

MILFORD CITY COUNCIL  
MINUTES OF MEETING  
December 9, 2019

A Meeting of Milford City Council was held in the Joseph Ronnie Rogers Council Chambers at Milford City Hall on Monday, December 9, 2019.

PRESIDING: Mayor Archie Campbell

IN ATTENDANCE: Councilmembers Daniel Marabello, Mike Boyle, Todd Culotta, Owen Brooks Jr., Douglas Morrow, Jason James Sr.

STAFF: City Manager Eric Norenberg, Police Chief Kenneth Brown and Deputy City Clerk Christine Crouch

COUNSEL: Solicitor David Rutt, Esquire

ABSENT: Councilmembers Lisa Peel and Katrina Wilson

#### CALL TO ORDER

Mayor Campbell called the Council Meeting to order at 7:01 p.m.

#### INVOCATION AND PLEDGE

The Pledge of Allegiance, followed the invocation was given by Councilmember James.

#### AMENDMENT TO AGENDA

Councilman Culotta moved to amend the agenda and move the Workshop Session to before the Executive Session, seconded by Councilman Brooks. Motion carried.

#### APPROVAL OF PREVIOUS MINUTES

Included in the packet were partial minutes from the November 4th, and November 12th (partial) and November 25th, 2019 Committee and Council Meetings. With the correction of one typo error, motion to approve made by Councilmember Boyle and seconded by Councilmember James. Motion carried.

#### RECOGNITION

City Manager Norenberg provided some background on the City awards that have been created for employees. then announced this year's recipients, recognizing those in attendance:

*Excellence Award Recipients - While some of the nominations come from coworkers, they also originate with residents, visitors, customers or businesspersons.*

- Dale Breeding – recognized for his assistance during a waterline break
- Suzannah Frederick – nominated for her leadership of the Customer Service Office and her ever-present smile, especially during difficult workweeks
- Christine Crouch – saluted by a resident who appreciated her going above and beyond to help solve a property line issue
- Valerie Springer – recommended by her peers for going above and beyond of what is expected of her and makes a true impact on the police services of the City.
- Carol Scott and Tommy Henderson – nominated by a resident who appreciated them going above and beyond to identify a leak and help the homeowner before it became a huge bill.

*Reward & Recognition Committee – ... was formed in 2018 to guide and expand on our existing recognition efforts. This year, the Committee has organized a number recognition events and other activities, including:*

- *Our now Annual Food Bank Volunteer Event,*
- *An employee appreciation breakfast in March,*
- *A Donation Drive for the Brandywine Counseling Services,*
- *The Adopt-A- Family Holiday Program,*
- *The Fall Service Awards lunch,*
- *And, the upcoming Holiday Party*

*Members: Charlie Nordberg, Rob Palladino, Pamela Queen-Perry, RJ Skinner, Katrina White, Howard Willis – Supported by Jamesha Eaddy.*

*Safety Committee Members: Over three years ago, a safety committee was formed to infuse a culture of safety in our organization. I believe they have achieved great success, as evidenced by our current record of 15 months with no vehicular accidents, that we've had only 1 lost time workers compensation claim this year (and he is back to work), and that our Committee received special recognition by our worker's compensation provider earlier this year.*

*Other accomplishments this year include:*

- *Panic Button were installed at more city facilities,*
- *The Swift 911 Emergency Alert System is being expanded for use in notifying employees of emergencies,*
- *Developed and implemented the Safety Incentive Program,*
- *Planned the purchase and deployment of AEDs for more City facilities, along with training for staff on CPR and AED use,*
- *And, they added an Online Distracted Driving training for new hires*

*Members: Lendon CC Dennis (chair), RJ Skinner (vice chair), Jamesha Eaddy (secretary), Dale Breeding, Billy Foxwell, Christie Murphy, Shawn O'Neil, Kenny Perry, Pamela Queen-Perry, Larry Simpkins*

## UNFINISHED BUSINESS

### *Introduction/Acceptance/City of Milford 2018-2019 Audit*

Assistant Finance Director Sandra Peck introduced Auditor Rob Griffin who is currently with Gold Gerstein Group from Voorhees, New Jersey.

Mr. Griffin provided a brief background of his firm and synopsis of the work they perform.

He provided an overview of the audit process, stating this takes several months and starts during the course of Fiscal Year June 30, 2019, with planning and internal control reviews, including updates to permanent files and documents, contracts, minutes, just to name a few. As auditors of the City, governed by a profession, working and representing the best interest of the public. At the end of their audit process, they attest to the fairness of the financial statements of the City.

Mr. Griffin referenced the various documents, including the government-wide financial statements, fund-financial statements, notes and disclosures meant to lend to an understanding of the financial statements, required supplementary info involving budget and state pension information.

He shared the audit for this period of time is a clean, fair audit in which the statements present the financial position and activities of the City, and can be relied upon by a reasonable third party.

Mr. Griffin also pointed out that over the past number of years, a single audit has been required in more understandable terms, and a compliance audit over federal award programs. During those years, there have been several capital projects through the USDA in the form of revolving loans, that required a single audit meaning assurance of compliance must be tested with the requirements of those agreements, over compliance etc.

That was not required this year because the total was below the threshold of \$750,000. Based on conversations with the Finance Department, it will be needed again next year.

In terms of the audit and results of the process, Mr. Griffin did not have any disagreement with management over accounting policies and there were no uncorrected misstatements that needs to be brought to the attention of the Mayor and Council.

Mr. Griffin then talked about the estimates inherently involved in financial statements and referenced the capital assets, that are depreciated over lives, as best estimated. Therefore, everything is not an exact number though the goal is to get to a fair presentation that can be relied upon by the City's governing body and public.

In addition, the diligence and integrity of management is also part of the audit and the auditors, in certain cases, rely on representations. Mr. Griffin said he cannot speak enough of the diligence, hard work, integrity, attention to internal control that both Finance Director Jeff Portman and Sandra Peck display on a daily basis.

Finance Chair James referenced the integrity of the staff, and asked if there have been any appearances or issues with management override. For example, if a superior of Mr. Portmann or Ms. Peck's ever required them to override the system. Mr. Griffin explained that he would be required to disclose that and is also an inherent part of the annual planning process. They do an audit risk assessment before they conduct the audit, which enables them to put together procedures that permits them to access areas that are required for such conclusions. Management override of controls is an inherent risk, according to Mr. Griffin, which must be addressed and a number of checks are done by way inquiry, by way of corroborating evidence, internal control processes from beginning to end.

When asked if there were any new items that required a change in estimate in this year's audit, Mr. Griffin stated no and no new estimates or accounting policies. He used depreciation, property, lives, etc. and the estimated liability for compensated absences is another example of an estimate. Regardless, nothing changed from last year to this year, including all the pension disclosures are inherently an estimate as well with regard to the liability measured for the State pension fund.

Also asked was there any unusual flux in any of the major account categories this year compared to previous years; Mr. Griffin explained to the best of his memory, and support of the related electronic data, that falls under the analytical procedures categories to ensure those things make sense. If there is a question, they need to corroborate the reasons it happened. Nothing changes this year that did not have a more than adequate reason for why it changed.

Chairman James said he did review the audit report in detail, working with the City Finance Directors, and some minor changes were made. He has been through the numbers, including last year's audit. He recommends that before City Council accepts the audit, adequate time is provided to take any adjustments after June 30<sup>th</sup>, which is the last monthly finance report received, so he can review them. At that point, walk those amounts forward to the audit report.

Councilmember James moved to postpone the acceptance of the audit until the Council Meeting on January 13<sup>th</sup>, seconded by Councilmember Boyle. Motion carried.

#### *Funding Authorization/LED Replacement Project*

For some time, there has been a need to upgrade our current lighting to LED technology within each City facility.

Two options have been evaluated--1) re-lamping only and 2) completely new LED fixture replacements. The most cost-efficient resolution is to replace the fixtures in the Public Works, Finance and Customer Service Buildings with LED fixtures, and to re-lamp only in the Police Department and City Hall. By completing this project, the payback will be less than three years.

The purchase of LED materials and labor will be made through the Delaware State Contract. Specifications for LED lighting lamps and fixtures are attached. The total project cost, including materials and labor, is \$94,651. The FY2020 Capital Budget included \$30,000 for the project.

Efficiency Smart and DNREC monies have made available for a total of \$22,682 (\$4,105 Efficiency Smart and \$18,577 DNREC Grant). DEMEC also has Green Energy funds, of up to \$64,210, that can be used toward the project.

Labor will be through the awarded Delaware State Contract #GSS17748/Contractor Masten Electric in the amount of \$32,150, of which \$30,000 Capital Funding will be used (line item 222-6120-435-70.20) and \$2,150 from the DEMEC Green Energy Fund. Because the purchase is less than \$50,000, Council action is not required.

Councilmember James moved that City Council authorize a purchase order to United Electric for materials in the amount of \$62,501, in accordance with the State of Delaware Contract GSS17749, funded with \$39,819 from the DEMEC Green Energy fund, \$18,577 from a DNREC Grant and \$4,105 from Efficiency Smart, seconded by Councilmember Boyle. Motion carried.

#### MONTHLY POLICE REPORT

In the absence of Police Chair Wilson, Chief Brown said the report is in written format in the packet. He noted that the officers' activity numbers are much higher this month, because of the inclusion of the five additional officers, though he expects that number to continue to increase. However, they are still down one officer who was let go because he was not responding to training based on their standards.

Chief Brown said he was away at a conference at the last meeting, though he was informed there was questions about the way the report is written. Councilman Boyle recalled suggesting that the number of written warnings and traffic tickets issued be included in the same paragraph of the report, because they are related items.

The Chief stated that Captain Bailey said there were questions about the fine money and wanted to point out there is no correlation of the fines and tickets because the court process is extremely lengthy and most people do not pay their fines for six months. For that reason, an increase in the number of traffic tickets does not mean there should be higher fines.

He also confirmed the year to date is based on calendar year, not fiscal year.

Chief Brown said the criminal complaints in Milford are much lower and police activity such as traffic tickets have increased because there are more officers. In addition, if crime is lower, the officers have more time to concentrate on traffic related items.

Councilmember James commended Chief Brown noting that he and his staff are very proactive in getting ahead of crimes and when they are contacted, his staff responds keeping it to a minimum.

Councilmember Boyle added that the reports they are now receiving from Chief Brown are very helpful and makes him more appreciative of the work being done by the department, in addition to the good things that are happening community wise.

Mayor Campbell explained to the public that Chief Brown is now sending text messages to every Councilmember whenever there is a crime today or Saturday, and he provides that information to every Councilmember.

Councilmember Boyle moved to accept the report, seconded by Councilmember Culotta. Motion carried.

#### MONTHLY CITY MANAGER REPORT

Mr. Norenberg reported that the last two pages of the Manager's Report, are being regularly being updated by Public Works and the Planning Department on a variety of ongoing projects.

When asked about the suspension of yard waste collection during the winter months, Public Works Director Mark Whitfield verified that the first Monday collection in January, weekly yard waste will be suspended it will be picked up monthly on the last Monday of each January, February and March.

Planning Director Rob Pierce added that a lot of outstanding cases were closed this month, many based on the grass cutting complaints that have ended for the year. Approximately 95% of rental inspections have been completed and the last 5% of the initial inspections will be completed soon. In addition, his code officials are following up on inspections as needed.

He also noted the number of demolitions that have been addressed, many of whom were handled by the property owners. In addition, there has been an increase in property maintenance, which can be attributed to tax monition sales, code enforcement and the Downtown Development District program.

Mayor Campbell said he has received many compliments on the enhancements of properties Citywide which can be attributed to the work by the Code Enforcement Department.

Councilmember Boyle moved to accept the City Manager Report, seconded by Councilmember Culotta. Motion carried.

#### MONTHLY CITY FINANCE REPORT

Finance Chairman James reviewed the October 2019 finance report, noting the following:

There was a small change of approximately \$239,000 in all accounts. The changes involved a decrease in general fund reserves of \$159,000, a \$55,000 decrease in water reserves and a \$48,000 decrease in sewer reserves. Electric reserves increased by \$16,000 and impact fees increased by \$25,000 (\$11,000 water, \$6,000 sewer, \$3,000 electric).

The cash balance changed by \$15,000. There was a decrease in sewer balance of \$450,000, and increases in water balance of \$133,000, electric of \$48,000 and general funds of \$250,000.

There was an increase of \$51,000 in municipal street aid and a decrease of \$52,000 in real estate transfer tax. This results in a total change of all cash funds of \$239,000.

Chairman James referenced the new page in the monthly finance report depicting the restricted reserves and the net available. He pointed out that of the \$2.8 million balance shown in the general fund reserves, taking into account three-year capital budget items, there is \$458,000 remaining.

Also noting the water, sewer and electric reserves versus authorized projects, Chairman James emphasized this is before the Cost of Services Study that will be presented this evening in regard to water, sewer and solid waste.

He reminded Council that as this is reported on a regular basis, will provide a better idea of what funds are available.

Chairman James noted that 33% of the budget year has elapsed and revenue is slightly ahead at 37% due to 98.5% of real estate taxes having been collected.

When asked if this means we will exceed the estimate, Ms. Peck said she is not yet familiar with how much is billed in the interim tax cycles, though she will get that answer.

Chairman James also stated there was no change in the budgeted amount for sewer and Kent County sewer did not change at \$4.6 million, though the sewer budget was reduced by \$185,000, the Kent County sewer was increased by \$185,000 and asked why the total flip flop; Ms. Peck said she will follow up with the Finance Director on that matter as well.

He continued his review noting that expenditures are only at 28%.

Revenues over expenses are at 3.9% though \$4 million of that comes from real estate taxes. Excluding the general fund, the City is ahead of budget by \$678,000, though it is still early in the fiscal year.

Mayor Campbell asked Ms. Peck to follow up on the \$500,000 plus in delinquent property taxes and how much they have collected. City Manager Norenberg said the last update he was given was approximately \$428,000 though that was over a month or so ago.

Councilmember Boyle moved to accept the October 2019 Finance Report, seconded by Councilmember Culotta. Motion carried.

#### COMMITTEE & WARD REPORTS

*Fourth Ward*

Councilmember James thanked Chief Brown and his officers for the outstanding work they are doing in the Fourth Ward and Citywide.

## COMMUNICATIONS &amp; CORRESPONDENCE

Nothing to report.

## NEW BUSINESS

*Authorization/Perdue/Electric Service Agreement*

City Manager Norenberg explained the City, as an economic development and incentive program, is our electric services agreement (ESA) that can be negotiated with major employees or companies making substantial capital investments or new employment opportunities that will add or retain load in the City's Service territory.

The last ESA before Council was when Bayhealth Medical Campus was approved in recognition of their major capital and employment investment in southeast Milford.

In 2010, Perdue submitted a letter to de-activate their ESA in 2011, though the letter was only found in the past few weeks. Perdue Director of Operations Dean Walston and the City Manager have met to discuss Perdue Farm's investment in their Milford facility in recent years, such an ESA is clearly warranted. Site acquisition and major improvements since 2016 include:

November 2016-July 2017	Purchase of Additional Property	\$2,365,225
March 2017-July 2019	Animal Care Initiative Phase I	\$8,733,319
March 2017-July 2019	Animal Care Initiative Phase II	\$9,507,303
March 2018-February 2019	Stormwater Management	\$1,469,954

The current ESA template was developed with the assistance of the Delaware Municipal Electric Corporation, after which it was reviewed and refined by the City Solicitor. The ESA sets out terms for the provision of electric service for five years at the Special Contract Service rate tariff as approved by City Council in 2017. The agreement incorporates future rate changes as may be provided to others on the SCS rate and/or across the board for all customers. It is proposed that the effective date of this ESA be set to seamlessly follow the actual termination of the last ESA.

There are currently ESAs in place with Bayhealth (negotiated and approved for the new hospital), US Cold Storage and SeaWatch. (The last two are very out of date and should be revisited in 2020, as is being done with Perdue.) In addition, an ESA is being explored with Nationwide Healthcare for the previous Milford Memorial Hospital.

Mr. Walston was present and addressed Council stating that in their facility, Perdue has made significant investments and over the past few years, have taken initiatives that make their facility one of a kind in the United States. They are the show place for the 2020 animal care initiative and have invested in excess of \$20 million in that category.

They are very proud of where they facility is going and that positions Perdue to move forward leading the ways with some of the initiatives.

He attributed that to the cooperation with and being part of the City of Milford during that time.

Mr. Walston shared that in the last twelve months to the City of Milford, has spent \$6.5 million, over half of that is in energy. As a food processing facility, they use a lot of electricity and water and both are important components of their business. They also compete with poultry providers across the country and anything they can do as a facility to remain competitive, allows them to continue to invest in this community and the facility moving forward.

It was confirmed that Perdue is paying full taxes on the additional assessments as they continue to invest. The City Manager agreed adding there is not a lot of wiggle room when it comes to property taxes, because the goal is to keep the

rate low and affordable. As a result, there are some wiggle room in impact fees and utility rates. That is why incentives such as this are being made available.

Councilmember Boyle moved to authorize the Electric Service Agreement between the City of Milford and Perdue Farms, Incorporated, included in the Council packet, seconded by Councilmember James. Motion carried.

*Funding Request/Downtown Milford, Inc./Ladybug Music Festival*

DMI President Peggy Reilly and Executive Director Trish Gerken were present.

President Reilly recalled reporting to Council following the Ladybug Music Festival, at which time Council provided resounding feedback about the festival. At that time, Council asked what the City could do to help for the next festival.

Executive Director Gerken then requested assistance in matching their funds for the upcoming festival. This past year, they had a fundraising goal of \$35,000 which feel short and lowered it to \$25,000. They have a pending Gable contract requesting \$30,000 with a \$25,000 guarantee. A summary of the funding is included in the Council packet.

The request is for \$15,000 with DMI matching the remaining balance of \$15,000.

A subcommittee is willing to work with them if DMI acquires the match, according to President Reilly. Though it is a DMI event, she pointed out it is an economic driver to the City.

Councilman James then reviewed the funding summary. When asked the funding needs for 2020, Ms. Gerken explained that to mirror exactly what was done last year with approximately forty artists with eleven venues, will cost \$30,000. To do the minimum guarantee of \$25,000, they would have to lower the number of artists.

Councilman Boyle then pointed out that Milford's wants to be known for Home Town, River Town, Arts Town, though the City does not fund the arts, as was previously pointed out by Councilmember Marabello. He also emphasized that this may have become one of the biggest draws and feels it is appropriate to fund \$30,000. The goal is to grow the event and bring more people to the City.

When asked if DMI expects the other sources not to participate this year, Ms. Gerken said they do not have a reason to expect that, though it was very difficult to raise the funds in 2019.

President Reilly shared that they would use a grant for \$15,000 to fund the festival. However, if the City agrees to assist with the funding, that would enable them to use the grant for arts or possibly something that would benefit the businesses downtown instead.

Councilmember Culotta is concerned about the in-kind contributions and asked if \$15,000 is sufficient, adding that the printing cost were \$1,500 and \$304 for promotions. In his opinion, it would make better sense to commit \$20,000.

Ms. Gerken agrees the goal is to add an international stage and make it more diverse, which requires more artists and more funding to add another venue.

City Manager Norenberg confirmed that economic development money could be used for this purpose. He also recalled the new lodging tax that was added last year, which is an additional source of funding that goes into the economic development fund that would be a logical connection. This year, the lodging tax and economic development funds will be used to help pay the contribution made to DMI on an annual basis, upgraded signage for parking and a couple other items. In addition, we are still waiting for a new hotel to break ground, which will increase this fund at some point in the future.

City Manager Norenberg agrees that \$15 to \$20,000 is doable, considering the lodging tax was budgeted very conservatively.

Ms. Gerken confirmed that they will need the official down payment in March and the contract must be signed in January 2020.

When asked if it would be more appropriate to instead make a large initial investment so that it can carry over into next year, Councilmember Culotta feels that as they sell advertisements that money will go back into their coffers to pay with future bills.

Councilmember James referenced a similar event in Smyrna in which the town funds the entire event. He heard a previous comment from Councilmember Boyle in regard to providing \$30,000. He recommends Milford fund the entire contract as well.

Councilmember Culotta moved to authorize \$30,000 be paid from the Economic Development Fund, in part to be added to next year's festival budget, seconded by Councilmember Marabello. Motion carried.

*Adoption/Resolution 2019-22/Appointing DEMEC Director and Alternate Director*

With City Manager Norenberg leaving his post as of December 31, 2019, Council is required to authorize new Directors to the DEMEC Board.

Mayor Campbell opened the floor to public comment, no one responded.

Councilmember James moved to adopt Resolution 2019-22, appointing the Acting City Manager as Milford's DEMEC Board Representative and the Electric Superintendent as the Alternate Director, seconded by Councilmember Boyle:

*RESOLUTION 2019-22*

*Appointment of DEMEC Director & Alternate Director*

*WHEREAS, the City of Milford is a member of the Delaware Municipal Electric Company ("DEMEC"), a municipal electric company established pursuant to 22 Del. C. Chapter 13;*

*WHEREAS, the City of Milford is authorized to appoint an individual to serve on the DEMEC Board of Directors pursuant to 22 Del. C. § 1304(3);*

*WHEREAS, Article V, Section I of the DEMEC Agreement and Articles of Incorporation, grants the Member City the authority to appoint an alternate director to serve in the absence of the director.*

*NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Milford:*

- (1) The Acting City Manager shall serve as the Director representing the City of Milford on the DEMEC Board of Directors.*
- (2) The Electric Superintendent shall serve as the Alternate Director in the absence of the Director.*
- (3) In the absence of the Director, the Alternate Director shall have full power and authority to act on the City of Milford's behalf.*
- (4) This resolution supersedes all prior resolutions related to the appointment of a DEMEC Director and Alternate Director from the City of Milford.*

*This certifies that this is a true and correct copy of the Resolution duly adopted by the City Council of the City of Milford at its meeting on December 9, 2019.*

Motion carried.

*Authorization/Public Works Department/Electric Division/Vehicle Purchase*

Public Works Director Whitfield asked that Council consider a recommendation to replace the existing 2005 Ford F-250 (Unit E-115) used by the Electric Division with a 2020 Ford F-250 4 x 4 utility body with snowplow. The existing vehicle

has approximately 100,000 miles, is 14 years old, is in need of a new transmission, has severe body and frame rust, and has been used beyond its life expectancy. The replacement of the unit was identified in the 2020 Capital Improvement Plan. The truck is used by the Lead Line Technician.

The purchase of this truck will be made through the Delaware State Contract. Specifications for the 2020 Ford F-250 are attached. The Electric Division budgeted \$60,000.00 for the purchase of this unit, and the State of Delaware final cost is \$56,932.

Councilmember James moved to authorize the purchase order to Winner Ford, Cherry Hill, in accordance with the State of Delaware contract GSS17560, to be funded from Electric Operating/Vehicle Capitol, seconded by Councilman Culotta. Motion carried.

*Authorization/Public Works Department/Water Division/Vehicle Purchase*

Public Works Director Whitfield is requesting that City Council consider a recommendation to replace the existing 1997 GMC Dump Truck with a 2021 HV507 SFA Hook Truck with snow plow and changeable low-profile dumpster body. The existing vehicle has approximately 38,307 miles, is 22 years old, is in need of a new transmission, has severe body and frame rust, and has been used beyond its life expectancy. The replacement of the unit was identified in the 2020 Capital Improvement Plan.

The purchase of this truck will be made through the NJPA/Sourcewell Contract. Specifications for the 2021 HV507 SFA are attached. The Water Division budgeted \$176,000 for the purchase of this unit; the NJPA/Sourcewell final cost is \$151,904.20.

Councilmember Boyle moved to authorize the purchase of a 2021 HV507 SFA Hook Truck in the amount of \$151,904.20 from Beltway Companies, in accordance with the NJPA/Sourcewell Contract 081716-NVS, with funding from Water/Capitol/Vehicle/GL 202-2020-432.70-44, seconded by Councilmember James. Motion carried.

*Introduction/Ordinance 2019-41/Coronado Treasures LTD/Change of Zone*

Mayor Campbell introduced the Ordinance, after which Planning Director Pierce reported it is on the Planning Commission agenda for December 17, 2019 and is scheduled for a public hearing and final action before City Council on January 27, 2019.

He said it is a 2.8-acre piece of land south of the Seabury Avenue intersection on US Route 113. The current zoning is OB-1 office building and is seeking a C-3 highway commercial designation.

*Introduction/Ordinance 2019-42/ Feebs Distilling Co on behalf of S&P Holdings LLC/Conditional Use*

Mayor Campbell introduced the Ordinance, after which Planning Director Pierce reported this application is on the Planning Commission agenda for December 17, 2019 and is scheduled for a public hearing and final action by City Council on January 27, 2019

The conditional use application is to allow the operation of a distillery with retail sales at 733 McColley Street and is zoned I-1 limited industrial.

*Appointment/Acting City Manager (Interim)*

Mayor Campbell recommends that Mark Whitfield be appointed Acting City Manager beginning January 1, 2020, until such time a new City Manager is hired. During that time, he will continue with his duties as the Public Works Director, and has the advantage of having a new City Engineer who is starting on December 15<sup>th</sup>, in addition to the new Electric Superintendent that was hired this past year.

Councilmember Culotta complained this is the first time this has been discussed. As part of the Council packet, there was nothing to review on this recommendation.

Councilmember Morrow said he agrees with Councilmember Culotta because this is the first time he has heard about this recommendation.

Solicitor Rutt directed Council that any discussion on qualifications and abilities should be done in Executive Session though it is not on the agenda tonight and will need to be done at a later date.

Though Councilmember Culotta understands this is the Interim City Manager who will not be permanent, and though he does not want to draw this out longer than it should be, however, he prefers it be discussed in Executive Session. He recommends it be added to the January 13, 2020 agenda.

It was confirmed the Charter does not address the next person in line to be the Acting City Manager, the Solicitor explained that the Chief Executive Officer is the City Manager and the next City Official identified is the City Clerk. In his opinion, that is the default and who he recommends would run the day-to-day operation.

Councilmember James confirmed the charter does not specify who steps in the absence of the City Manager; Mr. Solicitor explained the default is the City Council has the right to appoint someone, as a City Manager, or an acting City Manager.

Solicitor Rutt then read Section 5.04 of the City Charter regarding Acting City Manager that states the City Manager shall designate, subject to the approval of the City Council, a qualified City Administrative Officer, to exercise the power and perform the duties of the City Manager during his/her temporary absence or disability. In this case, there would be a temporary vacancy and it is really up to the City Council to appoint a qualified City Administrative Officer to exercise the powers and perform the duties of the City Manager.

He further explained that it would be a standing City Administrative Officer and the City Council has the authority to make that designation on a temporary basis.

Councilmember Morrow moved to table action on the matter, seconded by Councilmember Culotta. Motion carried.

#### *Authorization/Proceed/RFP/City Manager Search Firm*

According to City Manager Norenberg, Mayor Campbell and the City Clerk worked on this last week. If Council is comfortable with the document, it provides direction on moving ahead. It can be advertised quickly and proposals received by January 24<sup>th</sup>.

Mr. Norenberg then reviewed the criteria which was modeled after similar documents other Cities have used.

Councilmember Culotta asked if we were to get a candidate from our website that did not come through a firm selected, are we still responsible to the firm financially; Solicitor Rutt explained that would be part of the contract that was agreed to.

Councilmember James then confirmed that if Council approves the RFP, the City is not bound to use a search firm, not saying whether we should employ one or not.

Councilmember Brooks recalled that previously when we needed a new City Manager, the Mayor at the time had the idea to do what we are talking about again. The City spent thousands of dollars and came back with only three people, though they had about forty applications. He means no disrespect to Mr. Norenberg, but one had five jobs in five years and the other one rode through Milford and kept going. He hopes the next firm does a better job of finding three people. When a man has five jobs in five years, he should not be on the top of list nor the guy that drives through Milford and does not stop.

Councilmember Culotta pointed out this contract requires them to narrow it down to five.

A discussion followed regarding several hiring scenarios. Councilmember James pointed out that in this process, Council cannot make someone else responsible for Council's responsibility and due diligence. That is Council's responsibility to say whether or not a person is a good candidate.

Councilmember Brooks asked why we just can't advertise in the Delaware State News; Councilmember Boyle emphasized that one of the advantages of a headhunter is that the City would put the qualifications out and they do the legwork, screening, backgrounds, etc.

Councilman Boyle reiterated that as Councilman James indicated, if the final candidates are unacceptable, none are hired. Councilman Culotta agreed we do not have to hire anyone that Council is not satisfied with. Councilmember Boyle said Council is not locked into those candidates selected by the firm. Councilman Culotta again agreed.

Solicitor Rutt explained that City Council will need to layout the qualifications and criteria and give that to the firm, so they know what the City is looking for specifically as far as qualifications and experience.

Councilmember Culotta feels the value of using an executive search firm is they create a network of those type candidates through cross cities, government or whatever industry is hiring.

According to Councilmember Brooks, Council was given three names without any input.

City Manager Norenberg then reviewed the scope of work and process he included in the contract, adding that based on the qualifications and candidate needs, the firm will help develop the recruiting process, advertising and bring in a pool of qualified candidates.

The City Manager again reviewed the process during the later phases.

Solicitor Rutt then provided a synopsis of how Sussex County searched and hired their last County Administrator. He said that normally, a committee is appointed, who makes the recommendation on how to proceed. Council would then vote on it and go from there.

In the Solicitor's opinion, the RFP is the cart before the horse.

Councilman James then asked Mayor Campbell for his thoughts and experience. Mayor Campbell pointed out that his background is in the corporate world and provided a brief description of how that process was handled, though a headhunter was involved.

It was agreed to postpone action until the next meeting, then discuss the criteria and how to proceed.

Councilmember Boyle moved to postpone any action until the January 13, 2019 meeting, seconded by Councilmember James. Motion carried.

Mayor temporarily recessed the Council Meeting to go into the Workshop Session at 8:55 p.m.

The City Council meeting reconvened at 10:03 p.m.

#### EXECUTIVE SESSION

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

*Pursuant to 29 Del. C. §10004 (b)(9) for the purpose of discussing personnel matters in which the names, competency and abilities of individual employees are discussed.*

Motion carried.

Mayor Campbell recessed the Council Meeting at 10:04 p.m. for the purpose permitted by the Delaware Freedom of Information Act.

*Return to Open Session*

Council returned to Open Session at 10:21 p.m.

*Personnel Matter*

Solicitor Rutt directed Council the motion would be to approve the discussion held in Executive Session regarding the Acting City Manager and the Mayor's responsibility.

Councilmember James moved to approve what was discussed in Executive Session and Mayor Campbell's responsibility, regarding the appointment of an Acting City Manager, seconded by Councilmember Culotta. Motion carried.

Mayor Campbell announced that Public Works Director Mark Whitfield has been appointed Acting City Manager effective January 1, 2020.

ADJOURNMENT

There being no further business, Councilmember Boyle moved to adjourn the Council Meeting, seconded by Councilmember Culotta. Motion carried.

The Council Meeting adjourned at 10:23 p.m.

Respectfully submitted,

Terri K. Hudson, MMC  
City Clerk/Transcriber

MILFORD CITY COUNCIL  
MINUTES OF MEETING  
December 9, 2019

The City Council of the City of Milford met in Workshop Session on Monday, November 25, 2019 in the Joseph Ronnie Rogers Council Chambers at Milford City Hall, 201 South Walnut Street, Milford, Delaware at 9:02 p.m.

PRESIDING: Mayor Archie Campbell

IN ATTENDANCE: Councilmembers Daniel Marabello, Mike Boyle, Todd Culotta, Owen Brooks Jr., Douglas Morrow, Jason James Sr.

STAFF: City Manager Eric Norenberg, Police Chief Kenneth Brown and Deputy City Clerk Christine Crouch

COUNSEL: Solicitor David Rutt, Esquire

ABSENT: Councilmembers Lisa Peel and Katrina Wilson

*Cost of Services Study  
Water, Wastewater, Solid Waste Services*

City Manager Norenberg introduced Dawn Lund, Vice President of Utility Financial Solutions, LLC (UFS). He recalled when late last fiscal year, UFS was retained to do our Water, Wastewater and Solid Waste Cost of Service and Financial Projection.

Ms. Lund reported that UFS is an International Consulting Firm providing Cost service, financial planning, rate designs for electric, water, wastewater, telecommunications and gas companies. They are also the instructors for American Public Power Association (APPA), speakers for American Water Works Association (AWWA) and the Hometown Connections' preferred vendor for Cost of Service and Financial Planning.

They completed a water and wastewater financial projection, a solid waste cost of service and financial projection and following is the report she provided:

Three key financial targets will be reviewed and why they are important and how they work together will be discussed. Also provided will be the results of the financial analysis and some recommended rate adjustments.

The first one is Debt Coverage Ratio which is simply a measurement of debt affordability. The amount of cash flow in operations in that year to pay debt service payment is being measured. It looks at ensuring the cash flow from operations to pay the debt service payment. Typically, the ratio for a revenue bond is about a 1.25 which means there is enough cash enough from operations to pay the debt payment 1.25 times. If the debt coverage calculation, for example, comes in at .8 it means there is only enough cash flow to pay the debt payment .8 times, which is not enough to pay the debt. For that reason, they look at debt affordability and whether the debit on the system is affordable.

Not talked about is how much cash is needed on hand to pay the debt and instead the question is was your cash flow sufficient from the operations in that year.

The next target are minimum cash reserves. Each utility is an enterprise fund and has its own risks, unique to each utility. She looks at four risk areas of the utility at a minimum. One is operating income, operating expenses because the operating expenses need to be paid and that would be part of the minimum cash that needs to be held.

Next is the historical investment in the system. There are millions of dollars of infrastructure sitting out on the systems. A wind storm, ice storm, main break, equipment failure, funds need to be available to get the system up and running again quickly. That is another reason to have cash on hand.

The third item in a minimum cash reserve policy, is the debt serviced payment. There needs to be enough on hand to pay the debt service payment. There are long term consequences and short-term consequences for not making the debt payment. Funds need to be available to do that.

The four items to determine minimum cash reserve is that five-year capital improvement program. If there is a plan to spend \$1 million next year, \$1 million must be on hand, at the beginning of the construction season so that immediately the process can be started of that capital improvement program.

Next a minimum cash reserve is determined for each of the four areas of each enterprise fund (water, wastewater and solid waste). A minimum cash reserve is a minimum. If approaching the minimum, that is considered cash critical and there is a need to be above that minimum.

The cash will build and decline, mainly with the capital improvement program. That is why it is very important to have a solid capital improvement program. Looking five years into the future or more, the cash today does not mean it will be spent very quickly with a capital improvement program.

The next target is operating income. Taking the revenues, less the expenses, is called operating income. That number needs to be positive. For a municipality utility, it is usually calculated between 4 and 7% rate of return or the operating income is a break-even rate of return. It is not a ‘make money’ rate of return, but a rate of return that recoups two things. One is interest expense on debt, since that is below the operating income line, that needs to be recouped through the operating income.

Two is the inflationary increase on the assets invested in the system. For example, one asset may be a \$1 million asset with a ten-year useful life. At the end of ten years, that \$1 million asset is going to cost \$1.3 million or more. So that \$300,000 is the inflationary component that needs to be recouped on the assets of the system. In the perfect world, the rate of return would be fully funded to ensure future capital replacement and ensure expenses are being met, and that current rate payers are paying their fair share. If not fully meeting that operating income target, current rate payers are being subsidized by future rate payers. That means the rate adjustments are not being put through that are needed today and instead are being pushed into the future.

One thing about a needed rate adjustment, is they do not go away. They only compound and grow. Whatever is foregoing today, will likely grow into the future.

Those three main key targets will be reviewed and each enterprise fund will be summarized without rate changes, with rate changes and how those three key targets work together. Suggested rates will also be provided.

*Water Department*

This summary is multiple spreadsheets rolled into a summary.

**Water Financial Projection No Increase \$7.0 Debt in 2023**

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Operating Income	Operating Cash Balance	Capital Improvements	Bond Issues	Debt Coverage Ratio
2021	0.00%	2,840,968	2,523,114	317,854	5,636,949	645,000	-	2.86
2022	0.00%	2,840,968	2,591,556	249,412	5,587,322	680,000	-	2.73
2023	0.00%	2,840,968	2,766,658	74,310	5,462,798	7,600,000	7,000,000	2.01
2024	0.00%	2,840,968	2,943,001	(102,033)	4,846,179	675,000		1.07
2025	0.00%	2,840,968	3,015,769	(174,801)	4,174,162	675,000		1.00
<b>Recommended Target 2021</b>				<b>\$ 767,285</b>	<b>\$ 2,433,832</b>			<b>1.45</b>
<b>Recommended Target 2025</b>				<b>\$ 993,103</b>	<b>\$ 3,025,401</b>			<b>1.45</b>

They can look at sensitivity analysis with it and reviewed thoroughly with staff, detail behind the numbers, so they know they are starting with a good projection moving forward.

The second column shows no rate adjustments and the table is showing that without rate adjustments, the operating income (fifth column), turns to losses by 2024. The cash balance appears to stabilize. However, two columns, includes the

issuance of a \$7 million bond for the \$7.6 million projected in 2023. If that bond is removed, the cash would be a negative \$1.5 million in 2023.

The last column is the debt coverage ratio. If projected to issue revenue bonds in 2023, the typical debt coverage ratio for a revenue bond is a 1.25, but they prefer to add at least a .2 for periods of declining sales due to weather, general economy or whatever it may be. Water and wastewater sales can be very susceptible to weather and a cold wet summer, will cause water sales to decrease.

The three targets she looks at are operating income, projected cash balance and debt coverage ratio. Without any rate adjustments, none of the three targets would be met. The \$7 million needs to be visually removed to see the effects.

The outcome is without any rate changes, the water department would not be long term financially sustainable.

Looking at how to make the three key targets work together, and at the cash balance and the debt coverage ratio, there is an attempt to put in a rate track that is not fully meeting the operating income. The operating income target is close to \$1 million in 2025. Putting in a rate track, something slightly larger than inflation, to work toward or stabilize the targets.

Recommended is 3.9% rate adjustments over the next five years. A five-year table was added for City Council to understand this is not accomplished with one year. There is a need to follow up with rate changes in order to work toward the targets.

**Water Financial Projection With Increase \$7.0 Debt in 2023**

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Operating Income	Operating Cash Balance	Capital Improvements	Bond Issues	Debt Coverage Ratio
2021	3.90%	2,950,553	2,523,114	427,439	5,746,534	645,000	-	3.16
2022	3.90%	3,064,412	2,591,556	472,856	5,920,898	680,000	-	3.34
2023	3.90%	3,182,711	2,766,658	416,052	6,139,785	7,600,000	7,000,000	2.74
2024	3.90%	3,305,624	2,943,001	362,623	5,991,206	675,000		1.63
2025	3.90%	3,433,330	3,015,769	417,561	5,917,277	675,000		1.72
<b>Recommended Target 2021</b>				<b>\$ 767,285</b>	<b>\$ 2,433,832</b>			<b>1.45</b>
<b>Recommended Target 2025</b>				<b>\$ 993,103</b>	<b>\$ 3,025,401</b>			<b>1.45</b>

Last increase 03/26/12

The operating cash balance stabilizes, and the \$7 million bond issuance, can be decided in the third year. Sales could be under or over what is projected and there may be a need to borrow a little more or a little under. The importance of the table is to provide information based on what is known today, though hopefully it will be updated in the future.

When asked what the \$7 million would be used for, Ms. Lund explained that would be for a water tower and a major addition to the water plant which can be confirmed in the City’s Capital Plan.

After the bond is issued, the debt coverage ratio is 2.74 which is above, the 1.45 minimum target. After the bond bill is issued, that debt coverage ratio does drop to a 1.63. Legal conveyances, most likely, for a revenue bond would be a 1.25. However, for financial planning purposes, it needs to be a 1.45 or above. After the debt of \$7 million is issued, is close to the minimum.

The table shows the City is not fully meeting the operating income, though the operating income target is being balanced with the minimum cash reserve and the debt coverage ratio with a 3.9% rate adjustment.

The advantage of seeing a five-year table, and the rate adjustment was undershot or overshot in the earlier years, that will simply be adjusted in the later years. If a lower bond was issued at \$6 million, as an example, the debt coverage ratio would increase.

When asked about a \$12 million bond, most likely that would not be done, because the City can borrow for three years of capital improvements. In theory, if the maximum allowed could be borrowed, the \$7.6 million, the \$675,000 and the \$675,000 would be borrowed for a total of \$8.8 million, which is the most that could be borrowed in 2023 based on the current capital plan.

If the \$12 million was borrowed, the debt coverage ratio would greatly drop. If \$8.8 million was borrowed, the debt coverage ratio would drop. Unsure exactly what it would, the 1.0 would be under any revenue bond requirement, which is a 1.25.

The presumed rate of interest on the \$7 million is 3.5%, which is probably the standard rate to a little low presently. Because it is a water plant, which typically has a useful life of 33 years, bonding could be considered for 30 years.

The 3.5% is what is assumed the City would receive on the revenue bond market. Councilman James confirmed that is in consideration of the City's bond rating.

She explained that one thing to be aware of in a highly rate bond utility, is the cash reserves over the last year or so, bond rating agencies are looking at least 200 days plus cash on hand. Typically, minimum cash reserves need to be about 90 to 120 days. The amount of cash on hand for an enterprise fund is actually going up. Having 200 days cash on hand, will not, in isolation, improve the bond rating. However, it is one of the key factors they look at and frequency of rate adjustments, minimum cash reserve policies.

Other type of operating income targets and has the debt coverage ratio in the past been met. They look at a whole package, but cash reserve policies and cash reserve minimums are two very important pieces they look at.

When asked how that fits in with Moody's, they would be one that give the City a bond rating. They would look to ensure things are being done 'right', and all of these things in place and theoretically the more things being done right or are in place, the higher bond rate is achieved.

Councilman James said what he is hearing is the targets named at the beginning of this presentation, are the things the City needs to be sensitive to, not only for solid individual enterprise funds, but those things will impact the City's bond rating, in addition to the ability to even issue bonds reasonably.

He feels there is a need to watch that as he considers the rate increase, with the debt and the operating income is still not meeting the target though we are meeting the target in the operating cash and debt coverage ratio. As a result, all of the key points are not being hit, but two of the three are covered.

Ms. Lund explained that the debt coverage ratio is typically the floor. That has to be met which is the driver of the rate increase that she considers the floor.

The ceiling is the operating income. If the operating income can be fully funded, and the system is being funded fairly by the current rate payers. There is a floor and a ceiling and what needs to be done is a socially and politically acceptable rate adjustment, balancing all of this together. Though the ceiling is not quite met, the floor is definitely being met while trying to work toward or stabilizing and meeting the targets.

Mayor Campbell asked what would cause the increase in the operating income from 2024 to 2025; Ms. Lund explained the depreciation on the \$7.6 million is hitting in the next year. As a result, the operating income is going to decrease and the cumulative effect of having a 3.9% rate adjustment, then another 3.9% rate adjustment on top of that, will swing that operating income back up. The drop is due to the depreciation from the large capital improvement that year.

When asked the percentage of depreciation, Ms. Lund said because that is a plant and a water tower, probably 33 years.

Continuing with the presentation, the rate adjustments recommended of 3.9%, the problem with putting a plan together, Council will need to be very aware, there is a need to stick to the plan. One year is not enough and sticking to the plan provides the cumulative effect of the rate increases to take place.

The following table will show how the 3.9% rate adjustment will impact the average residential customer and includes the current rates to the left, and the rate design to the right, which are the proposed rates. The very bottom line is what Council needs to be most interested in.

**Water Rate Design - 3.9%**

	Current Rates				Proposed Rate Change			3.90%
	Charge (Minimum)	Consumption Charge (0-4000 Gallons)	Consumption Charge (4001-8000 Gallons)	Sales (over 8000 Gallons)	Charge (Minimum)	Charge (0-4000 Gallons)	Consumption Charge (4001-8000 Gallons)	Sales (over 8000 Gallons)
<b>Residential</b>								
In Town 5/8	\$ 3.25	\$ 3.25	\$ 3.50	\$ 4.00	\$ 3.38	\$ 3.38	\$ 3.64	\$ 4.16
Out Town 5/8	\$ 4.88	\$ 4.88	\$ 5.25	\$ 6.00	\$ 5.07	\$ 5.07	\$ 5.45	\$ 6.23
Commercial In Town	Customer Charge (Minimum Usage)	First Tier Consumption (Charge/1000 Gallons)	2nd Tier Consumption Charge (/1000 Gallons)		Customer Charge (Minimum Usage)	First Tier Consumption (Charge/1000 Gallons)	2nd Tier Consumption Charge (/1000 Gallons)	
up to 10,000 Gallons	\$ 32.50	\$ 2.60	\$ 3.25		\$ 33.77	\$ 2.70	\$ 3.38	
up to 15,000 Gallons	48.75	2.60	3.25		50.65	2.70	3.38	
up to 25,000 Gallons	81.25	2.60	3.25		84.42	2.70	3.38	
up to 50,000 Gallons	162.50	2.60	3.25		168.84	2.70	3.38	
up to 125,000 Gallons	406.25	2.60	3.25		422.09	2.70	3.38	
up to 300,000 Gallons	975.00	2.60	3.25		1,013.03	2.70	3.38	
up to 800,000 Gallons	2,600.00	2.60	3.25		2,701.40	2.70	3.38	
up to 1.2 M Gallons	3,900.00	2.60	3.25		4,052.10	2.70	3.38	
up to 1.6 M Gallons	5,200.00	2.60	3.25		5,402.80	2.70	3.38	
up to 2 M Gallons	6,500.00	2.60	3.25		6,753.50	2.70	3.38	
<b>Commercial Out Town</b>								
up to 10,000 Gallons	48.75	3.90	4.88		50.65	4.05	5.07	
up to 15,000 Gallons	73.13	3.90	4.88		75.98	4.05	5.07	
up to 25,000 Gallons	121.88	3.90	4.88		126.63	4.05	5.07	
up to 50,000 Gallons	243.75	3.90	4.88		253.26	4.05	5.07	
up to 125,000 Gallons	609.38	3.90	4.88		633.15	4.05	5.07	
up to 300,000 Gallons	1,462.50	3.90	4.88		1,519.54	4.05	5.07	
up to 800,000 Gallons	3,900.00	3.90	4.88		4,052.10	4.05	5.07	
up to 1.2 M Gallons	5,850.00	3.90	4.88		6,078.15	4.05	5.07	
up to 1.6 M Gallons	7,800.00	3.90	4.88		8,104.20	4.05	5.07	
<b>AVERAGE RESIDENTIAL USER 6,000G</b>					<b>\$ 20.00</b>	<b>\$ 20.78</b>	<b>\$ 0.78</b>	

The current average residential uses about 6,000 gallons per month. Using the current rates is approximately \$20.00 per month and the proposed rate would be about \$20.78 a month or a 78-cent impact to the average residential customer for a 3.9% rate adjustment.

There has not been a rate adjustment in the water department since 2012.

When asked if Moody’s rates the City at AA+, after which we go out for a \$7 million bond, will that reduce that rating to a AA; Ms. Lund explained she is not a bond rating agent, but in general they look at all the key targets to ensure. She is unable to answer that and if the other key targets remain healthy and other financial targets are in place, she would not expect a bond rating to decrease because debt is issued.

Mayor Campbell said he is asking because the City is looking at a \$18 million police project and there is a need for at least a \$12 million bond. Ms. Lund explained that to ensure the City has a healthy bond rating, she referenced the first table (page two). She would be more concerned about the operating income column, and don’t want to be operating at a loss and asking for bond money. In addition, the minimum cash reserve balance should be considered. Looking at the table by 2023, the water department will be spending down to a negative \$1.5 million.

The water department currently holds about \$10 million. In 2020, there is a \$5 million capital improvement project. Three years later, another \$7.6 million capital improvement is needed, which would make the cash go negative at \$1.5 million. Within a four-year period, the \$10 million becomes a negative \$1.5 million for needed capital improvement projects that were identified. The positive side is the City was healthy enough cash-financially to have the funds there for the needed capital improvements.

Today, the water cash balance today that appears to have sufficient funds, when taking into account the capital improvement program, it is spent down very quickly.

It was confirmed that will impact the operating income. Ms. Lund agreed stating that is why there is a project to operate at losses by 2024, without rate adjustment.

The 3.9% works toward the financial targets and is about a 78-cent monthly impact to the average residential customer.

*Wastewater Department*

The same three targets will be considered. Wastewater is projected to operate at losses. If fully funding properly in the system, would be approximately \$700,000.

**Wastewater Financial Projection No Increase**

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income	Projected Cash Balances	Capital Improvements	Bond Issues	Debt Coverage Ratio
2021	0.00%	4,711,092	4,813,886	(102,794)	3,377,524	250,000	-	1.39
2022	0.00%	4,766,585	4,933,527	(166,942)	3,208,328	250,000	-	1.22
2023	0.00%	4,823,548	5,072,426	(248,878)	1,909,215	1,325,000	-	1.07
2024	0.00%	4,882,020	5,214,372	(332,352)	1,612,995	250,000	-	0.87
2025	0.00%	4,942,043	5,343,161	(401,118)	1,258,304	250,000	-	0.71
<b>Recommended Target in 2021</b>				<b>\$ 613,424</b>				
<b>Recommended Target in 2025</b>				<b>\$ 705,816</b>				
<b>Minimum Target 2021</b>					<b>\$ 3,561,637</b>	<b>1.45</b>		
<b>Minimum Target 2025</b>					<b>\$ 3,937,351</b>	<b>1.45</b>		

The cash spends down to about \$1.2 million by 2025. In the perfect world at a minimum, \$4 million should be held. One larger capital improvement project is planned for 2023 that is drawing down some of that cash. However, the most important column is the last column/debt coverage ratio. Without any rate changes, it is dipping below the debt coverage ratio minimum.

Without any rate adjustments, in 2025, the City can only pay 70% of the debt payment from operating cash flow that year. That means the debt on the system is unaffordable.

Projecting to turn this around, and using those three key targets, is a 4.9% rate adjustment over the next five years.

**Wastewater Financial Projection With Increase**

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income	Projected Cash Balances	Capital Improvements	Bond Issues	Debt Coverage Ratio
2021	4.90%	4,839,327	4,813,886	25,440	3,505,759	250,000	-	1.74
2022	4.90%	5,029,337	4,933,527	95,810	3,599,957	250,000	-	1.95
2023	4.90%	5,227,410	5,072,426	154,984	2,706,663	1,325,000	-	2.21
2024	4.90%	5,433,906	5,214,372	219,534	2,966,317	250,000	-	2.40
2025	4.90%	5,649,205	5,343,161	306,045	3,325,555	250,000	-	2.69
<b>Recommended Target in 2021</b>				<b>\$ 613,424</b>				
<b>Recommended Target in 2025</b>				<b>\$ 705,816</b>				
<b>Minimum Target 2021</b>					<b>\$ 3,561,637</b>	<b>1.45</b>		
<b>Minimum Target 2025</b>					<b>\$ 3,937,351</b>	<b>1.45</b>		

Last increase 03/11/2013

Because there has not been a rate adjustment since 2013 in the wastewater department, what is being done in all the utilities is trying to catch up. That is why it is important to have a five-year plan that is completed. Once the five-year plan is done, does not mean that no further rate adjustments are needed and going back to our old ways of not having rate

adjustments. Instead, the small incremental inflationary rate adjustment should be done. Once the targets are in a healthier position, it can go down to the 1.9, 2.0 or whatever it may be out in the future. The worse thing that can be done is to delay those increases again. When there has not been a rate adjustment since 2012, there is a need to catch up and the period the City is in now.

The financials need to be turned around and the financial targets stabilized. Once we go beyond the plan, the small inflationary increases still need to be considered. The City's costs are changing every year and every year that is delayed, only compounds, which is shown in these tables.

The 4.9% rate adjustment, each year, over the next five years, brings the operating income target to about half of where it should be. Again, in the perfect world of municipal funds is about a 4-7%. This is a 4% rate of return that has been calculated which puts the City on the lower end, which is only being met about half. By the end of this rate track, the funding rate of return is only about 2%.

When asked why not go to 6%, Ms. Lund explained she is trying to balance the projected cash column. Looking at the next column, the projected cash column can be acquired with the 4.9%, while having a healthy debt coverage ratio. These three key targets do, as the rate track is balanced, to be a socially and politically acceptable level, not meeting the key targets fully, while still working toward them.

It will be important in 2025, even though the City gets through this five-year program, to keep up with the inflationary rate increases. Going down to zero in the next year, the adjusted operating income is going to drop, the cash balance will drop already below the minimum projected. Small incremental rate increases are needed once they get through the catch-up program.

Councilman James agreed that social and political acceptance is important and something our taxpayers can swallow. Hitting with 6 and 7% at once, is a shock to someone's personal finances.

Ms. Lund explained that between 6 and 10%, some of the larger industrial customers will complain, because they are the ones that are closely watching their bills. Double digits and everyone will complain. She has found that if she keeps that rate adjustment under 5%, it is more politically acceptable and the Council will tend to stick to the plan.

Otherwise, in year two or three, during a rate plan, someone is going to say when can we stop having rate adjustments. The plan presented is a minimum five-year plan and then afterwards, if these rate adjustments seem more aggressive than inflation is because the City has not kept up with the changes of inflation in the past.

When asked if people are not going to notice a 4.9% increase over the next five years, Councilmember Culotta said these are inflationary adjustments. Councilmember James said if Council and whoever else was responsible for being good stewards and making these funds were solvent and that the users of the systems were being treated fairly and a rate increase was needed because the City can no longer serve you at these rate levels. Today, Council would not be looking at a 4.9% increase over the next five years. But that work was not done correctly in the past, which is now causing the City to play catchup.

Councilman Culotta stated that if these rates had addressed and increased since 2012, today that would be what number; Ms. Lund said if that had occurred, most likely inflationary increases of 2% would be needed, though that needs to continue. For every year this is delayed, the City's financial picture deteriorates.

Ms. Lund tells board and councils the idea of a rate increase is scary, but what kind of legacy do they want to leave and do they want a system that is operating at a loss where the cash is spending down to critical levels. Without rate adjustments, that is what a utility is looking at and operating at losses and spending the cash down to \$1.2 million or about 25% of what is needed.

When asked if we are stealing from reserves to cover these losses, Ms. Lund said when a utility is operating at a loss, that is what happens and the reason the cash is spending down. The cash projected for 2021 is \$3.3 million, but when operating at losses, that cash will be spending down just to operate.

Trying to turn this around, we are trying to stabilize the targets at 4.9% and the following table shows the impact to the average customer:

**Wastewater Rate Design-4.9%**

	Current Rate			Proposed Rate	4.90%
	Monthly Customer Charge	Usage Rate		Monthly Customer Charge	Usage Rate
In City	\$ 10.00	\$ 2.78		\$ 10.50	\$ 2.92
Outside City	15.00	4.17		15.75	4.37
<hr/>					
<b>Average Customer 5,000G</b>	<b>\$ 23.90</b>			<b>\$ 25.08</b>	<b>\$ 1.18</b>

The average wastewater customer uses about 5,000 gallons a month and currently pay \$23.90. The proposed bill would bring their bill to \$25.08 or an increase of \$1.18 per month, for year one. The following year would be another \$1.25 or so.

Ms. Lund emphasized that the two rate increases for water and wastewater are under \$2 a month to start turning these two systems around.

Councilman James asked how many days of cash are needed for the minimum cash balance; Ms. Lund said wastewater is about 220 days and water could a little over inflated on that minimum. She looks at that five-year capital improvement program, and in this year, 2020, a \$5.5 million capital improvement is needed. In addition, there is a \$7.6 million capital improvement coming in the future though she is looking at the bonding as well. Two large capital improvement projects are sandwiched together in that five-year period.

That inflates that cash balance target, but in general, the goal is to reach something above the 200 days, which is needed for a highly rated bond utility.

She recalled the electric rate study done three years ago. The bond rating movement has been more in the last year to year and a half. The minimum cash reserve for 2017 is not looking toward that 200 days. When refreshing that cost of service study for election, she wants Council to know that minimum cash reserve is going to be much higher than what was recommended at that time.

Councilman James recalls it was about \$4.5 million; Ms. Lund agrees about 75 days. She says to go toward 150 days, versus the 200 mark, and instead slowly work toward that, that \$4.5 million minimum is doubled, which is closer to \$9 million in the electric utility.

That is not the scope tonight, though she wanted to mention that because that target has changed since the report is three years old and the reason it needs to be updated and policies reviewed.

The Mayor pointed out the reserves in the electric is the highest; Ms. Lund said the reserve in the electric is hovering around the 150 days the last time she looked. However, that is without taking into consideration any capital improvements. That is saying the City is right where it should be for electric at a minimum.

Water was being spent from \$10 million to a negative \$1.5 million by 2023, and wastewater would be spending down to \$1.5 million or a quarter of what is recommended, at a minimum.

She said the City is fortunate that they are able to fund some of the capital improvements that are needed. However, the point is the cash balance cannot be considered today and think that will be there in the future with the needed capital improvements that have been identified.

Public Works Director confirmed that currently, the only other future capital improvement that will be needed is the replacement of the seven miles of transient water piping that will need to be done at some point beyond the current five-year time frame. Councilman Marabello pointed out that these rate changes are based on current needs and any additional capital improvements could really compound this.

Mr. Whitfield agreed adding that the City has been fortunate to be able to qualify for a lot of the USDA grants of which many are 50/50 shares. However, a lot of that is based on population and technically, the City is under the 10,000 population though he does not know that in 2023, we will be below that threshold.

*Solid Waste Division*

Again, the same three targets are being considered with operating income projected to be negative. The operating cash balance is negative projected for 2021, which is due to a purchase of a truck in 2020.

***Solid Waste Projection No Increase or New Debt***

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income	Operating Cash Balance	Capital Improvements	Bond Issues	Debt Coverage Ratio
2021	0.00%	1,237,901	1,304,504	(66,603)	(363,518)	123,000	-	N/A
2022	0.00%	1,256,295	1,334,889	(78,594)	(348,073)	50,000	-	N/A
2023	0.00%	1,274,963	1,379,413	(104,451)	(964,084)	670,000	-	N/A
2024	0.00%	1,293,908	1,424,696	(130,788)	(972,032)	50,000	-	N/A
2025	0.00%	1,313,135	1,458,355	(145,220)	(992,413)	50,000	-	N/A
<b>Recommended Target 2021</b>				<b>\$ 79,761</b>	<b>\$ 269,890</b>			<b>1.45</b>
<b>Recommended Target 2025</b>				<b>\$ 107,017</b>	<b>\$ 314,554</b>			<b>1.45</b>

To turn the targets around would involve a recommended 4% rate adjustment in solid waste:

***Solid Waste Projection With Increase and New Debt***

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income	Operating Cash Balance	Capital Improvements	Bond Issues	Debt Coverage Ratio
2021	4.00%	1,287,217	1,304,504	(17,287)	105,545	123,000	500,000	1.57
2022	4.00%	1,358,558	1,334,889	23,669	143,528	50,000	-	2.10
2023	4.00%	1,433,857	1,379,413	54,443	169,336	670,000	670,000	1.14
2024	4.00%	1,513,331	1,424,696	88,636	193,865	50,000	-	1.40
2025	4.00%	1,597,214	1,458,355	138,859	270,741	50,000	-	1.68
<b>Recommended Target 2021</b>				<b>\$ 69,608</b>	<b>\$ 336,501</b>			<b>1.45</b>
<b>Recommended Target 2025</b>				<b>\$ 90,362</b>	<b>\$ 470,421</b>			<b>1.45</b>

In addition, some sort of bond issue or some sort of borrowing would be needed in 2021, due to the truck purchase in 2020. Two trucks are budgeted in 2023 at \$670,000 and some sort of borrowing would be needed for them as well.

Operating income is meeting the target, though the cash balance would still be struggling in this area while meeting the debt cover ratio.

Ms. Lund pointed out the cost of service results by breaking down the residential cost of service results. Concentrating on the \$28.86 on a cost to serve basis for solid waste, which is what the residential monthly charge would be.

She referenced the four services available in the \$28.86 cost of service rate. Not saying that is the proposed rate, but that is the cost to serve basis for a residential customer.

Milford provides residential waste pickup which equates to \$14.63, recycling at \$6.66, yard waste at \$4.59 and bulk waste at \$2.98. Adding that up on a cost to serve basis for a solid waste customer is \$28.86.

***Solid Waste Cost of Service Results***

Customer Class	Cost of Service \$/Cart	Projected Revenues \$/Cart	% Change
Residential	\$ 28.86	\$ 26.00	11.0%
Non-Residential	28.86	26.00	11.0%
Waste Additional Container	5.62	5.00	12.5%
Recycle (Additional Container)	5.62	-	0.0%
Yard Waste (Additional Container)	3.47	3.00	15.6%
Multi-Unit (2 CY x 2 weekly collection)	347.54	300.00	15.8%
Multi-Unit (Single Unit)	31.41	25.00	25.6%
Commercial At Door Collection	11.25	10.00	12.5%
Multi-Unit (2 CY x 1 weekly collection)	188.46	150.00	25.6%
Bulk Waste	2.98	-	0.0%
Bulk Waste Additional Pick up	35.73	50.00	-28.5%
<b>Total Revenue Requirement</b>	<b>\$ 1,369,112</b>	<b>\$ 1,232,901</b>	<b>11.0%</b>

A comparison was done to local private area providers compared to the City of Milford:

**Residential Rate Survey**

This rate survey compares the cost and services offered by the City of Milford to private area providers. Milford provides four services: Weekly Refuse, Weekly Recycling, Seasonal Yard Waste, and two 4CY Bulk pickups under the stated rate. Other providers offer weekly refuse and bi-weekly recycling under the stated rate.

City/Town	Current Monthly Cost	Milford Proposed Compare	Milford	One- Time Setup Charge	Deposit	Recycle	YW	BULK
			Waste and Recycle Only (with Rate Adj)					
City of Milford	\$26.00	\$27.05	\$22.15	\$0	\$100	YES-Weekly	YES	Weekly
Waste Management	\$31.00	-14.6%	-40.0%	\$75		YES-Bi Weekly	NO	EXTRA \$
Republic/BFI	\$27.45	-1.5%	-23.9%	\$78	\$25	YES-Bi Weekly	NO	NO
Blue Hen	\$25.33	6.3%	-14.4%			YES-Bi Weekly	NO	EXTRA \$

This demonstrates that the City of Milford, Waste Management, Republic/BFI and Blue Hen all offer residential waste pickup included in the rate. The City of Milford includes recycling weekly, and the other three private companies offer it biweekly. The City of Milford includes yard waste and the other three companies do not include it. The City of Milford includes two 4-cubic yard bulk pickups under this rate. Two of the private companies charge extra for this service and the Republic/BFI does not offer the service.

Taking the City’s proposed rate of \$26.00 to the \$27.05, or a 4% rate adjustment. This still does not meet the cost to serve, though we are trying to build toward that. Looking at just the waste pickup and recycling only, the City of Milford would be at \$22.15 proposed rate (removing the other services), which is 40% under Waste Management, 23% under Republic/BFI and 14% under Blue Hen.

Ms. Lund reiterated the City provides four services in comparison to the other two services that are mainly provided by the other companies and must be considered.

A 4% increase is reflected in the following table:

**Solid Waste Rate Design-4%**

Rates	Current	Year 1	Year 2	Year 3	Year 4	Year 5
Customer Class						
Residential	\$ 26.00	\$ 27.05	\$ 28.15	\$ 29.30	\$ 30.50	\$ 31.75
Non-Residential	26.00	27.05	28.15	29.30	30.50	31.75
Waste Additional Container	5.00	5.25	5.50	5.75	6.00	6.25
Yard Waste (Additional Container)	3.00	3.50	3.75	4.00	4.25	4.50
Multi-Unit (2 CY x 2 weekly collection)	300.00	320.65	320.65	320.65	320.65	320.65
Multi-Unit (Single Unit)	26.00	27.05	28.15	29.30	30.50	31.75
Commercial At Door Collection	10.00	10.50	11.00	11.50	12.00	12.50
Multi-Unit (2 CY x 1 weekly collection)	150.00	175.00	200.00	200.00	200.00	200.00
Bulk Waste Additional Pick up	50.00	50.00	50.00	50.00	50.00	50.00
Revenue from Rate	\$ 1,232,900	\$ 1,283,275	\$ 1,335,937	\$ 1,390,357	\$ 1,447,134	\$ 1,506,270
Change from Previous		4.0%	4.0%	4.0%	4.0%	4.0%

Ms. Lund also wanted to discuss Pilot Payments, which are hot topics across the country.

*PILOT PAYMENTS*

- ▶ *Viewed as expense under the utilities*
- ▶ *To pay for services provided by the City (Police, Fire, other)*
  - *Based on tax rate of City for infrastructure inside the City; also the industry range*
  - *Fair and reasonable, not arbitrary or excessive*
- ▶ *Average across country according to APPA 3.9% cash only, 5.9% for cash and free services; we see average 7%*
- ▶ *It is a 1 for 1 upward pressure on rates*
- ▶ ***Get a legal opinion first***

This involves transfer of utility funds to the City, should they not and what level should it be at. The City is a municipal utility and enterprise funds are municipal utilities and payments are not required on the infrastructure. What happens, is the utility departments use things like police and fire. If a water main break occurs, the police department will be called to assist with traffic. If something is on fire, the fire department will be called.

As a result, it can be considered a cost of operating municipal utilities. Municipal utilities compensate for that by paying a payment in lieu of tax to the City. It is a legitimate expense under an enterprise fund. However, it should be based on some sort of formula.

For, example, applying the actual tax rate within the City and what would an investor owned utility pay for taxes to the City and base it on something like that. For informational purposes, the average across the country for a cash-only transfer, according to an APPA survey, which is electric, though it can apply to these type enterprise funds, is 3.9% for cash and free services, meaning streetlighting or free electric to municipal buildings, etc., is 5.9%.

In general, UFS has seen a 7% transfer across the country. They see utilities that do not make a transfer and they see utilities that do make a transfer.

Ms. Lund emphasized this is a one for one percentage upward pressures on rates. Right now, there is no transfer. If Council decided to make a transfer of 7%, and a 3.9% in water, that would be on top of the 3.9% and done in that year. Overall, that would be a 10.9% rate increase.

To add a pilot payment to wastewater, it would be an 11.9% rate increase in that year. Transferring from the electric fund would be a 7% upward pressure on rates.

This is something that cities are exploring across the country and the danger zone is when it is arbitrary or excessive. It needs to be based on a formula, should not be arbitrary nor excessive. An excessive guide could be what an investor-owned utility would pay and what utilities are paying across the country, which is the 3.9% to 7% average.

She noted there are laws by State, whether transfers can be made from a utility fund, and UFS always recommends a municipality check with their solicitor before any decision is made. It is a question they are reviewing and when teaching their classes, it is currently a hot topic which is the reason, she felt it should be part of an all-inclusive study.

Reviewing the rate study, they are recommending a 78-cents in water, \$1.18 in wastewater and \$1.05 in solid waste, which is just under \$3 for all rate adjustments presented tonight. Ms. Lundy emphasized the need for the completion of the five-year plan.

When asked if these increases maintain the reserves, she explained this will work towards maintaining the reserves. However, solid waste is still going to be struggling in cash and wastewater is simply maintaining that reserve and water will be impacted and maintaining cash through the \$7 million bond.

Councilman Culotta asked if the pilot payments can be used for the new police station. Solicitor Rutt said he would have to check into that before he is comfortable answering questions.

Councilmember James said if pilot payments could be used to fund the new police station, whatever enterprise funds it is transferred from is an additional 1 for 1 rate increase. For example, we were planning a 3.9% increase, but are now doing a 10.9% increase over the next five years. Councilman Culotta said that when looking at the dollar number, it is not a big impact. Ms. Lund emphasize those rate increases are a cumulative effect.

The City Manager pointed out the \$1 plus is for residential rates, but asked Council consider commercial rates and industrial rate as Perdue indicated earlier tonight, they have paid over \$6 million a year for utilities.

Councilman James expressed concerns and recalled being on a previous economic development committee who was working on incentives and now Council is talking about increasing rates, which is one of the reasons the City has had difficulty attracting businesses.

Councilman Culotta asked if the average 7% UFS is seeing and if that correlates to a higher taxed municipality; Ms. Lund said she does not see that correlation and that is usually in electric only. Usually, there are no transfers in water and wastewater. The trend is moving toward other enterprise funds to help cities balance their budget, but it is not typical. In addition, it needs to be not excessive and based on a formula, it can be justifiable.

The Council Meeting concluded at 10:03 p.m.

Respectfully submitted,

Terri K. Hudson, MMC  
City Clerk/Transcriber