and benefits expenses for existing staff in the Police Department. Staff recommends that the resulting funding gap is met with the “moderated” version of the property tax rate increase in advance of the FY'22 budget year as outlined in Figure D above.

Reserve-Funded Operating Deficit

General Fund Reserves were targeted as a necessity to balance the General Fund Operating Budget in FY'21 for the first time in the collective memory of Finance and Administration Department staff. Our belief is that the deficit will persist into the FY'22 budget (although we are actively trying to find ways to mitigate the deficit and avoid the programmed use of the reserves this fiscal year). Staff strongly recommends that any projected budget deficits be met with cost reduction measures, controllable enhancements to annually recurring revenue sources, or both. To be clear, any projected FY'22 General Fund budget deficit unable to be eliminated by cost reductions or deferrals must be eliminated with the “moderated” version of the property tax rate increase in advance of the FY'22 budget year as outlined in Figure D above.

Interfund Transfers

Milford's utility operations provide a variety of benefits to its citizens and all commercial, industrial and residential utility customers. The ability to generate strong margins on locally controlled, competitively priced, tax-exempt and non-profit utility operations are among those benefits. Transfers of utility margins to the General Fund are a staple in the public utility business model, and the City of Milford is no exception, as transfers from the Electric Fund have served the General Fund as a reliable and predictable source of annually recurring revenue for years. However, over-reliance on utility transfers and/or excessive, unmanaged, or unregulated utility transfers have the potential to present challenges in the City's utility and tax rate-making efforts and justification, the City's ability to secure the most favorable debt financing terms, and other potential issues. Staff recommends that Council continue its demonstrated practice of limiting the Electric Fund transfer to \$2.5 million.

While direct transfers of utility operating margins are a method of providing a return to the governmental funds as a payment in lieu of taxes or a form of equity contribution, other interdepartmental and interfund transfers serve as a cost-allocation method. The Finance and Administrative Departments strive to reflect the true cost of service on a department by department, fund by fund basis. As such, costs incurred in one department in the service of another department are allocated from the former to the latter to reflect the latter's true cost of service. Over time, the structural imbalance in the General Fund has required an under-allocation of shared service costs to the fund. The under-allocation is estimated at \$0.3 million as exhibited in Exhibit D above. Ideally, the FY'22 budget would reflect an updated cost allocation supported by revenue enhancements, but the recommended “moderated” version of the FY'22 budget approach allows for the cost allocation issue to be studied and addressed in FY'23. Staff recommends that a cost of service / cost allocation study be undertaken in the interservice fund and other departments executing shared tasks on behalf of other departments during FY'22 for the purpose of reallocating shared costs to the appropriate departments and taking a step toward structural balance in the General Fund.

Equipment Replacement Funding

The City of Milford's governmental fund operations utilize buildings, vehicles and equipment with a historical cost of nearly \$12 million. These assets have limited useful lives and must be replaced at the time they are no longer productive. The City's vehicles and equipment, which account for about \$7 million of the historical cost, have a significantly shorter life than other fixed assets such as buildings and infrastructure. Therefore, provisions must be made to provide for their replacement in a more systematic way to ensure funds are available when the need arises without impacting the current year operating budget or relying on funding sources intended for other uses. Historically, General Fund assets were purchased with a mix of General Fund reserves and current year operating funds, grants and/or loans if available, and interfund transfers and/or loans if necessary. Many times, asset replacement has been deferred in the absence of available funding. The trend of deferral is likely to continue given the timing of the projected depletion of General Fund reserves discussed in preceding sections.

Staff recommends the establishment of an Equipment Replacement Fund through the practice of cash-funding the City's General Fund vehicle & equipment depreciation expense each year. This fund would be a component of the General Fund reserves and would contribute to the restoration of the General Fund reserve balance. However, the ability to begin cash-funding the reserve by about \$0.6 million in depreciation expenses each year would require the unmoderated level of property tax revenue enhancement. The recommended "moderated" version of the FY'22 budget approach does not permit the establishment of any equipment replacement funding next fiscal year. As an alternative, staff recommends that a portion of the General Fund vehicle and equipment depreciation expense – ideally 25-50% – be targeted for inclusion with the FY'23 General Fund operating budget. In the meantime, staff recommends that a portion of the RTT reserves be reallocated to establish "seed funding" for the Equipment Replacement Reserve. The recommended amount will be determined as part of the FY'22 budget process.

Thank you for your attention to these critical issues and recommended solutions as we approach the second half of FY'21 with our mindset focused on the goals of General Fund solvency in FY'22 and a structurally balanced General Fund budget in FY'23.

cc: Jeff Portmann, Finance Director
Sandra Peck, Accountant

Enclosure 1

To: Mayor and City Council
From: Louis C. Vitola, Finance Director
Date: November 6, 2020
Re: FY'22 General Fund Operating Budget Advisory

City Manager Mark Whitfield's May 14, 2020 Budget Memorandum¹ addressed a variety of concerns, most notably those related to the lack of structural balance in the General Fund's operating budget. A budget lacks structural balance if the annually recurring operating expenditures are unable to be met with reliable, annually recurring operating revenues. The FY'21 General Fund operating expenditure budget featured an over-reliance on reserve funding, an over-dependence on realty transfer tax receipts, the avoidance or deferral of capital needs, and indirect interfund transfers. The property tax rate has been unchanged for 13 years, last changed in response to the global economic crisis. While property tax revenue has increased over the years as a result of development (increased parcel count) and market valuation, the rate of growth pales in comparison to the growth of the operating costs that should be supported by property tax revenue. For instance, the FY'21 General Fund Operating Budget totals \$11 million, while property tax revenues tally just \$4.3 million – enough to cover just 39% of the General Fund operating budget.

In FY'22, General Fund reserves will no longer be capable of funding the latest group (4th year) of police officers (\$0.45 million) or meet any programmed deficit with carried forward reserves (\$0.34 million). The goals to achieve structural balance and to begin vehicle and equipment depreciation funding to replenish General Fund reserves require FY'22 funding of \$0.5 million and \$0.29 million, respectively. Indirect transfers from interservice funds exceeded \$0.32 million in the FY'21 budget. Year-over-year cost escalation has resulted in cost increases of about \$0.45 million per year alone, while the full-year impact of positions funded for a partial year in FY'21 will impact the FY'22 budget by another \$0.15 million. The cumulative impact of these small items adds up to a surprising \$2.5 million.

If we were to solve the entirety of the \$2.5 million shortfall in one year with property taxes alone, an increase of 26.8 cents per \$100 of assessed value would be required. However, if we take a phased approach to (1) the structural balance initiative, (2) depreciation funding to begin replenishing the reserve and (3) reducing our reliance on realty transfer taxes, we can mitigate a significant portion of any FY'22 property tax increase. However, in order to meet the minimum requirements simply to balance the FY'22 General Fund operating budget, an additional \$1 million in reliable, annually recurring property tax revenue is critical. The revenue requirement equates to a tax rate increase of 10.7 cents per \$100 of assessed value, or about \$12.50 for the average parcel value.

The attached table summarizes the aforementioned cost impacts facing Milford in FY'22. No action is being recommended today; this message is intended to re-introduce you to the challenges shared as the FY'21 budget process closed before they present themselves once again as we approach the FY'22 budget discussions. Thank you for your time and attention.

cc: Mark Whitfield, City Manager

¹ <https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/3083> (p. 4-5)

Preliminary Overview of FY'22 General Fund Operating Budget Concerns

GENERAL FUND

FY'21 Budgeted Revenue, excl Carry-Fwd	10,677,383
FY'21 Budgeted Expenditures	11,011,759
Surplus (Deficit)	(334,376)

FY'22 General Fund Budget Estimates	Full Impact	Moderated	Notes
Carry forward FY'21 Deficit	(334,376)	(334,376)	Based on FY'21 Budget - with no change, this will present itself again
Diversion of RTT to Capital Program - Structural Balance	(500,000)	-	Not recommended based on Strategic Plan for Struct Bal, but can attempt again
Reserve-Funded OpEx - 4th Year of PD Officers	(449,904)	(449,904)	The General Fund Reserve Balance is too low and can't support a 4th year
Full Cost Allocation - Interservice Funds	(320,204)	-	Not recommended based on Strategic Plan for Struct Bal, but can attempt again
Full year impact of partial FY'21 positions	(158,051)	(71,850)	Possible partial reductions
Depreciation Funding, 50% of Vehicles & Equipment Only	(288,144)	(144,072)	Not recommended based on Strategic Plan for Struct Bal, but reduce to 25% of D/E
Cumulative Gen Fund OpEx Increase Trend	(449,390)	-	May not be possible to mitigate, i.e. contractual wage & benefit costs, but must try
Total Potential Increases to FY'22 General Fund Budget	(2,500,069)	(1,000,202)	

Equivalent Rate Increase	0.268	0.107
Monthly Impact on average parcel	\$ 31.39	\$ 12.56

Enclosure 2



OFFICE OF THE CITY MANAGER
201 South Walnut Street
Milford, DE 19963

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FAX 302.424.3553
www.cityofmilford.com

To: Mayor and Council
From: Mark Whitfield, City Manager
Subject: UPDATED 2021 City of Milford Operating Budget
Date: May 22, 2020

We are pleased to present you with the recommended Updated 2021 Operating Budget for the City of Milford that covers the General Fund and the various Enterprise Funds for the time period of July 1, 2020 through June 30, 2021 totaling \$44,050,202. The Fiscal Year 2020-21 budget was prepared in conjunction with department and division heads from all departments. A special thanks Sandra Peck for compiling all the information and finalizing the budget.

The budget provides the citizens of Milford with information regarding the operations of the City government and details on how public funds will be utilized throughout the community. The budget also serves as a roadmap for the City Council and City Manager to achieve the City's priorities for both now and in the future. As staff prepared this year's budget, priorities and requests align with the 2018 Strategic Plan.

The annual budget is used as a managerial tool by the City Manager, Police Chief, City Clerk and the City's department heads/division supervisors. The annual spending plan serves as a monitoring tool of revenues and expenses for the various departments and divisions, and is also a means of evaluation to ensure public resources are used in the most effective and efficient manner.

Background and Summary

As we prepare to the start the new fiscal year, changes are in large part driven by requirements of the organization related to growth, associated demands on staff and operations, and recruiting challenges experienced in 2019-20.

Using technology to achieve greater efficiency with existing resources will be a key component at evaluating and selecting a new ERP software system in 2021. The ERP consultant will include evaluating our existing business process and how they can be streamlined or done more efficiently, without the need of adding additional staff, both now and in the future.

Revenue Overview

The FY 2020-21 budget constitutes a decrease of \$1,528,975 or 3.35% percent under the prior fiscal year. At this time, the property tax rate remains unchanged at \$0.46 per \$100.00 of assessed value.

Electric, water and wastewater enterprise revenues continue to be stable. After completing an in-depth Cost of Services Study for electric, water, sewer, and solid waste, rate increases for water, sewer and solid waste were recommended for 2020-21, and a rate decrease for electric was recommended for 2020-21. In addition, the new electric rate will

also remove the summer/winter differential, thereby make rates steady all year round. In order to balance the Solid Waste enterprise, a loan of \$500,000 from water to solid waste was made in 2020, with rate increases projected for the next 5 years in order to pay back the loan and keep the fund stable. Slight rate increases for water and sewer were approved in February 2020, however due to the COVID 19 pandemic, the rate increase has been delayed, and will not go into effect until January 2021.

Budget Overview / Highlights

The individual fund changes are as follows:

	FY2020-21 Budget	Change from FY2019-20	Percent Change
General Fund	\$ 11,011,759	\$ 303,248	2.83%
Water Fund	\$ 2,984,929	\$ 125,429	4.39%
Sewer Fund	\$ 4,428,345	\$ (216,654)	- 4.66%
Solid Waste Fund	\$ 1,314,770	\$ (236,395)	- 15.24%
Electric Fund	\$ 24,310,398	\$ (1,504,603)	- 5.83%
	\$ 45,050,201	\$ (1,528,975)	- 3.35%

This year's General Fund budget continues to utilize a transfer from Realty Transfer Tax Fund for public safety staffing (\$500,000). In addition, the appropriation for Downtown Milford, Inc. and the Milford Museum continues from the Economic Development Fund. Support for the Kent Economic Partnership, Milford Public Library, Carlisle Fire Company and Community Festivals will be funded from General Funds. Due to the lack of lot sale income, the Economic Development Fund can no longer sustain funding for the Milford Public Library, Community Festivals, and Kent Economical Partnership, as it has in the past. The General Fund capital reserves will support general fund capital equipment or projects totaling \$465,200.

Personnel

The recommended FY 2020-21 budget includes: An overall 1.5% increase in base pay for non-union employees and additional funds for the merit pay increases based on performance evaluations. Employees may receive 0, 1, or 2 step increase in pay based on performance. There is a 1.5% pay increase between each step. We will also continue to expand employee recognition initiatives, including the Safety Incentive program, and recognition of Special Performance of individuals or teams. We have also added funding for the Tuition Reimbursement Program for 2020-21

Beginning this year, the employee's share of healthcare premiums will increase from 10% to 15%. We also expect healthcare costs to increase this fiscal year, with a projected increase of between 3% – 6%. A 4.5% increase effective January 1, 2021 was budgeted. Lastly, we plan to explore alternatives to the State benefits program in the next year.

Added this year is a two-year internship program. The program consists of hiring a recent high school graduate and cycling the intern through the various public works divisions and parks and recreation. During the two-year period, the intern will be provided with education to obtain water operator's license, water testing certification, commercial driver's license, as well as other certifications and licenses for working in public works maintenance field. Once the two years expires and if there is not a position open within the City, the employee would have skills and licenses to work elsewhere. However, given the rate of turnover the City has previously experienced, more than likely the intern will be placed into a full-time permanent position within the City.

Additionally, an IT Director position has been added for the upcoming year, however, it replaces a vacant System/Software Support Coordinator position (Customer Service) and addresses the need to fill pending retirements within the IT Department. Also recommended is making the ICMA Management Fellow position a full-time position beginning in January. The ICMA Management Fellow has been a shared position in the past, but it is recommended to become a full-time for at least a year, possibly two years, pending funding.

Capital

Following is a partial list of capital equipment and projects.

General Fund: Code Inspection - inspection vehicle replacement; IT – sedan replacement and refreshing of a server and Cisco backbone spare; Police - replace two patrol vehicles; Parks & Recreation - replace dump truck and pick-up truck, replace HVAC unit, install fiber switch & pave parking lot at Parks & Recreation building, install fiber optic switch at the Armory, replace zero turn mower and a trailer, repave basketball court at South Washington by Riverwalk, replace wood bridge decking on bridge to Goat Island, paint Riverwalk handrails, remove and replace concrete along Riverwalk, and install new sign at Marvel Square.

General Fund project that have been deferred due to lack of funding include: NE Front/N Walnut Parking Lot improvements, Riverwalk handrail replacement/river lighting, City Hall basement fit out, City Hall parking lot improvements, and leaf vacuum unit replacement.

Capital Expenses for Enterprise and Interdepartmental Service Funds; Electric – Replace dump truck, walk behind trencher/plow with trailer, and three phase wire trailer. Also, the purchase a fault locator is planned; Water – Replace truck with utility body and installation of automatic blow-offs; Customer Service – basement waterproofing and driveway curb repair; Public Works – replace sedan and various facility improvements

Capital Improvements Projects/Repairs: Electric – GIS Smartmetering/Mapping, Fiber optic back-up to Public Works Facility, LED street light replacements, replace Shawnee Acre underground. Water - valve and hydrant replacements/improvements; NE Front Street water line replacement, new 10th Street well, replacement of lead service lines, replacement of asbestos piping, various well system and control improvements; Sewer – Truit Avenue inflow/infiltration, southeast sewer inflow/infiltration, various control and system upgrades, and Mill Street line relocation; Streets - Transportation Alternative Program improvements NE Front Street, various street rehabilitations, including ADA compliant ramps, Walnut Street bridge pedestrian crossing.

Budget Considerations

In moving forward in the next fiscal year, Council needs to be aware of the following on-going budget issues that need to be addressed:

1. Due to General Fund budget constraints, a number of projects originally slated for completion in 2020-21 have been deferred. All of these are necessary projects, and pending grant monies, or other sources of funding, may come to fruition, however the City lacks the financial resource to complete the projects.

2. Due to the lack of lot sales in the business park, the Economic Development Fund has been nearly depleted. With various funding commitments, a number of items normally funded with Economic Development Funds were moved to the General Fund, which has added additional strain on that budget.
3. No General Fund money is used to fund the Customer Service Department. Approximately 13% of Customer Service expenses are attributed to tax collection services. Allocating these costs to the General Fund has been delayed due to inadequate General Fund monies.
4. Utilizing Real Estate Transfer Tax to fund the general police expenses is not sustainable. Staff recommends, due to the fluctuation and unreliability of steady income, Real Estate Transfer Tax revenue should be dedicated to Capital Projects, in lieu of funding on-going operations. Capital expenses can be delayed, where-as on-going police expenses cannot.
5. Utilizing General Fund Reserves to fund the five police off police officers authorized in 2018 for three-year period ends this year. Council's recommendation in 2018 was to fund the officers in the General Fund Operating Budget beginning in 2022, however, the growth of the Real Estate Assessment Tax has not materialized as originally anticipated. Given the depletion of the General Fund Reserves and the continued need for the officers, Council will need to consider future tax increases to continue to fund the officers.
6. The budget has been balanced by using \$813,099 from General Fund reserves, which is basically unspent 2019-20 budget monies. This represents negative budgeting in that projected income does not cover projected expenses.
7. The cost of the school resources officers exceeds the income from the agreement with the school district for two officers. A new agreement needs to be negotiated with the school district for future funding as the City is now subsidizing the cost of the officers.
8. Interdepartmental transfers from water, sewer, electric and solid waste were increased 10% over 2019-20 budget transfer amounts to balance the budget. Relying on enterprise funds to balance general fund operating expenses is not a good practice.
9. The budget uses Real Estate Transfer Tax revenue and Municipal Street Aid for funding street improvements. The present level of income from those sources may not be sufficient to fund the needed improvements in the future, given the other funding pressures being relieved by Real Estate Transfer Taxes.

Conclusion

The current fiscal condition of the City is stable and the proposed budget is a balanced budget. The water and electric reserve funds are healthy and building permit revenues are growing. However, funding decisions to improve the City's general fund capital reserve (typically used for capital equipment, vehicles, building repairs and street improvements) is needed in order to have a stable fund for future street maintenance, equipment replacement and facility maintenance and repairs. Dependency on Real Estate Transfer Tax revenue and General Fund Reserves to fund Police operations is not sustainable. State Community Transportation Funds, Real Estate Transfer Tax, and Municipal Street Aid cannot be counted on to make up the difference for needed infrastructure improvements and repairs.

In the coming year, it will be extremely important for the City implement sound financial policies and practices, while looking to build financial stability for the future.



MARK A. WHITFIELD, CITY MANAGER
201 South Walnut Street
Milford, DE 19963

PHONE 302.422.1111
FAX 302.424.3553
www.cityofmilford.com

To: Mayor and Council
From: Mark Whitfield, City Manager
Subject: Economic Development
Date: November 16, 2020

New Staff Position for Economic Development

Presently, economic development has been handled on a part-time basis by the Planning Director. However, being the Planning Director and Economic Development Director, can sometimes lead to conflicting roles. Additionally, Council has expressed an interest in creating a stronger economic development internal City focus. The City also has a need for emphasis on community engagement, public information and marketing. Since both disciplines are somewhat related, it is proposed to create the position of Economic Development & Community Engagement Administrator.

The Human Resource Administrator researched several cities within Delaware, and found similar positions. Additionally, Seaford has a position which is nearly identical to the position being proposed. Based on comparisons with other communities, the salary for the position would be a Grade 12 on the pay scale (\$72,260 min - \$124,238 max).

KEP

The present Agreement between the City and the Kent Economic Partnership expired on October 31, 2020. As part of the Agreement, the City provides \$30,000 for services provided the Partnership related to Economic Development. The Agreement also provides for one seat on the KEP Board of Directors, presently filled by Councilperson Morrow. On October 12, Council voted not to renew the contract with KEP.

On October 26, 2020, the Mayor, Vice Mayor and City Manager met with Linda Parkowski and Greg Moore from KEP. Mr. Moore requested that Council reconsider their position on renewing the contract with KEP. Ms. Parkowski and Mr. Moore gave examples of on-going projects KEP is working on to bring jobs and businesses to Kent County. They also stated that while the process is slow, results will come over time.

Over the course of the last several years, the City has not seen any results from KEP in terms of new businesses or industries. While the process of providing results is slow, staff believe the \$30,000 may be better spent using a more local focus, rather than through a county-wide organization. The recently completed City staffing study identified the need for additional staffing and focus for City economic development activities.

DMI

Council also provides \$45,000 annually to DMI. DMI relies heavily on the City's contribution, as other funding comes from sponsored events held throughout the year. The house used as DMI's office is owned by the City, and DMI used the office space rent free for the past 8 years. Council recently voted to sell the building, primarily due to the deteriorated condition of the building.

Economic Development Fund

The Economic Development Fund was created at one point for the various purposes, including the acquisition of open space land, parking lot improvements, contributions to DMI, Museum, Library, etc. In the past, it was even used to fund the Planning and Economic Development Director's salary. Due to the recent slow down in lot sales in the business park, the fund has been nearly depleted. Additionally, once all lots are sold in the business park, there is no foreseeable income to the fund. Council will need to consider other funds for the continuation of the City's contribution to these activities, reduce the contribution, or eliminate the contribution.

RECOMMENDATION: I recommend Council discuss future funding for the proposed position, KEP, DMI, and future funding of the Economic Development Fund.

If Council wants to move forward with the position of Economic Development & Community Engagement Administrator, funding for the position can be accomplished in several ways. Council may consider funding through the City's limited or partial participation in the Kent Economic Partnership (\$30,000) and Downtown Milford Incorporated (\$45,000). Additionally, the present 2021 Budget also includes about \$60,000 for the duplication of a Finance Director for 2020-21. Because this is not a reoccurring expense, \$60,000 would be available for future funding of the position. Lastly, the 2021 Budget included a full time ICMA Fellow beginning in January. However, we have discovered a very limited pool of applicants, with no applicants from University of Delaware. The City of Lewes has also expressed interest in sharing an ICMA Fellow again, beginning in June 2021. Holding off to fill a part-time position would free up \$35,000 in the 2021 Budget.



City of Milford
Economic Development and Community
Engagement Administrator
Pay Grade: G12

Employment Status: Full-Time

FLSA Status: Exempt

Experience Required: Minimum of five years of progressively responsible experience in marketing, public relations, business, planning, community development, economic development or related field. American Institute of Certified Planners (AICP), Certified Economic Developer (CEcD), or Economic Development Finance Professional (EDFP) is preferred. NIMS (National Incident Management System) ICS-100, ICS-200, ICS-300, FEMA IS-700 and FEMA IS-800 training. Possession and retention of a valid motor vehicle operator's license issued by the State of Delaware is required. Must pass pre-employment testing for substance abuse, criminal background, motor vehicle driver's license history, and a pre-employment physical. Subject to random drug and alcohol testing in accordance with City policy.

Minimum Education Requirements: Bachelor's degree in marketing, public relations, business, public administration, planning or related field.

Direct Supervisor: City Manager

Supervisory Responsibility: N/A

Primary Work Location: Office setting

Job Summary: The Economic Development and Community Engagement Director is responsible for planning, directing, and administering comprehensive economic development and business assistance programs for the City. The Economic Development and Community Engagement Director also works closely with the business community/civic organizations and serves as the City's designated Public Information Officer.

The Economic Development and Community Engagement Director shall be committed to the mission, vision and values of the City and demonstrate such through ethical conduct, community stewardship, individual initiative and responsive service. The Economic Development and Community Engagement Director shall demonstrate leadership, management and technical skills through effective communication and collaboration, proper use of team resources, progressive decision-making, personal accountability and responsibility.

Supervision Received: Work is performed under the general supervision of the City Manager.

Essential Job Functions:

An employee in this position may be called upon to do any or all of the following essential duties:

- A. Maintains the City website, including Economic Development information.
- B. Serves as the Public Information Officer for the City.
- C. Develops a marketing plan for the City of Milford as Rivertown, Art Town, Home Town
- D. Acts as a liaison between businesses and developers with City staff to overcome obstacles and hurdles.
- E. Develops and promotes Specific Economic Development Incentive Programs (SEDIPs) as approved by City Council.
- F. Develops a marketing plan to target specific businesses and cold calls particular entities to promote business opportunities in Milford.
- G. Develops relationships with and responds to inquiries from site selectors considering Milford.
- H. Coordinates with the Public Works Department and Customer Service Division to develop brochures for utility services for new and existing customers.
- I. Coordinates with relevant City Departments in responding to diverse requests from the business community.



City of Milford
Economic Development and Community
Engagement Administrator
Pay Grade: G12

- J. Issues news releases pertaining to City activities and events.
- K. Develops an Economic Development Plan to be incorporated into the City's Comprehensive Plan and Strategic Plan.
- L. Surveys businesses in the region and provides regular updates to those businesses.
- M. Develops a business retention plan to assist businesses with their daily operations and struggles.
- N. Develops a relationship and communicates on a regular basis with members of the media.
- O. Markets the City's economic development opportunities.
- P. Acts as a liaison with corporations and small businesses to continue to make Milford a business-friendly community.
- Q. Applies for and administers grants to improve Milford's position for economic growth.
- R. Collaborates closely with Downtown Milford Incorporated, Greater Milford Chamber of Commerce, Delaware Prosperity Partnership, Delaware Division of Small Business, Kent Economic Partnership, Sussex County Economic Development Office, Kent County Association of Realtors and Sussex County Association of Realtors to promote Milford and respond to companies interested in locating or expanding in the City.
- S. Evaluates zoning and land development regulations and makes recommendations for policy changes.
- T. Develops and maintains a relocation package for people considering becoming a resident of Milford.
- U. Addresses stakeholder complaints, questions, and ideas; responds to requests for information or explanation of ordinances.
- V. Serves as a liaison with the economic development community and various organizations to address issues and challenges in a changing economic climate.

Essential Functions, Qualifications, & Knowledge, Skills, and Abilities (KSA) for Employment:

An employee in this class must have the following knowledge, skills, and abilities upon application:

Knowledge

- Principles and practices of government organizations and applicable law, theory and applications; local government structure and operation, including budgetary procedures.
- Research methodology and statistics, modern management practices; financial management, banking and real estate practices.
- Community development projects, policies and procedures.
- Grant writing, research and budget development.
- Redevelopment laws and processes; local government revenue sources and tax increment financing.

Skills

- Time management.
- Multi-tasking.
- Communication- able to understand written and oral communication.
- Public relations; making presentations and writing reports.



City of Milford
Economic Development and Community
Engagement Administrator
Pay Grade: G12

Abilities

- Establish and maintain effective working relationships with citizens, business owners, developers, financiers and other government agencies.
 - Adherence to all applicable Federal and State safety laws, rules and regulations and City safety policies/procedures.
 - Comprehend community growth patterns, trends in land use and community needs to promote sustainable community development.
-
- I have read the job description for my position. I understand and accept the requirements as stated.

 - I have read the job description for my position. I would like to have a second review of the job description with my manager and human resources.

City Manager: _____

Employee: _____

Human Resources Administrator: _____

CITY OF MILFORD
 BUDGET FISCAL YEAR 2020 - 2021 WORKING COPY
 ECONOMIC DEVELOPMENT FUND

ACCOUNT CODE	DESCRIPTION	ACTUAL FY 15-16	ACTUAL FY 16-17	ACTUAL FY 17-18	ACTUAL FY 18-19	ACTUAL FY 19-20	RESTRICTED
139-1110	ECONOMIC DEVELOPMENT FUND						
	BALANCE PRIOR YEAR	-	635,258	350,759	418,309	248,456	103,149
392-20-10	SALE OF BUSINESS PARK LAND	-	-	154,905	-	-	-
	SALE MARSHALL STREET LAND, DEPOSIT	500					
	TRANSFER FROM GENERAL FUND RESERVE	899,933					
	M&T BANK PURCHASE	161,880					
	BUSINESS PARK APPRAISAL	1,950					
	DEDO GRANT, DOWNTOWN IMPROVEMENT	23,250					
	AQUARIUM PROJECT	23,000					
	CITY PLANNER/ECONOMIC DEVELOPMENT	55,095					
	COMMUNITY ECONOMIC DEVELOPMENT PARTNERS		40,000	40,000	45,000	100,860	70,860
	M & T PARKING LOT IMPROVEMENTS		25,176	38,655		-	-
	ECONOMIC DEVELOPMENT EXPENSES		117,846	-	2,527	1,843	-
	BUSINESS PARK LOT PURCHASE		81,477	-	-	-	-
	COMPENSATION PLAN		20,000	-	-	-	-
	UNIVERSITY OF DELAWARE	-	-	8,700	-	-	-
	VINYARD	-	-	-	15,000	-	-
	TAP PROJECT FUNDING	-	-	-	38,000	-	-
	DOWNTOWN PARKING LOT IMPROV.	-	-	-	39,326	12,604	-
	KENT ECONOMIC PARTNERSHIP	-	-	-	30,000	30,000	-
	COMMUNITY FESTIVALS	-	-	-	-	-	-
413-70-44	TOTAL EXPENDITURES	265,175	284,499	87,355	169,853	145,307	70,860
	AVAILABLE BALANCE	635,258	350,759	418,309	248,456	103,149	32,289



Date: November 17, 2020
To: Mayor and City Council
Through: Mark A. Whitfield, City Manager
From: Louis C. Vitola, Finance Director
Re: Capital Project Funding

Street conditions are likely the most visible among all municipal assets, and streets may be the most heavily utilized infrastructure assets to city residents and nonresidents alike, yet street repair and improvement projects may be most susceptible to deferral, as governmental funds struggle to generate the funding required to accommodate the high cost of repair. The following recommendations are intended to pave the way for continuity in funding sources in support of Milford’s ongoing street repair schedule.

Capital Project Funding

Municipal Street Aid (MSA)	2
Realty Transfer Tax (RTT)	3

Municipal Street Aid (MSA)

The Public Works Division has identified the most critical street maintenance projects and segregated them into annual increments totaling roughly \$825,000 per year over five years in an effort to align the project requirements with annually recurring revenue. Milford’s MSA funding¹ is relatively stable with little variance in the level of grant funding received from the State of Delaware over the last three fiscal years (see embedded table). However, like RTT, MSA cannot be considered a permanent, reliable source of annually recurring revenue. First, it is made available by an act of State legislature and must be

MSA - Trailing Five Fiscal Years

FY	Grant Receipts
2021	273,135
2020	273,910
2019	270,556
2018	223,659
2017	226,451

reapproved and reappropriated each year. The possibility of funding reductions or even funding elimination is real; in fact, the State completely eliminated MSA funding in 2010 before restoring it in 2011 at a level \$2 million lower than 2009². Second, the permissible uses of MSA are likewise determined by State code and are subject to change. Third, while the MSA allocation is formulaic and therefore more stable and predictable than RTT, it is nonetheless beyond the City’s control and dependent on the mix of street mileage and population of 56 other cities and towns in Delaware.

Provided that MSA funding remains in place at the current \$5 million level in total, the current appropriation formula and existing restrictions, Milford’s share of MSA funding represents only about one-third of the street maintenance requirements each year, leaving a significant balance to be funded from other sources. Further, the MSA Reserve Fund currently carries a balance less than \$0.5 million and is scheduled to be depleted by June 30, 2021 based on existing project commitments.

For those reasons, Finance and Administration staff recommend that the MSA funding be committed only to street repair and improvement projects for the foreseeable future.

¹ <https://deldot.gov/Publications/reports/msa/index.shtml>

² <https://deldot.gov/Publications/reports/msa/pdfs/fy2011msa.pdf?cache=1605634017690>

Realty Transfer Tax (RTT)

RTT receipts were discussed in the *General Fund Strategies* memo to City Council in the context of the General Fund's structural imbalance with corrective action recommended through policy:

The use of RTT receipts to support ongoing operating expenditures...perpetuates the structural imbalance of the General Fund budget. [S]taff recommends that RTT receipts be...reserved for capital expenditures pursuant to a RTT Fund Reserve Policy. A draft policy is underway with the recommendation that the RTT Reserve Fund carry...the average of the previous three fiscal years, and that the fund balance...be committed to capital expenditures and improvements.

Such a policy, if approved by Council, would be followed by staff recommendations to commit portions of the RTT Reserve Fund to street improvement projects pursuant to the aforementioned street repair prioritization schedule. As with all projects, staff would first identify any potential grant funding sources and current revenue sources before recommending the use of reserve funding.

cc: Jeff Portmann, Finance Director
Sandra Peck, Accountant



Date: November 16, 2020
To: Mayor and City Council
Through: Mark A. Whitfield, City Manager
From: Louis C. Vitola, Finance Director
Re: Police Facility Funding

Milford City Council will hold a Public Hearing on Monday, December 14, 2020 to accept public comment concerning a proposal to borrow up to \$20,000,000 to finance the construction of a new Police Facility. The City of Milford website features a link to a website containing information about the new facility, including departmental needs, goals and an updated cost estimate¹. The packet materials published with the November 9, 2020 meeting of the Finance and Public Works Committee (FPWC) included a summary of comparable public safety facility construction data², which has been updated and enclosed for your review. In addition, the funding possibilities discussed at the November 9, 2020 meeting of the FPWC are examined in greater detail in this memo.

Police Facility Funding

Police Facility Planning & Construction	2
Site Plan	2
Construction Cost Estimates	3
Police Facility Funding Options	4
Debt Comparisons.....	5
Sensitivity Analysis	6
Cash Financing.....	7

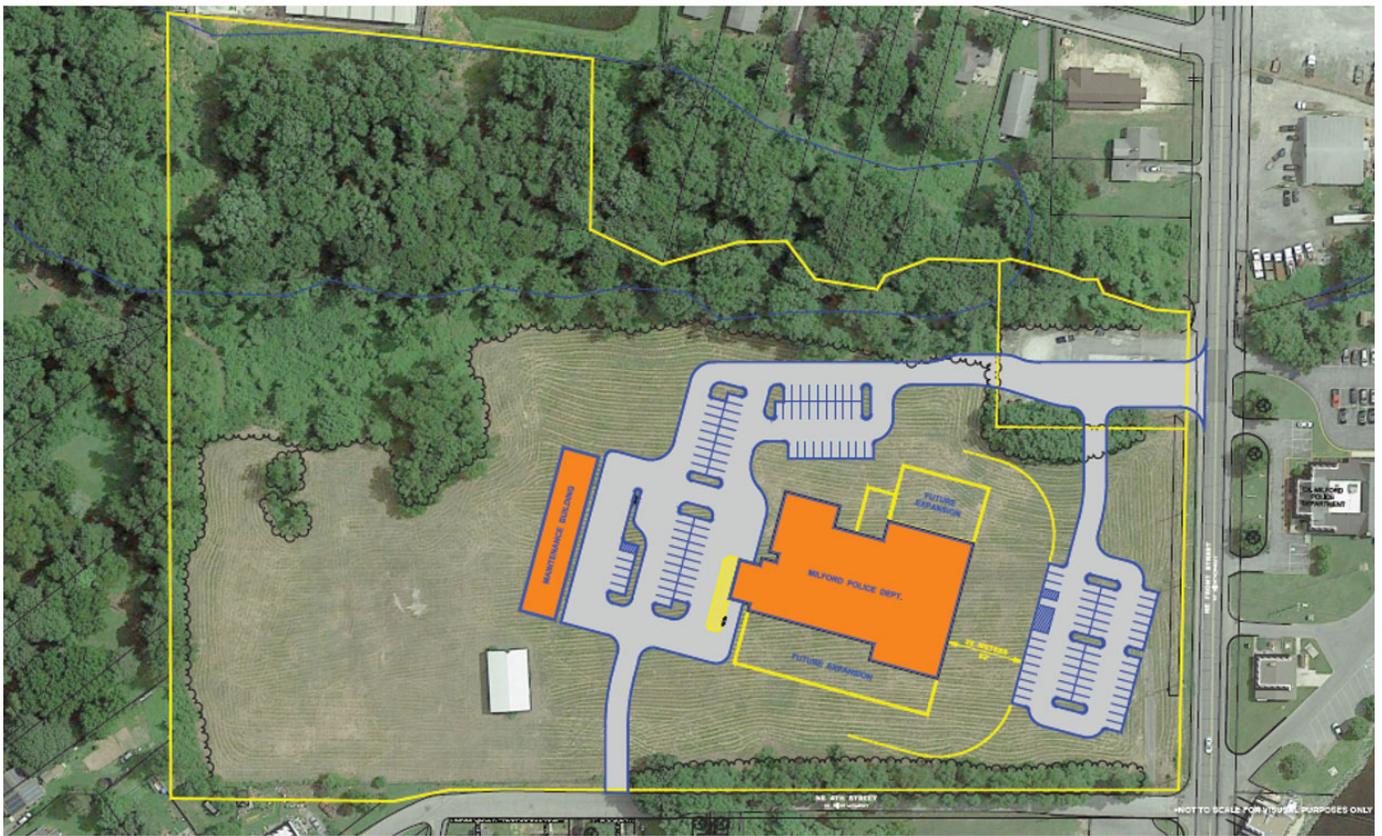
¹ <https://milfordpoliceplan.com/>

² Enclosed; from <https://www.cityofmilford.com/ArchiveCenter/ViewFile/Item/3188> (p.12-14)

Police Facility Planning & Construction

Site Plan

The Site Plan for the Police Facility was developed by the Milford Police Department with the Becker Morgan Group, which also assisted with the budgeted construction cost. The Facility, shown in the rendering below, is situated across the street from the existing Police Department.



SITE PLAN

Construction Cost Estimates

Cost Category	Cost Estimate
Becker Morgan Construction Cost Estimate	\$ 18,900,178
Land Acquisition	875,000
Financing Cost Estimate	468,975
Contingency	630,847
Grand Total Project Costs	20,875,000
Less: Land Acquisition (Prepaid)	875,000
Grand Total Financing Requirement	\$ 20,000,000

The construction cost estimate of the facility as prepared by the Becker Morgan Group and most recently updated on September 24, 2020 totals \$18.9 million³. The “all-in” total cost of the facility, including land acquisition, financing cost estimates and additional contingencies is summarized in the table at left.

The Becker Morgan Group confirmed that the cost estimates were developed using one of the firm’s recent projects, Delaware State Police Troop 7 in Lewes, which was completed in 2019. The project was subject to prevailing wage requirements, whereas the Milford project is not expected to require prevailing wages. Based on feedback from Becker Morgan, prevailing wage requirements can add 40% to 60% to the labor costs of a project, which can result in total project savings as high as 30%. In the absence of a breakdown of labor versus non-labor costs for the Milford project, an estimate of 30% to 50% was used as a proxy for labor costs as a percentage of a project’s total cost. Assuming various levels of labor costs as a function of the total project cost and savings versus prevailing wage requirements, the \$18.9 million cost estimate may be adjusted to between \$13.8 and \$16.0 million based on the combinations in the table at right.

Adjusted Project Cost based on Levels of Labor Cost Savings (in millions)

Labor Costs as % of Total	Wage Rate Savings as % of Labor Costs		
	40%	50%	60%
30%	\$ 16.00	15.59	15.19
40%	15.45	14.94	14.46
50%	14.94	14.35	13.80

Any further savings would have to be generated through changes in scoping, materials, competitive bidding for professional services, and/or other adjustments to the project design.

The remainder of the analysis will use the prevailing estimate of \$18.9 million along with the high and low wage-adjusted estimates of \$16.0 and \$13.8 million, respectively, along with a stand-alone alternate based solely on a \$325 cost per square foot target equal to the average of the comparable facilities presented in the enclosed memo. Financing requirements based on the foregoing estimates follow:

Values expressed in thousands (\$ 000)

Cost Category	Base Case	Labor Savings (Conservative)	Labor Savings (Aggressive)	Target Based Cost/SF \$325
Becker Morgan Construction Cost Estimate	\$ 18,900	\$ 16,000	\$ 13,800	\$ 11,111
Land Acquisition	875	875	875	875
Financing Cost Estimate	469	449	434	416
Contingency	631	536	464	375
Grand Total Project Costs	20,875	17,860	15,573	12,777
Less: Land Acquisition (Prepaid)	875	875	875	875
Financing Requirement (Bond Offering)	\$ 20,000	\$ 16,985	\$ 14,698	\$ 11,902
Financing Requirement (USDA)	\$ 19,631	\$ 16,636	\$ 14,364	\$ 11,586

³ <https://milfordpoliceplan.com/wp-content/uploads/2020/10/Milford-Police-Station-Revised-9-24-2020.pdf>

Police Facility Funding Options

Finance and Administration staff are currently evaluating two major categories of funding options – a public bond offering and a USDA community facility loan. The public bond offering may be bank qualified to enhance marketability, but may result in additional costs and constraints. All loan options will assume interim financing through a commercial bank. A basic comparison of debt features follows:

Debt Features	USDA	Bond Offering (Non-BQ, single issue)	Bond Offering (BQ, multi-issue)
Maximum Term (years)	40	30	30
Indicative Interest Rate	2.125%	2.910%	2.55-2.66%
Maximum Principal per Year	None, but Subject to USDA Approval	None	\$10,000,000
Costs of Issuance, Generally	Low	Medium-High	High
Complexity of Issuance Process	Low	Medium-High	High
Annual Debt Service, Comparatively	Lower	Higher	Lower Year 1, Higher Thereafter
Total Debt Service Payments over Term (though a large rate differential can partially offset, equalize or flip)	Higher	Lower	
Debt Service Frequency	Quarterly	Semi-Annual	
Call Provisions	None; no Prepayment Penalty	Usually 10 years	
Debt Covenants (Financial and Coverage Related)	None Known	None Anticipated	
Debt Covenants (Reporting Related)	Single Audit Required for Draw Period(s) Only	Annual Continuing Disclosure Requirement over the 30-year bond maturity period Required; or, Bond Insurance Policy in lieu of rating	
Credit Rating Requirement	None	Required only if no Credit Rating (or unfavorable credit rating) received	
Insurance Requirement	None	Required only if no Credit Rating (or unfavorable credit rating) received	
Environmental Impact Requirement	Required with Application	Not Required	

Debt Comparisons

Values expressed in thousands (\$ 000)

	Base Case	Labor Savings (Conservative)	Labor Savings (Aggressive)	Target Based Cost/SF \$325
Financing Requirement (Bond Offering)	\$ 20,000	\$ 16,985	\$ 14,698	\$ 11,902
Expected Annual Rate	2.550%	2.565%	2.586%	2.623%
Term, Years	30	30	30	30
Annual Debt Service (\$000)	958	815	707	576
Debt Service, Life (\$000)	28,737	24,454	21,221	17,268
Total Interest Payments, Life (\$000)	8,737	7,470	6,523	5,365
Tax Rate Increase per \$100 of AV	\$ 0.1021	\$ 0.0869	\$ 0.0754	\$ 0.0614
Equivalent Monthly Increase for Avg Parcel	\$ 11.98	\$ 10.19	\$ 8.84	\$ 7.20
Breakeven Rate for Parity with USDA	2.765%	2.760%	2.754%	2.745%

	Base Case	Labor Savings (Conservative)	Labor Savings (Aggressive)	Target Based Cost/SF \$325
Financing Requirement (USDA)	\$ 19,631	\$ 16,636	\$ 14,364	\$ 11,586
Expected Annual Rate	2.125%	2.125%	2.125%	2.125%
Term, Years	40	40	40	40
Annual Debt Service (\$000)	730	618	534	431
Debt Service, Life (\$000)	29,191	24,737	21,359	17,229
Total Interest Payments, Life (\$000)	9,560	8,101	6,995	5,642
Equivalent PT Rate Increase per \$100 of AV	\$ 0.0778	\$ 0.0659	\$ 0.0569	\$ 0.0459
Equivalent Monthly Increase for Avg Parcel	\$ 9.12	\$ 7.73	\$ 6.68	\$ 5.38

The debt comparisons reported in the tables above vary slightly from the discussions held during the meeting of the FPWC on November 9, 2020. The longer USDA term (40 years vs 30 years) results in lower annual debt service requirements and therefore a lower hurdle for the accompanied tax rate increase in all scenarios. Typically, longer financing terms carry higher interest rates than shorter financing terms. That is not true in the case of the USDA loan, as the current rate is *below* the expected rate in a bond offering, as it was at the time of the FPWC meeting using October data (rounded up to 3.0%). However, current data pegs rate estimates from 2.43% to 2.66% depending on the expected timing of the individual bond issuance dates⁴. Consistent with the FPWC discussion, the effect of the longer term and lower rate tilts the lower *annual debt service*, and therefore the lower tax hurdle, in favor of USDA financing. However, the shorter term of the bond offering, despite the higher rate, tilts the lower *total debt service*, and therefore the lower total interest costs, in favor of the bond offering option, which was not the case as of the November 9, 2020 analysis. The difference is due to the reduced estimate for the 30-year bond rates, which have been hovering around an “indifference point” in the analysis. The bottom line of the bond offering scenario above shows that 30-year rate for each scenario, all else equal, that would result in indifference between the USDA financing and bond financing with respect to total debt service and total interest cost to tax payers.

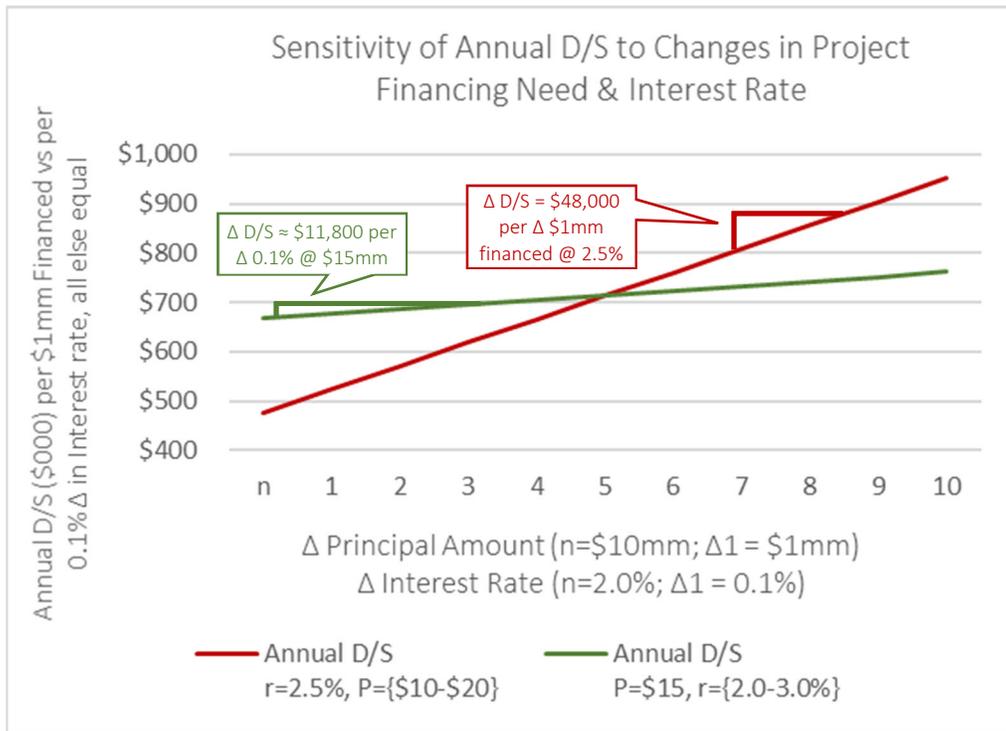
As an aside, the financing costs are lower in a USDA transaction, which doesn’t require a credit rating or bond insurance, the development of official statements or offering documents, ongoing disclosure

⁴ Two Bank-Qualified (BQ) bond issues of \$10mm each in 2021 (2.43%) & 2022 (2.66%) result in a blended rate of 2.55% (base case). Other scenarios blend rates on a dollar-weighted basis with \$10mm issued in 2022 with smaller component of financing requirement issued in 2021.

requirements, or other items that layer time and cost into the financing process. The reduced USDA costs are factored into the equation in terms of the lower financing requirement for the USDA-financed option exhibited in the table above.

Sensitivity Analysis

Perhaps the most important lens through which to view the financing alternative analysis is the degree to which the resulting debt service, and therefore tax increase hurdle, change in response to changes in certain variables. For illustration purposes, it may be safe to assume that the financing requirement could range from \$10 million to \$20 million and the interest rate could range from 2.0% to 3.0%. The graph below exhibits the responsiveness of the debt service requirement to an incremental change in drivers – in this case, \$1 million project financing increments and 0.1% interest rate increments. The steeper slope of the red line represents the magnitude of the impact the project financing has on the debt service as compared to the flatter slope of the green line, representing the impact interest rate changes have on the debt service.



Cash Financing

The subject of cash-financing a portion of the project has emerged several times in open sessions of Council and the FPWC. Finance and Administrative staff have recommended that Council seek approval to finance an amount up to the full cost of the project considering (1) the historically low interest rate environment, (2) the near-depleted General Fund reserve balance, and (3) the funds having sufficient uncommitted cash balances were generated from the utility rate base and are not intended for use in governmental funds. Council has affirmed that recommendation, first with approvals of the resolutions authorizing the financing and the referendum that did not come to pass earlier in 2020, and again with the approval of the initial resolution authorizing the financing on October 12, 2020. Staff continues to recommend approval of second resolution to approve the full amount of the financing and establish the referendum date after the public hearing scheduled for December 14, 2020. However, approval to borrow 100% of the required financing is not necessarily an obligation to borrow 100% of the required financing. Considering the challenges already facing the FY'22 General Fund operating budget, which staff believes necessitates a property tax increase, and considering the additional impact to tax payers resulting from the construction of the Police Facility, staff is investigating ways of cash-financing using a combination of eligible reserves, interim financing using interfund loans, interim financing with a commercial bank, and the use of a Council resolution signaling intent to reimburse project expenses with a future loan. Any combination of cash and interim financing will serve the dual purposes of reducing the tax increase hurdle and delaying the implementation of the tax increase associated with the Police Facility which will afford time for the digestion of any tax increase required to support the FY'22 General Fund operating budget.

Finance staff recommends that all financing options remain under consideration until a more thorough evaluation can be conducted with updated market data. The USDA rate for the first quarter of 2021 is scheduled to be announced in mid-December, and the City's public finance team is preparing a revised market analysis for review as we approach the public hearing date, which will of course be refreshed early in the New Year.

cc: Jeff Portmann, Finance Director
Sandra Peck, Accountant

Enclosure 1

To: Mayor and City Council
From: Louis C. Vitola, Finance Director
Date: November 6, 2020
Re: Local Public Safety Facility Construction Data

In connection with the due diligence process for the evaluation and recommendation of financing alternatives for the police facility, I conducted the attached comparison of the City's planned facility and other facilities completed in Delaware in the last decade (with the exception of Dover's 1997 expansion).

The analysis relied on a varied accumulation of publicly-available data and statistics as well as information gathered directly from municipal staff. Chief Brown and Becker Morgan staff were helpful in their review and input to the first draft of the analysis, which was refined with updated assumptions and more current comparable projects. The most current draft of the analysis is attached for your review. My hope is that the analysis helps to inform the decision-making process in a way that increases the chances for a smooth and efficient approval and financing process.

I sincerely thank you for your time and attention.

cc: Mark Whitfield, City Manager

	A	B	C	D	E
2			Building A1	Maintenance Building	Totals
3	Total SF		30,080	4,107	34,187
6	Site work		1,066,728.00	15,000.00	1,081,728.00
10	Concrete Work		464,425.00	61,560.93	525,985.93
14	Masonry		901,587.00	68,419.29	970,006.29
18	Steel Work		759,997.00	261,972.77	1,021,969.77
22	Carpentry and General Work		371,788.00	31,047.41	402,835.41
26	Roofing		1,124,661.00	-	1,124,661.00
30	Furnish Hollow Metal/Doors				-
31	Hardware		238,841.00	7,104.76	245,945.76
35	Alum. Storefront/Glass		449,244.00	6,858.36	456,102.36
39	Drywall / Acoustical		1,844,071.00	9,486.71	1,853,557.71
43	Floor Coverings		420,740.00	33,511.49	454,251.49
47	Caulking / Painting		112,775.00	19,589.44	132,364.44
51	Casework		87,252.00	-	87,252.00
55	Mechanical		2,819,088.00	273,266.47	3,092,354.47
59	Fire Sprinkler System		182,486.00	11,293.70	193,779.70
63	Electrical		1,862,971.00	67,926.47	1,930,897.47
67	Security		568,836.00	10,472.34	579,308.34
73	Structured Cabling		139,420.00	-	139,420.00
74	Basic Building Cost	Total	13,414,910.00	877,510.14	14,292,420.14
75	Design Fees				
76	Architect / Engineer Fees	6%	939,288.00		939,288.00
79	Civil Fees	By Others	-	-	-
82	Design Fees	Total	939,288.00	-	939,288.00
83	FF&E/IT Fees				
84	FFE Budget		650,000.00	-	650,000.00
86	IT/DATA/Technology		300,000.00	-	300,000.00
88	Phones		75,000.00	-	75,000.00
89	FF&E/IT Fees	Total	1,025,000.00	-	1,025,000.00
90	Management Fees				
93	CM Pre-Construction Fees		10,000.00	-	10,000.00
96	CM Fees	\$ 0.05	670,745.50	43,875.51	714,621.01
97	Subtotal CM		680,745.50	43,875.51	724,621.01
98	CM General Conditions (14 Months)				
99	Temp Heat		10,000.00	-	10,000.00
100	Temp Phone		2,100.00	150.00	2,250.00
102	Temp Toilets		2,100.00	150.00	2,250.00
103	Temp Fence		10,000.00	-	10,000.00
104	Temp Closures		7,500.00	-	7,500.00
105	Temp Field Office		2,100.00	150.00	2,250.00
106	Temp Electric		2,100.00	150.00	2,250.00
107	Temp Water		4,000.00	-	4,000.00
108	Project Sign		1,000.00	-	1,000.00
109	Document Costs		10,000.00	-	10,000.00
110	Testing		10,000.00	1,000.00	11,000.00
111	Clean Up		13,200.00	880.00	14,080.00
112	Insurance		30,000.00	200.00	30,200.00
113	Dump Fees		20,000.00	2,011.00	22,011.00
114	Final Clean Up		7,000.00	200.00	7,200.00
115	On Site Supervisor		156,000.00	11,200.00	167,200.00
116	Postage		6,000.00	500.00	6,500.00
117	Subtotal CM General Conditions		293,100.00	16,591.00	309,691.00
118	Management Fees	Total	973,845.50	60,466.51	1,034,312.01
119	Project Grand Total	Base Bid	16,353,043.50	937,976.65	17,291,020.15
120	Cost Per Square Foot with Sitework		543.65	228.38	505.78
120A	Cost / SF WITHOUT Sitework		508.19	224.73	474.14
122	Contingency	4%	536,596.40	35,100.41	571,696.81
126	Bond Cost	1%	163,530.44	9,379.77	172,910.21
127	Owners Contingency	5%	817,652.18	46,898.83	864,551.01
129	Project Grand Total with Contingency & Bond Cost	Base Bid	17,870,822.52	1,029,355.66	18,900,178.18
129A	Adjusted Cost (xBond Cost, xFF&E/IT, xArch/Eng)		15,743,004.08	1,019,975.89	16,762,979.97
129B	Adjusted Cost per SF		523.37	248.35	490.33

City/Town	Population (Current) ¹	Sworn Officers per 1,000 residents	Total Staff per 1,000 residents	Sworn Officers	Civilian Staff	Total Staff	Facility SF	Net SF, xMaint Bld	Net SF per Tot Staff	Completion Year	Cost	Cost/SF	Cost/SF, infl-adj ⁹
Smyrna ^{2,3}	11,584	2.50	3.28	29	9	38	25,000	25,000	658	2016	\$ 5,900,000	\$ 236	\$ 277
Middletown ^{4,5,6}	22,900	1.66	2.18	38	12	50	19,232	19,232	385	2009	4,000,000	208	281
Dover ⁷	37,790	2.57	3.39	97	31	128	49,000	49,000	383	1997	4,500,000	141	253
Milford	10,532	3.51	4.65	37	12	49	34,187	30,080	614	2023	16,762,980	490	490
Rehoboth Beach ^{10,11}	6,060	2.97	4.95	18	12	30	14,336	14,336	478	2017	3,818,127	266	300
Rehoboth Beach (s) ¹²	30,388	1.42	1.81	43	12	55	14,336	14,336	261				
State Police Troop 3	N/A	N/A	N/A	96	5	101	39,135	31,860	315	2016	13,148,595	336	394
State Police Troop 7	N/A	N/A	N/A	59	3	62	35,835	25,720	415	2019	15,657,000	437	445
Georgetown ¹³	6,422	3.27	3.74	21	3	24							
Milford Rank:		1	2						2				1
Var from Avg:		0.96	1.22						175				142
% Var from Avg:		37%	36%						40%				41%

¹ <https://deldot.gov/Publications/reports/msa/pdfs/fy2019msa.pdf?cache=1602122958906>
State of Delaware Municipal Street Aid (MSA) data reported in 2019 for City- and Town-certified population for 2018 used where necessary; otherwise, more current sources used

² Smyrna population at 2016 facility completion date and at 2018 MSA reporting date was 11,147 & 11,584, respectively. Population reported at "approx 14,000" by Town Officials at 2016, and if escalated by growth factor based on reported MSA growth, population would be approx 14,549, and officers per 1,000 residents

³ <https://delawarestatenews.net/police/new-smyrna-police-headquarters-open-business/>
Some data in article is stale per Smyrna contact; updated cost to \$5.9mm, sf to 25,000

⁴ <http://www3.nccde.org/parcel/Details/Default.aspx?ParcelKey=234580>

⁵ <https://emma.msrb.org/RE1471935.pdf>

⁶ NCCDE Property Records show one floor of 10,558sf plus a 1,675sf garage. Total sf adjusted upward by 7,000sf to reflect known partial (or possibly complete) basement fit-out.

⁷ <https://emma.msrb.org/ES1362143-ES1061358-ES1467300.pdf>

⁸ <https://doverpolice.org/history-of-the-department/>

⁹ www.bls.gov (PPI data for Construction - New industrial building construction)

¹⁰ <https://www.cityofrehoboth.com/%3Cnolink%3E/completed-city-projects/city-hall-complex>

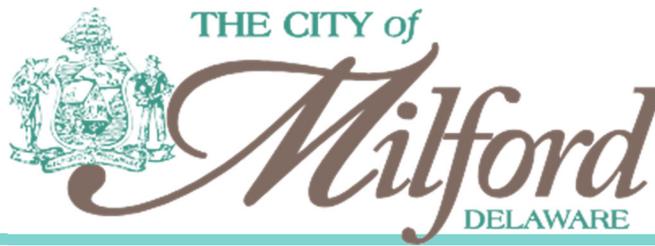
¹¹ City Hall Complex is 64,302sf at a 2017 cost of \$20.4mm all in; \$17.3mm construction costs. Prorated const. cost by share of PD sf per Rehoboth Beach contact.

¹² Attempted to adjust Rehoboth Beach stats for seasonality; added seasonal population (based on 2005 estimates in 2010 CDP) and seasonal PD staff (per FY'21 Budget)

CDP: https://www.cityofrehoboth.com/sites/default/files/Comprehensive_Development_Plan_2010.pdf

FY'21 B: https://www.cityofrehoboth.com/sites/default/files/Annual%20Budget%202020-2021_0.pdf

¹³ <https://www.flipsnack.com/gpd2020/2019-georgetown-police-department-annual-report.html>



FINANCE DEPARTMENT
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Milford, DE 19963

PHONE 302.424.5140
FAX 302.424.5932
www.cityofmilford.com

Date: November 17, 2020
To: Mayor and City Council
Through: Mark A. Whitfield, City Manager
From: Louis C. Vitola, Finance Director
Re: Fund Balance Policies

Minimum Cash Requirements (MCRs) have been identified in the Electric, Water and Sewer Reserve Funds in connection with the professional cost of service studies conducted for each utility. The identification of the MCRs have been valuable placeholders in the presentation of the City’s committed and uncommitted reserve balances, and more important, as factors in the decision-making process for utility project funding recommendations and approvals. However, the identification of MCRs is only one step among many in the formulation of Fund Balance Policies. Further, MCRs and Fund Balance Policies should be developed for the governmental funds in addition to the enterprise funds. The following materials are intended to support recommendations for MCRs that will ultimately serve as the basis for broader Fund Balance Policies.

Fund Balance Policies

General Fund Reserve.....	2
Water Fund Reserve.....	3
Sewer Fund Reserve	4
Electric Fund Reserve	5
Other Reserves	6
Realty Transfer Tax (RTT) Reserve	6
Municipal Street Aid (MSA) Reserve.....	6
Impact Fee Reserves	6

General Fund Reserve

The General Fund Reserve balance was \$2.1 million when reported with the September 30, 2020 Financial Reporting Package, with an uncommitted reserve balance of \$270,727 after operating budget and project funding commitments. Government Finance Officers Association (GFOA) best practices fund balance policy recognize that different cities and towns have different structures, revenue sources and expenditure requirements, and fund balance requirements may vary accordingly. However, the GFOA recommends a minimum unrestricted reserve balance equal to two months' operating revenues or expenditures, regardless of city size or structure¹. Milford's FY'21 budgeted general fund revenue sources consist primarily of property taxes (\$4.3 million), electric utility transfers (\$2.5 million) and realty transfer taxes (\$1.0 million, ± \$0.8 million), which accounts for approximately \$7.8 million, or just 70% of budgeted expenditures. One-time sources, license and permit revenue, police fines & fees, interdepartmental chargebacks, and miscellaneous revenue comprise the balance. Given the reliance on one-time funding and dependence on RTT receipts, the MBR in the General Fund Reserve should be driven by expenditures, not revenues. The City's revenue characteristics should also give rise to the consideration of the establishment of a reserve balance requirement in excess of the GFOA best practice, but the initial recommendation will match the GFOA guidance and add additional cash requirements in the establishment of an equipment replacement reserve.

General Fund Capital Reserves		Amount
Cash/Investment Balance (9/30/20)	\$	2,092,021
Restricted Funds:		
FY'19 Approved with Budget		(33,410)
FY'19 Capital - Council Approved		(55,830)
FY'20 Approved with Budget		(230,165)
FY'20 Capital - Council Approved		(7,300)
FY'21 Approved with Budget		(813,099)
FY'21 Capital - Council Approved		(244,690)
Funding for 5 Police Officers - Yr 3		(436,800)
Hold for Future Fund Balance Policy		-
Hold for Future Asset Replacement		-
Uncommitted Reserve Balance	\$	270,727

Recommendation:

MCR of two months Current FY Budgeted General Fund OpEx ²	\$1,835,293
Equipment Replacement Fund equal to Prior FY Veh & Equip Depreciation ³	293,902
Total Minimum Reserve Balance	\$2,129,195

¹ <https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund>

² Replaces null "Hold for Future Fund Balance Policy" in Financial Package

³ Replaces null "Hold for Future Asset Replacement" in Financial Package



Water Fund Reserve

Water Fund Capital Reserves	Amount
Cash/Investment Balance (9/30/20)	\$ 9,589,639
Restricted Funds:	
NW & NE Front Street Waterline	(131,718)
Public Works - HVAC Project	(4,827)
Streets 2020 Utility Engineering	(10,883)
SE Second Street - Lead Gooseneck	(152,562)
Two Test Wells - 10th Street	(80,000)
Automated Blow-Off Valves	(48,628)
Lovers Lane Water Lines	(44,950)
Front Street Water Lines	(1,500,000)
Cost of Service: Min Cash Req'mt	(2,433,832)
Hold for Future Asset Replacement	-
Uncommitted Reserve Balance	\$ 5,182,239

The Water Fund Reserve balance was \$9.6 million when reported with the September 30, 2020 Financial Reporting Package, with an uncommitted reserve balance of \$5.2 million after project funding commitments. The cost of service study identified a MCR of \$2.4 million for 2021, which consists of approximately 45 days of operating expenditures, the current FY total debt service reserves, and one-fifth of the five-year capital improvement plan. The component attributable to the capital improvement plan serves as a source for equipment replacement, and as such, will be carved out of the MCR to stand alone.

Recommendation:

MCR equal to COS study, less CIP component	\$ 887,632
Equipment Replacement Fund equal to CIP component of COS study	1,546,200
Total Minimum Reserve Balance	\$2,433,832

Sewer Fund Reserve

The Sewer Fund Reserve balance was \$4.0 million when reported with the September 30, 2020 Financial Reporting Package, with an uncommitted reserve balance of \$309,974 after project funding commitments. The cost of service study identified a MCR of \$3.6 million for 2021, which consists of approximately 45 days of operating expenditures, the current FY total Kent County sewer fees and debt service reserves, and one-fifth of the five-year capital improvement plan. The component attributable to the capital improvement plan serves as a source for equipment replacement, and as such, will be carved out of the MCR to stand alone.

Sewer Fund Capital Reserves	Amount
Cash/Investment Balance (9/30/20)	\$ 4,008,521
Restricted Funds:	
Service Vehicle - Ford F250	(35,000)
Public Works - HVAC Project	(4,827)
Hook/Dump Truck with Plow	(7,524)
I&I Engineering Study	(13,943)
DNREC Surface Water Grant	(50,000)
Mill Street - Line Rerouting	(13,733)
Streets 2020 Utility Engineering	(10,883)
Cost of Service: Min Cash Req'mt	(3,562,637)
Hold for Future Asset Replacement	-
Uncommitted Reserve Balance	\$ 309,974

Recommendation:

MCR equal to COS study, less CIP component	\$2,949,637
Equipment Replacement Fund equal to CIP component of COS study	613,000
Total Minimum Reserve Balance	\$3,562,637

Electric Fund Reserve

Electric Fund Capital Reserves	Amount
Cash/Investment Balance (9/30/20) \$	11,703,331
Restricted Funds:	
SCADA / Smart Metering Wall	(100,000)
International Line Truck (E110)	(275,000)
FY'19 Budgeted Capital	(297,150)
FY'20 Budgeted Capital	(466,400)
Early Redemption of Bond (1/1/22)	(1,060,000)
Cost of Service: Min Cash Req'mt	(4,816,739)
Hold for Future Asset Replacement	-
Uncommitted Reserve Balance \$	4,688,042

The Electric Fund Reserve balance was \$11.7 million when reported with the September 30, 2020 Financial Reporting Package, with an uncommitted reserve balance of \$4.7 million after project funding commitments.

The previous cost of service study identified a MCR of \$4.8 million for 2020, which was projected based on 2018 source data. The cost of service study was updated in March this year, including an update to the MCR of \$7.6 million, in part due to a revised calculation, in part due to changes in the data from 2018 to 2020. On comparable basis, the updated MCR in the current study is \$6.4 million. The \$1.6 million increase between studies is driven by growth in purchased power costs (\$1.3

million) and a higher provision for capital improvement planning (\$0.2 million). The balance of the increase is attributable to a new provision in the calculation to protect against the impact of losing a large customer, which suggested an increase of \$1.2 million in the MCR. However, full-requirements members of DEMEC are indirectly protected against the loss of a large customer. While it is true that the electric fund will suffer from the lost gross margin, the City is protected from the greater potential impact of being long in its power supply position, which exposes risk of financial loss due to the disposition of the excess power in the competitive market. As such, Finance staff recommends the exclusion of the lost customer component in the updated MCR calculation. To be clear, this is not to minimize the gravity of the loss of a large customer. Instead, it is to tailor the City's risk policies to the City's reality.

Recommendation:

MCR equal to COS study, less customer loss & CIP components	\$5,185,486
Equipment Replacement Fund equal to CIP component of COS study	1,241,200
Total Minimum Reserve Balance	\$6,426,686

Other Reserves

Realty Transfer Tax (RTT) Reserve

The MCR in the RTT Reserve is likely to be recommended at a level equal to the trailing three-year average receipts as initially shared in the *General Fund Strategies* memo to Council. The “hold for future asset replacement” designation should be removed from the RTT Reserve balance considering it is not an actual operating division. The RTT Reserve balance was \$3.1 million when reported with the September 30, 2020 Financial Reporting Package, with an uncommitted reserve balance of \$3.0 million after anticipated receipts less operating budget and project commitments.

Realty Transfer Tax Reserves	Amount
Cash/Investment Balance (9/30/20)	\$ 3,128,828
Projected Receipts through FY'21:	458,250
Restricted Funds:	
Transfer to Police Dept	(374,999)
Sidewalk Project Funding	(140,000)
Mispillion Street Group	(80,000)
Hold for Future Asset Replacement	-
Uncommitted Reserve Balance	\$ 2,992,079

Municipal Street Aid (MSA) Reserve

Municipal Street Aid Reserves	Amount
Cash/Investment Balance (9/30/20)	\$ 445,294
Projected Receipts through FY'21:	206,532
Restricted Funds:	
Mispillion Street Group	(434,440)
Street Improvement Plan: 2020	(133,000)
Street Improvement Plan: 2019	(72,000)
Balance of Fisher, Plum, Masten	(1,094)
Balance of Lovers Lane Project	(3,125)
Restricted for Bridge Improvement	(6,552)
Hold for Future Asset Replacement	-
Uncommitted Reserve Balance	\$ 1,615

The MCR in the MSA Reserve is likely to be recommended at an arbitrarily low level, such as \$0 or \$1,000. The MSA Reserve Policy will permit interfund borrowing and may also address the MCR on an accrual basis upon receipt of the annual MSA Award Letter from the State of Delaware. The “hold for future asset replacement” designation should be removed from the RTT Reserve balance considering it is not an actual operating division. The MSA Reserve balance was \$445,294 when reported with the September 30, 2020 Financial Reporting Package, with an uncommitted reserve balance of \$1,615 after anticipated receipts less project commitments.

Impact Fee Reserves

Research will begin as soon as possible to inform the development of policies to address Impact Fee Reserves. Generally, impact fee collections are eligible to fund infrastructure needs and capital expenditures required to support growth. In some jurisdictions, impact fees must be spent within a certain time period. Spending regulations and restrictions related to impact fees may not exist in Delaware Code, but case law may exist in Delaware and elsewhere. The policies are likely to be guided by government finance best practices and the Milford City Council action taken to establish the impact fees. Impact Fee Reserve balances were \$6.8 million when reported with the September 30, 2020 Financial Package.

Impact Fees and Police/General Facilities Cash Balances

Description	Opening Balance (Aug 31, 2020)	Receipts ⁵	Interest Earned	Disbursements	Closing Balance (Sep 30, 2020)
Police & General Gov't Facilities	\$ 396,632	\$ 22,031	\$ -	\$ -	\$ 418,663
Water Impact Fee Reserves	3,608,203	101,069	-	-	3,709,272
Sewer Impact Fee Reserves	2,119,502	53,397	-	-	2,172,899
Electric Impact Fee Reserves	894,240	12,600	-	-	906,840
Impact Fees & Police/GF Totals	\$ 7,018,577	\$ 189,097	\$ -	\$ -	\$ 7,207,674

cc: Jeff Portmann, Finance Director
Sandra Peck, Accountant

Date: November 17, 2020
To: Mayor and City Council
Through: Mark A. Whitfield, City Manager
From: Louis C. Vitola, Finance Director
Re: Utility Rate Increases

Professional Cost of Service studies are generally designed to build fixed cost recovery, equitable and defensible rate design by customer group, volume indifference, and asset replacement mechanisms into utility operations. The goals of the study can be achieved if the recommendations are followed as prescribed. Delays and deferrals resulting from unforeseen circumstances are understood and reflect the wisdom exercised by Council in a period of uncertainty.

In the interest of maintaining the momentum of the positive changes made to the City's overall utility rate structures, including the electric rate decrease earlier this year, Finance and Administrative staff recommend the implementation of the deferred water and sewer rates at the start of 2021 as planned at the time of deferral.

The approved water and sewer rate increases would result in average monthly increases of \$0.78 and \$1.18, respectively. The solid waste increase of \$1.05 per month was implemented as scheduled along with the electric rate *reductions* averaging \$1.68 per month in the winter and \$12.20 per month in the summer. With the implementation of the water and sewer rates, an average customer would experience an annual decrease of \$26.12 overall. The original recommendation is enclosed for your review.

cc: Jeff Portmann, Finance Director
Sandra Peck, Accountant

Enclosure 1



PUBLIC WORKS DEPARTMENT
180 Vickers Drive
Milford, DE 19963

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To: City Council and Mayor
From: Mark A. Whitfield, Interim City Manager/Public Works Director
Subject: Cost of Services Study for Water, Sewer, and Solid Waste
Resolution for Water Rates
Resolution for Sewer Rates
Resolution for Solid Waste Rates
Date: February 3, 2020

At the December 9, 2019 Council Meeting, Dawn Lund from Utility Financial Solutions briefed Council on the results of the Cost of Service Study for Water, Sewer, and Solid Waste. Based on the study, recommendation for rate adjusts for the next five years have been prepared for Council's consideration.

As noted in the study, the rates proposed do not consider an annual Payment In Lieu of Taxes (PILOT) to the General Fund. Additionally, the present and future reserve funds in each utility is necessary for future capital improvement projects necessary for that utility. It is important to note that any utility reserve funds used to fund other projects (outside the utility), would need to be paid back to the utility in order to adequately fund future projects.

Staff recommends the initial rate adjustment be effective on June 1, 2020. This will provide adequate time to notify customers of the pending rate changes through an insert in the May 2020 utility bills. All other future rate adjustments will be effective on June 1 of the proceeding years, and thereby not linked to the annual budget. The increase in all rates combined with the negative PCA for electric adopted in January and effective on March 1, will result in an approximate \$2.61 monthly increase in the average residential utility bill. Additionally, we anticipate having the updated Cost of Services study completed for Electric for June 1, 2020 as well, which will negate the summer rate implementation.

The rate increase proposals for 2020 and the effect on the average customer is as follows:

	% increase	Average monthly Increase/customer
Solid Waste	4.0%	\$1.05
Water	3.9%	\$0.78
Sewer	4.9%	\$1.18
PCA Electric		<u>-\$0.42</u>
Average Monthly increase/decrease		\$2.61

1. Adoption of Resolution 2020-04 Setting Water Usage Rates for Five (5) Years

Based on the Cost of Service study for Water, UFS recommended Water Usage Rates be increased 3.9% annually over the next five (5) years. Staff recommends the first year rate be set for June 1, 2020, with remaining years set to be effective on June 1 each year thereafter.

Recommendation

Staff recommend Council adopt Resolution 2020-04 setting water usage rates for the years 2020, 2021, 2022, 2023, and 2024.

2. Adoption of Resolution 2020-05 Setting Sewer Usage Rates for Five (5) Years

Based on the Cost of Service study for Water, UFS recommended Sewer Usage Rates be increased 4.9% annually over the next five (5) years. Staff recommends the first year rate be set for June 1, 2020, with remaining years set to be effective on June 1 each year thereafter.

Recommendation

Staff recommend Council adopt Resolution 2020-05 setting sewer usage rates for the years 2020, 2021, 2022, 2023, and 2024.

3. Adoption of Resolution 2020-06 Setting Solid Waste Rates for Five (5) Years

Based on the Cost of Service study for Water, UFS recommended Residential Solid Waste Rates be increased 4.0% annually over the next five (5) years. Other rates will be adjusted based on the study. Staff recommends the first year rate be set for June 1, 2020, with remaining years set to be effective on June 1 each year thereafter.

Recommendation

Staff recommend Council adopt Resolution 2020-06 setting solid waste rates for the years 2020, 2021, 2022, 2023, and 2024.