

City of Milford



CITY COUNCIL COMMITTEE AGENDA Monday, May 10, 2021

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/j/99156131279>*

*Members of the public may also dial in by phone using the following number:
Call 301 715 8592 Webinar ID: 991 5613 1279*

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

5:30 P.M. FINANCE and PUBLIC WORKS COMMITTEE MEETING

Call to Order – Chairman Jason James

Capital Project Update

Fund Balance Policy for Utilities and General Funds

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.**

041421 050421 Time Change

Date: May 5, 2021
To: Mayor and City Council
Through: Mark A. Whitfield, City Manager
Michael Svaby, Public Works Director
From: James Puddicombe, City Engineer
Re: Capital Improvement Plan (CIP) Projects Update

This memorandum serves to provide council with current information regarding ongoing capital projects within the City. The following is a breakdown by CIP line item of ongoing projects within the City and their current status.

Water Infrastructure

- 1) Water Tower Altitude Valve at Caulk Tower – Corrected plans for a new placement of the vault required to house the altitude valve have been received and reviewed. Plans were sent out for a quote for installation only. Materials are to be sourced internally through the water department.
- 2) SE 2nd Street Lead Service Line Replacement – Completed
- 3) 10th St Water Facility Test Well (New Well to Replace Well #1) – Well drilling and report have been completed and received by the City. Data will be incorporated into revised design of the facilities.
- 4) Front Street Water Lines – Project has been placed under contract and a preconstruction meeting was held on Feb 26, 2021. Construction work is to be started as soon as practicable to avoid overlap with the ongoing sewer lining project.
- 5) Replacement of Lead Water Service Lines – This project is ongoing and funds are being used within streets projects whenever the opportunity for lead removal is available. The Mispillion Streets project includes 21 anticipated lead service line removals and the remainder of the funds for the fiscal year are anticipated to be used throughout the 2020 Streets project.
- 6) Replacement of Concrete Asbestos Water Mains - This project is ongoing with Asbestos removal on Lovers Lane being completed earlier this fiscal year. A large portion of the remaining funds are anticipated to be used throughout the 2020 Streets project.
- 7) Replacement of Well #16 (Southeast Treatment Facility) – Grant application was approved by WIAC for the investigation of potential solutions to the issue at the Southeast Treatment Facility. We anticipate beginning design work shortly which will include the data from the 10th Street Test well and one additional test well.

Sewer

- 8) Targeted Inflow and Infiltration (I&I) Investigation & Repair –The city is closed out the Shawnee portion of the I&I investigation and moving into the Truitt Avenue and Washington Street Pump Station Drainage Area. The City Engineer ran an evaluation of the last year's pump station data when compared to local groundwater and rainfall data. This information is being used to evaluate future I&I direction.
- 9) Replace Asbestos Concrete Pipe - This project is ongoing and funds are being used within streets projects whenever the opportunity for Asbestos Concrete removal is available.
- 10) Mill Street Sewer Realignment - Design work is complete, this project will be completed as part of the 2020 Streets Utilities Project



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General Fund

- 11) Street Resurfacing and Rehabilitation – This project is ongoing. Work anticipated to begin Spring 2021. Final utility design for the 2020 Streets project has been completed. The City Engineer met with the design engineer to walk ADA conflicts in the field on 3/1/2021 and made determinations on field solutions. Design work is anticipated to be completed shortly with work to be completed Summer/Fall 2021.
- 12) Walnut Street Pedestrian Crossing – KCI is working to finalize design plans for presentation to council.
- 13) Sidewalk – Sidewalk inventory is ongoing. Wards 1, 2, and 4 have been fully inventoried and only ward 3 remains. Once an evaluation of sidewalk gaps and existing damages has been evaluated a revised schedule for remaining work will be provided.



Cash Reserve Policies
Draft Revision 01
May 10, 2021

Table of Contents

Background 2

 Authority 2

 Policy Objectives 2

 Justification of Need 3

 Approval History 4

 Draft Revision 00 – January 11, 2021 4

 Draft Revision 01 – May 10, 2021..... 4

 Council Approved Revision 01..... 4

 Periodic Review Requirement 4

Policy Summary 5

Execution of Policy 6

General Fund (GF) Reserves 7

 Description 7

 GF Capital Reserve 8

 GF Equipment Replacement Reserve 8

 Realty Transfer Tax (RTT) Reserve 9

 Municipal Street Aid (MSA) Reserve..... 9

 Other Special Revenue Funds 10

Enterprise Fund Reserves 11

 Water Fund Reserve..... 12

 Sewer Fund Reserve 13

 Electric Fund Reserve 14

 Solid Waste Fund Reserve 16

Impact Fee Reserves 17

Interfund Loans 18

Background

Authority

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

Policy Objectives

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

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

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

Justification of Need

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

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

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

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

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

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

⁴ *Press Play: Vision 2023 Strategic Plan for the City of Milford, Delaware*, p.28
<http://cityofmilford.com/DocumentCenter/View/2555/2017-Strategic-Plan-FINAL?bidId=>

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

Approval History

Draft Revision 00 – January 11, 2021

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

Draft Revision 01 – May 10, 2021

This revision of the policy supersedes revision 00 and remains in unapproved draft form. The updated draft is scheduled for review by the Finance and Public Works Committee and City Council on May 10, 2021.

Council Approved Revision 01

This paragraph of the policy document is reserved for the first revision formally approved by City Council, which will supersede previous policy revisions.

Periodic Review Requirement

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

Policy Summary

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

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

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

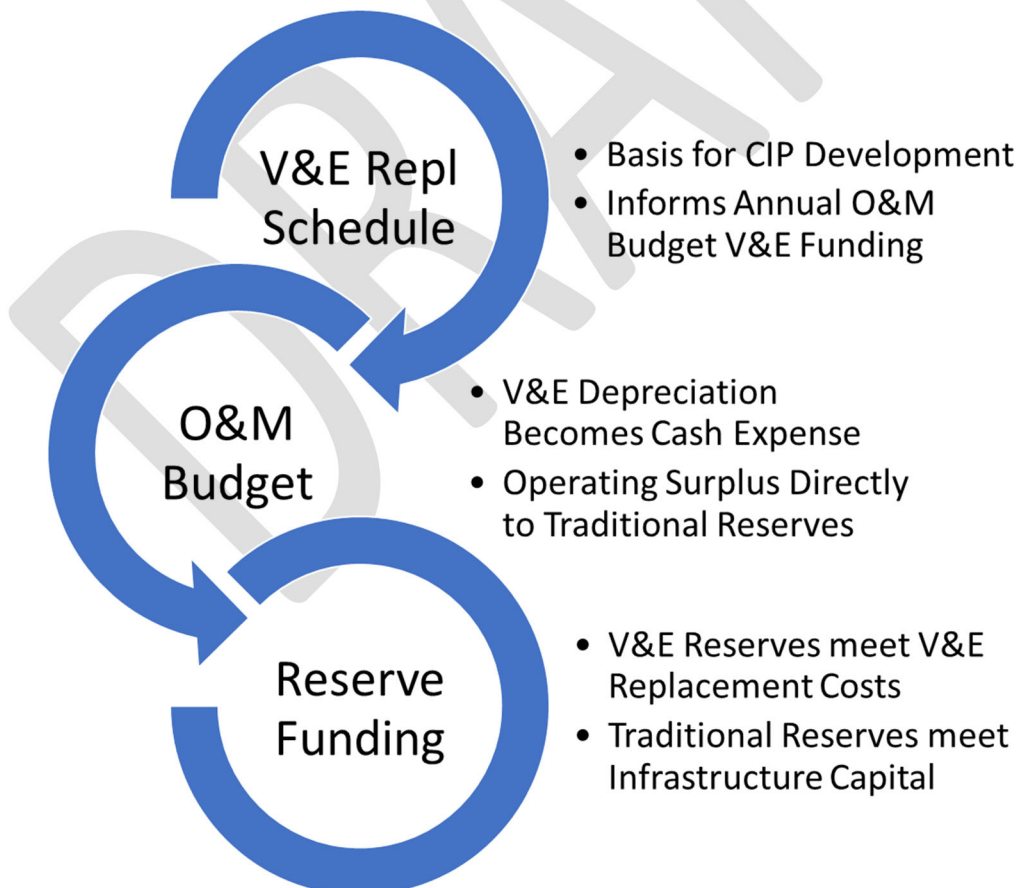
⁶ The calculated MCR/ERR shown in this table and throughout the Policy Document are not intended to serve as the static Policy thresholds; rather, the MCR/ERR formulas in each section capture the dynamic intent of the Policy and all values are for reference purposes only

Execution of Policy

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

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

The schematic below summarizes the intent of the Policy.



General Fund (GF) Reserves

Description

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

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

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

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

General Fund Reserve Policy Summary:

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

GF Capital Reserve

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

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

GF Equipment Replacement Reserve

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

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

Realty Transfer Tax (RTT) Reserve

RTT Reserve Policy Summary:

Minimum Cash Reserve (MCR) \$ 912,000

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

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

Municipal Street Aid (MSA) Reserve

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

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

Other Special Revenue Funds

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

Police & General Government Facilities (PD) Fund

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

Carlisle Fire Company (CFC) Fund

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

General Improvement (GI) Fund

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

Economic Development (ED) Fund

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

Enterprise Fund Reserves

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

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

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

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

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

Water Fund Reserve

Water Fund Reserve Policy Summary:

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

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

Water Fund Minimum Cash Requirement (MCR)

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

Water Fund Equipment Replacement Reserve (ERR)

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

Sewer Fund Reserve

Sewer Fund Reserve Policy Summary:

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

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

Sewer Fund Minimum Cash Requirement (MCR)

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

Sewer Fund Equipment Replacement Reserve (ERR)

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

Electric Fund Reserve

Electric Fund Reserve Policy Summary:

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

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

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

DRAFT

Electric Fund Minimum Cash Requirement (MCR)

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

Electric Fund Equipment Replacement Reserve (ERR)

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

Solid Waste Fund Reserve

Solid Waste Fund Reserve Policy Summary:

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

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

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

Solid Waste Fund Minimum Cash Requirement (MCR)

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

Solid Waste Fund Equipment Replacement Reserve (ERR)

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

Impact Fee Reserves

Impact Fee Reserve Policy Summary:

Minimum Cash Requirement (MCR)	\$	0
<u>Equipment Replacement Reserve (ERR)</u>		<u>0</u>
Total Minimum Reserve Balance	\$	0

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

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

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

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

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

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

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

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

Interfund Loans

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

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

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