



Improving Milton's Financial Position

Presented by Veen Leung, Director, PFM Group Consulting LLC

June 2, 2025

PFM Group Consulting LLC
PFM Financial Advisors LLC

215-567-6100

pfm.com



Introduction

- ◆ In July 2024, PFM provided a presentation to the Town Council regarding Milton's financial condition and the impact of new developments, including the Granary Special Development District
- ◆ In late 2024, PFM was reengaged by the Town to build on the analysis and provide additional support in the following areas:
 1. Provide an evaluation of the Town's **reserve levels** and related policy recommendations
 2. Evaluate the Town's **capital needs** and support the development of the capital improvement plan (CIP)
 3. Evaluate the Town's long-term **staffing needs**
- ◆ This presentation summarizes PFM's evaluation of the Town's reserve levels and capital needs, and offers high-level staffing considerations



Financial Progress Update



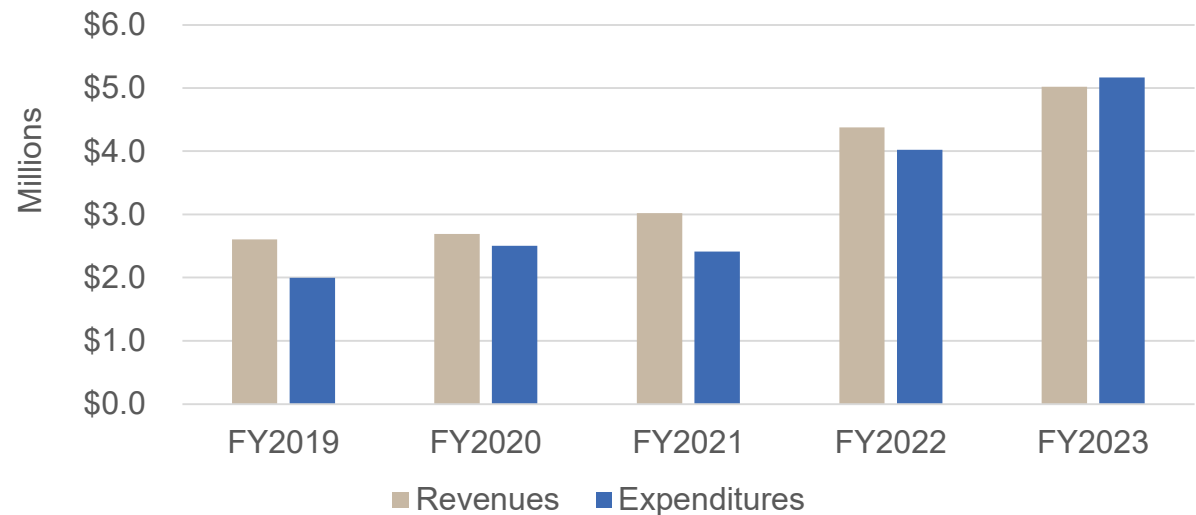
FY2019 to FY2023 Financial Performance

- From FY2019 to FY2022, the Town had positive operating results, and the unrestricted fund balance grew from \$2.5 million to \$3.0 million due in part to:

- Taxable assessed value growing by 4.0% annually
- Real estate tax rate growing by 5.3% annually
- Vacancy and attrition savings relative to budget

- In FY2023, however, the Town had a \$143,000 deficit despite the real estate tax rate growing by 17%

General Fund Revenues and Expenditures, FY2019 - FY2023



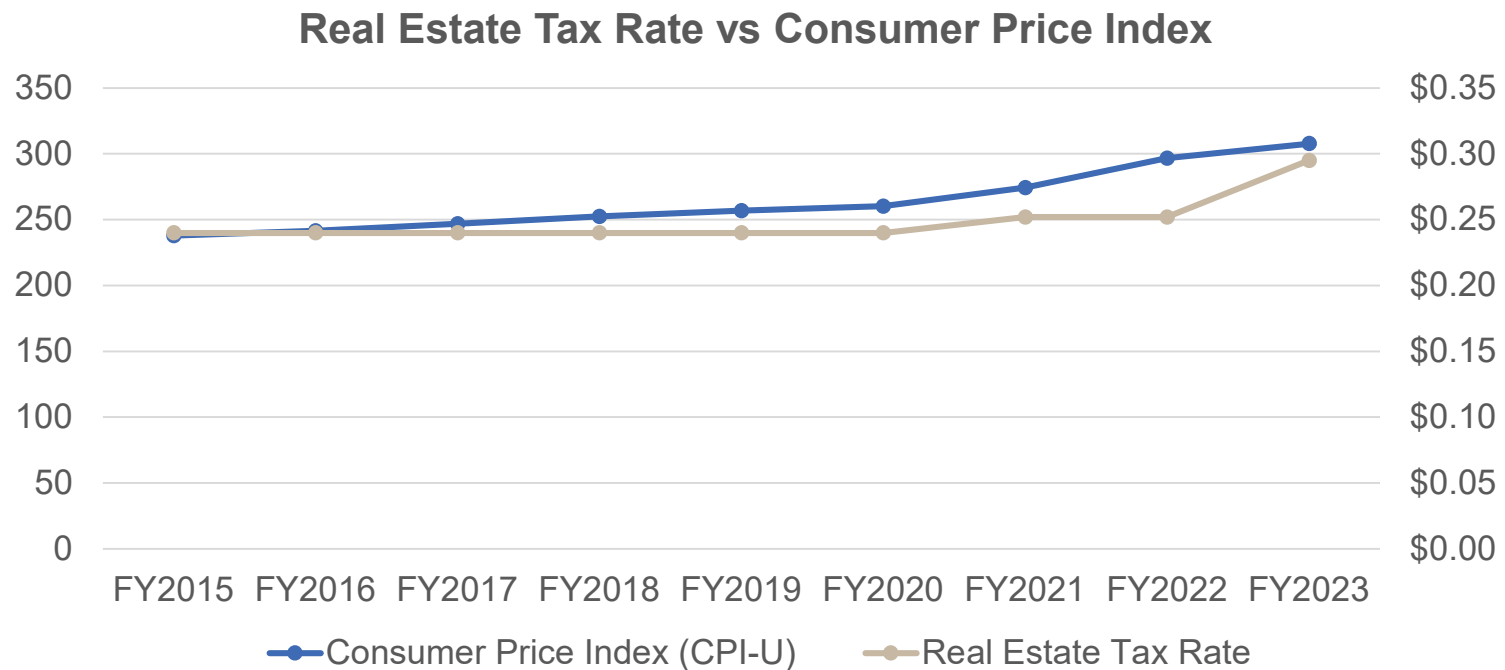
	FY2019	FY2020	FY2021	FY2022	FY2023
Revenues	\$2,602,954	\$2,688,426	\$3,019,867	\$4,375,288	\$5,021,403
Expenditures	\$1,994,755	\$2,504,136	\$2,410,208	\$4,020,391	\$5,164,209
Net Operating Result	\$608,199	\$184,290	\$609,659	\$354,897	(\$142,806)
Unrestricted Fund Balance ¹	\$2,457,011	\$2,805,095	\$2,977,828	\$2,443,851	\$2,423,350

Source: Town of Milton Annual Financial Statements



FY2015 to FY2023 Real Estate Tax Rate vs Consumer Price Index (CPI)

- Milton's tax rate remained flat at \$0.24 per \$100 in taxable assessed value for six years from FY2015 to FY2020
- For that reason, tax rate increases between FY2021 and FY2023 only allowed the Town to “catch up” with inflationary growth. This dynamic in part resulted in the deficit in FY2023





FY2024 Financial Result

- In FY2024, the Town increased its tax rate by almost 10% from \$0.295 to \$0.324 per \$100 in taxable assessed value
- The Town also collected additional building permit and charges for services revenues from new developments
- The tax rate increase, the fee revenue growth, as well as the completion of several capital projects resulted in the Town ending the year with almost \$1.0 million in surplus. The unrestricted fund balance increased to \$2.9 million, the same level as FY2021
- Although the Town ended the year with a surplus, continued progress is needed to ensure long-term financial sustainability due to the following factors:
 - Excluding intergovernmental (grant) revenue, total revenue increased by \$977,000. Only half of the increase came from the real estate tax; the remaining increase came from one-time revenue increases (e.g., building permit revenues)
 - Almost all capital spending was funded by grants, which means that there is little room in the budget to absorb any Town-funded capital improvements in the future
 - Transfer tax revenue totaled \$762,000. If the Town adheres to its policy and dedicates the real estate transfer tax to the restricted capital fund, a significant portion of the surplus would be eroded

	FY2024
Revenues	\$4,835,662
Expenditures	\$3,836,017
Net Operating Result	\$999,645
Unrestricted Fund Balance¹	\$2,943,442



Real Estate Tax Policy

- In addition to increasing its real estate tax rate, the Town recently adopted a real estate tax rate policy, which is another important step that will help the Town ensure its long-term financial sustainability
- The real estate tax policy is important because it ensures that the Town continues growing its recurring revenue to fund its growing expenditures. It also prevents the Town from relying on one-time revenue such as the transfer tax and building permit revenues to pay for recurring spending

During preparation of the annual Town Budget, the Town Manager shall use the year-ended May of the Consumer Price Index for All Urban Consumers, and the most recent quarter report of the Employment Cost Index as data points to average and determine a base minimum property tax rate increase for the ensuing fiscal year. The Mayor and Town Council shall then determine in budget review if an increase is required to fund the fiscal year operating and capital expenditures.

Ordinance No. 2024-003

- To complement the real estate tax policy, which is a step in the right direction in advancing the Town's financial position, PFM recommends creating policy guardrails for its reserves



Summary of Milton's Financial Progress

- In the last several years, the Town has made significant strides in improving its fiscal condition
 - After years of keeping its tax rate flat, the Town **increased its tax rate** for the first time in six years in FY2021 and has continued to do so each year since then
 - The Town **adopted a real estate tax policy** in 2024 that requires the Town to increase its tax rate by a base minimum equivalent to inflationary growth
 - In FY2024, the Town had a **surplus** of almost \$1.0 million. Approximately half of the surplus was a result of the 10% property tax rate increase
 - As of 9/30/2024, the Town's unassigned **fund balance** totaled \$2.9 million, equivalent to 60% of total General Fund revenue
 - The FY2025 budget **eliminates the Town's reliance on the real estate transfer tax** to fund operational needs
- To build on recent efforts, PFM recommends the Town adopt reserve policies to provide additional policy guardrails as part of its overall effort in ensuring its long-term financial sustainability



Reserves Recommendations



Why Build Up Reserves? How Much is Enough?

- The two primary goals of reserves is to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates
- Reserves also support a strong bond rating by signaling to investors that the local government has resources to pay back debt even with potential disruptions to its financial position
- At the same time, there is an opportunity cost to building reserves. For that reason, it is helpful for the Town to step back and ask, “***what risks are we trying to mitigate***” and develop reserve policies accordingly
- As a best practice, governments should maintain no less than 16.7% of operating revenues or expenditures



Reserve Policies

- ◆ **Town of Ocean View** (AA+ credit rating) has one formal reserve policy and one informal policy:
 - The Town requires a 20% **emergency reserve** (as part of the restricted fund balance) to mitigate risks related to disasters and emergencies as well as reduced transfer tax revenue. This is a formal policy adopted by Town Council
 - The Town also has an informal policy to maintain its **unassigned fund balance** at four to six months (or 35% to 50%) of General Fund revenue
- ◆ **New Castle County** (Aaa credit rating) has several General Fund reserves to mitigate different risks:
 - A **Budget Reserve** (or “Rainy Day Fund”) maintained at a minimum of 20% of operating revenue was created to protect against a turbulent economy, or any unfunded legislated mandates
 - A **Tax Stabilization Reserve** aimed to stabilize tax rates and ensure the fiscal stability of the New Castle County government
 - New Castle County also has a separate reassessment reserve account to fund tax assessment expenses
- ◆ **Sussex County** (Aaa credit rating) requires its unrestricted fund balance to be 20% to 25% of budgeted General Fund expenditure. If the balance drops below the established minimum level, the Finance Director may develop a plan to replenish the fund to the established minimum level within three years



Reserve Policy Recommendation

- ◆ At a minimum, the Town of Milton should create a **budget reserve** and formalize it as a policy
 - With the Town's heightened financial risks from deferred capital needs and the need to scale up operations, we propose a policy minimum of 25% in the unassigned fund balance, with the goal of funding it at a level equivalent to 30% to 50% of General Fund revenue
 - This reserve aims to mitigate existing risks related to revenue shortfalls and economic risks
- ◆ Given the heightened financial risks with the Granary Special Development District¹, we propose a second reserve aimed to mitigate shortfalls if/when revenues fall short of expectations from the special district
 - This can be a **special district reserve** that sunsets once all units from the Granary District are sold and the Town has scaled up its operations
- ◆ In addition to adopting reserve policies, the Town should start dedicating its transfer tax revenue to a **restricted capital fund**
 - Revenues in this restricted fund should be used for pay-as-you-go capital investments and debt service payments (in the event that the Town chooses to debt-finance large capital projects in the future)



Reserve Recommendation Summary

Reserve	Definition / Funding Source	FY2024 Year-End Balance	Recommendation
Non-spendable	Amounts that cannot be spent either because they are in a non-spendable form (such as inventories and prepaid amounts), or they are legally or contractually required to be maintained intact	\$56,138	N/A
Restricted	Transfer tax revenue Restricted state grants	\$3,293,449	- Set up a separate capital trust fund to account for transfer tax revenue only (\$3,117,193 as of 9/30/24) - Continue dedicating all transfer tax revenue to this restricted capital reserve
Committed	Community Enhancement Fund fees Emergency Services Fund fees	\$422,380	N/A
Assigned	Open purchase orders for which the goods or services were not received until the next fiscal year	\$40,512	N/A
Unassigned	All amounts not included in other spendable classifications	\$2,902,930 (or 60% of FY24 General Fund revenue)	- Dedicate \$1.2 million (equivalent 25% of General Fund revenue) to a separate special district reserve to mitigate risks related to the Granary Special Development District - The remaining amount should adhere to the budget reserve policy (25% of total budget at a minimum and a goal of 30% to 50% of General Fund revenue)



Capital Needs Evaluation & Recommendations



Capital Asset Overview

- Like other local governments, the Town of Milton has a wide array of capital infrastructure it needs to maintain, ranging from roads to buildings to vehicles and equipment
- The Town historically made consistent investments in the water utility system, but General Fund capital investments have fallen behind the amount required to keep infrastructure on a life cycle replacement schedule
- A high-level review of the Town's capital infrastructure (based on existing capital assessment studies and discussions with Town staff) indicates the following:
 - **The most urgent capital need is the Police Building.** The Town made minimal investments over the last 40 years in the building and there are major capital maintenance issues with the facility itself (e.g., mold in the basement; failing HVAC, etc.). Because of the failing HVAC, the Police Chief uses a portable heating unit for his desk in the winter
 - While the **Public Works facility** is in a better condition, it also has problems. For example, the salt shed's structure is eroding, and the Department has resorted to piling salt outside the salt shed, using plastic tarps to cover the salt
 - The Town was able to secure grants to purchase new police vehicles in the last two years, but the Town will have to find revenue to fund **vehicle replacements and other equipment renewals** in the future given that one-time revenues are not sustainable



Capital Prioritization Framework

- ◆ Milton is stepping in the right direction by using a capital prioritization framework to determine ways to prioritize limited dollars. A formal evaluation or ranking process helps stakeholders reach a common understanding of the priority-setting process and criteria, facilitates decision making, and generates a record of the process
- ◆ Below are a few considerations to further refine the current process used for streets and sidewalks:¹
 - **Consider the age and condition of the asset:** The Town already has a road condition assessment and should use the results to prioritize related projects. As already noted, being proactive in maintaining its roads will help generate long-term savings
 - **Refine the criteria:** The Town should step back and determine whether the current set of criteria are the “right” set of criteria – for example, should the current “safety” criteria be expanded to include health, safety, and legal compliance? What about the Town’s strategic priorities?
 - **Refine the rating system:** The ratings for some of the criteria (e.g., cost) can be more elaborate (e.g., instead of 1 = low cost and 0 = high cost, the Town can use a five-point rating system with a cost range for each of the five points)
 - **Use a weighted scoring system:** Currently, the highest score is 7 and the lowest score is 0.5. To make the scoring criteria and process more transparent and easier to understand, the Town should use a weighted scoring system so that 10 is the total score across multiple criteria (see next page)
 - **Simplify the process:** Currently, after the score based on the six criteria is calculated, each committee member then assigns another priority score. To simplify the process, the Town should simply use the weighted score of all the criteria as the final score and eliminate the last step of assigning a priority score. Eliminating the final step would also help promote a fair and objective scoring system



Example Streets and Sidewalks Committee Prioritization Framework

Criteria		Score Metric	Highest Score	Weight	Example Score	Final Score*
Health, Safety, and Legal Compliance	Is the project required to meet the basic standards of residents' health and safety or legal compliance?	1 = required 0 = not required	1	20%	1	2.0
Age and Condition of the Asset	Will this project bring the asset onto a life cycle replacement plan? What are the associated costs of delaying this project?	4 = poor condition 3 = average condition 2 = good condition 1 = best condition	4	20%	2	1.0
Network Benefit	Capital projects that improve the overall community network are a higher priority	3 = significant impact 2 = medium impact 1 = low impact 0 = no impact	3	10%	2	0.7
Street Type	Major Streets (e.g., major and minor collectors) are prioritized over smaller streets (e.g., local pathways)	4 = major collector 3 = minor collector 2 = local street 1 = multi-use path	4	10%	2	0.5
External Funding	Is this project funded by external grants?	4 = 100% funded by external sources 3 = 75% funded by external sources 2 = 50% funded by external sources 1 = 25% funded by external sources 0 = Not funded by external sources	4	20%	2	1.0
Cost Savings	Will this project generate recurring savings or new operating costs?	3 = annual cost savings >\$5,000 2 = annual cost savings >\$2,500 1 = annual cost savings > \$0 0 = no cost savings	3	20%	3	2.0
TOTAL (10 = Highest Score)				100%		7.2 (Out of 10)

*Final score incorporates weight and conversion factors and is calculated by the following formula:
 Final score = Score x conversion factor (10 / highest score for each factor) x weight
 For example, the final score for Health, Safety, and Legal Compliance) = 1 x (10/1) x 20% = 2.0



Capital Planning Next Steps

- The capital planning process should **start with each department's capital "wish lists"** and a capital prioritization process that ranks capital projects
 - The work already completed by the Streets & Sidewalks Committee (SSC) should follow the same process
- All identified capital projects – including prioritization ranking of all proposed projects – should then be submitted to the Town Manager for review and inclusion in the proposed capital budget and CIP
- PFM will then work with the Town to estimate the FY2026 capital budget and a capital funding plan
 - According to the FY2025 budget, the Town already set aside transfer tax revenues for capital purposes
 - The Town should subsequently **dedicate all its transfer tax revenue to a restricted capital trust fund** and report those amounts separately in its financial statements
 - Restricted capital funds should be used for capital investments on a pay-as-you-go basis (e.g., vehicle replacement) as well as future debt service payment for any debt-financed capital projects
- The Town should then **develop a facility plan** for its municipal, public works, and police buildings
 - The Town already purchased land to build a new public works facility and a new municipal / police building
 - The next step is to estimate construction costs and develop a financing plan, including potential debt issuance
- The ultimate goal is to **develop a capital budget and CIP** to be adopted with the operating budget



Staffing Needs Evaluation



Framework to Evaluate Staffing Needs

- The Town has to scale up operations to meet the service demands of the Granary Special Development District. Headcount increases will add significant costs to the Town's General Fund, especially once benefits and other related costs are included
- PFM met with Town department heads (police, public works, code enforcement, and administrative services) during this engagement and used the following five guiding questions as a framework for evaluating workload

1. In what operational areas are Town departments concerned about capacity and why?
2. What are the relevant activity measures for those areas, and what does the data show?
3. How have the number of staff assigned to those activities changed?
4. What performance standards are staff trying to meet, and how is the Town performing relative to those standards?
5. If workload continues to increase, will departments continue to meet performance standards? At what point would workload be so heavy that departments are not able to meet standards?

- The above framework primarily uses quantitative analyses to indicate areas of potential further review and inform more nuanced, qualitative evaluations



Staffing Considerations

- ◆ Ideally, if data is available, using **quantified data to inform staffing conversations** can be helpful in preventing those conversations occurring within a largely anecdotal context. *Department X doesn't look very busy, so I'm not worried about them. They don't need more staff. Department Y says they are spread too thin so let's add staff there instead.*
- ◆ Understanding how current and future staffing levels relate to workload (e.g., call volume, number of complaints) and service quality (e.g., turnaround time, customer satisfaction) can be an effective way to evaluate headcount
 - Staffing discussions can be a difficult and emotional process. That is why framing these questions from the perspective of cost-benefit (“what is the cost of the additional headcount and how does that compare to the benefit?”) can be helpful
 - Alternatively, Town officials can also ask “are we willing to increase taxes by X% to increase headcount?” and/or “how will maintaining staffing impact turnaround time or other service quality indicators?” to have more meaningful and deliberate discussions regarding ways to control workforce costs
 - Developing analyses focused on workload and service level/quality can help the Town determine the best way to allocate limited resources while achieving its operational and strategic goals
- ◆ Where applicable, PFM also provided recommendations regarding how **technology investments** (e.g., smart water meters, electronic billing statements, autopay options etc.) can help relieve workload and impact staffing discussions



Summary and Next Steps

- ◆ The Town has made **meaningful progress in improving its financial condition** since early 2024
 - Over the past year, the Town adopted a real estate tax policy, implemented a rate increase, and eliminated its reliance on the real estate transfer tax for operational purposes
- ◆ Given the progress the Town has made, this is a good time to develop **reserve policy guardrails**, especially because the Town does not currently have any formal budget reserve policy
- ◆ The Town is also on track to develop its first **Capital Improvement Plan**
 - The Town has already compiled each department's CIP "wish lists"
 - The Town's facility plan – including plans for the police, municipal, and public work buildings – should also play a major role in the CIP
- ◆ Finally, as the Town explores **scaling up operations and adjusting its staffing levels** to accommodate additional service demands, it must consider not only the anticipated population growth. Instead, and especially given the financial constraints, Milton must consider how workload, service quality, and technology improvements all play a role in operational demands and how those factors impact staffing levels