MEMORANDUM

TO: Borough Council
    Mayor Burton

FROM: Christopher Bashore, Borough Manager

DATE: August 4, 2020

RE: 2020 Operating Budget
     Second Quarter Report

This report will provide Borough Council with a status update on budget activity through the second quarter of 2020. The 2020 Budget was approved by Borough Council at the December 17, 2020 meeting. The report outlines the standing of revenue and expenditures, both on an overall and per fund basis. In addition to providing a status report on the 2020 budget, a calendar for the 2021 budget process has also been provided at the end of this report.

1. **Revenue & Expenditures during the second quarter of 2020**

   Through the second quarter of 2020, revenue has exceeded expenditures by **$835,334.20**. During the second quarter, revenue exceeded expenditures by **$685,694.33**. Below is the per fund information on the Borough’s 2020 budget to date:

   ![Revenue & Expenditures Chart]

   - **Revenue**
     - General
     - Capital Reserve
     - Sewer
   - **Expenditures**
     - General
     - Capital Reserve
     - Sewer
   - **Beginning Balance**
     - General
     - Capital Reserve
     - Sewer
   - **Operating Funds**
     - General
     - Capital Reserve
     - Sewer
   - **Interfund Transfer**
     - General
     - Capital Reserve
     - Sewer
The chart below outlines the comparison between revenue and expenditures through the second quarter of the last three (3) years:

As displayed in the chart above, revenue generally exceeds expenditures during the first half of the year. This is due to the receipt of tax revenue and the fact that major projects (e.g., paving, construction) traditionally occurs during the second half of the year in the summer.

This year, however, has presented a unique situation with the COVID-19 pandemic. Due to the decline witnessed across various revenue sources, Borough administration has taken steps to mitigate the impact. This has included the following cost-control measures:

- Elimination of certain paving projects allocated in the 2020 Budget. This has included W. King Street (budgeted at $125,000) and Malvern Avenue (budgeted at $101,000).

- Not filling certain part-time positions outlined in the budget, specifically in the Administration and Public Works Departments.

- The Malvern Police Department has worked to curb the use of part-time patrol officers and overtime.
- A reduction in community events from the Parks & Recreation Committee. They have worked to implement virtual activities where possible.

The information below will outline general revenue and expenditure information through and during the second quarter of 2020.

a. Revenue

Total revenue collection across all Borough funds through the second quarter was $2,878,479.10 (46% of budgeted revenue). During the second quarter, revenue collection totaled $1,642,258.06 (57% of revenue collected to date occurred during the second quarter). While there have been other factors, the COVID-19 pandemic has had an impact on the Borough’s revenue stream. Revenue collection to date in 2020 is down approximately 10% compared to the data through the second quarter of 2019. The primary reasons for this reduction are the following:

- The Borough received a reimbursement from Chester County for the Woodland Avenue Streetscape project in the first quarter of 2019. This reimbursement totaled $78,920.57. To date, the Borough has not received grant reimbursement for its active projects.

- Revenue from interest earnings is substantially lower compared to the same time period in 2019. This is the result of rate reductions due to the COVID-19 pandemic. Interest earnings across all Borough funds has witnessed a 39% decline through the second quarter of 2020.

- Act 511 taxes (e.g., Per Capita, Local Services, Earned Income, and Real Estate Transfer taxes) are approximately 6.6% lower when compared to the same time period in 2019.

- Current year real estate tax revenue is approximately 3.6% lower compared to the second quarter of 2019. Overall, real estate tax revenue is down 4% compared to the second quarter of 2019.

- The COVID-19 pandemic has significantly impacted building permit fee revenue, primarily due to the six (6) week construction shut down that occurred in the March to May timeframe. Revenue from building permits is down 34% across all areas of this group of line-items. When examining building permit revenue alone, this individual category is down 71% compared to the second quarter of 2019. Bill Wilfong, Building & Code Enforcement Official/Fire Marshal, has advised that permit activity has increased, but is not at the level it was in 2019. Mr. Wilfong also noted that the Borough saw a large number of new home starts in 2019.
- Sewer rent revenue is approximately 4% lower. Additionally, tapping fee revenue is down 67%; however, this was anticipated due to the lack of commercial construction that was anticipated in 2020 (Brick & Brew had a sizeable tapping fee bill for 2019).

The Borough’s revenue stream tends to increase in the second quarter of the year due to real estate tax payments being received. As an example of revenue trends, the chart below outlines revenue trends during 2019:

As outlined in the chart above, 31% of all revenue received by the Borough was realized in the second quarter of 2019. Using 2019 as an example, revenue increased by 33% from the first to second quarter of 2019. A similar trend was witnessed in 2020. Revenue increased by 33% in the second quarter of 2020. As previously noted, this is primarily attributed to the influx of real estate tax payments received in the second quarter. Revenue collection traditionally declines in the third quarter of the year and increases in the fourth quarter. This is primarily due to increased payments for Act 511 taxes and real estate taxes, the latter being higher to avoid the tax bills being forwarded to Chester County for collection.

While the COVID-19 pandemic may not disrupt the overall trends, it will undoubtedly reduce the overall revenue realized by the Borough in 2020. This is already being
witnessed based on the data available. Additional information on revenue will be analyzed during the discussion of each fund.

b. Expenditures

Total expenditures across all Borough funds during the second quarter was $2,043,144.90 (23% of budgeted expenditures). This is $214,938.54 (9.5%) lower compared to second quarter of 2019. The reason for this difference may be attributed to the following:

1. A reduction in the Borough’s expenditures for professional services, most notably legal and engineering services in the General Fund.

2. Reduced costs for the Malvern Police Department, most notably due to a decreased use of part-time patrol officers.

3. Decreased costs in the Public Works Department, primarily attributed to a reduction in overtime and snow removal costs due to the mild winter that was witnessed.

4. There have been no expenditures out of the Sewer Capital Reserve Fund.

5. Expenditures related to capital projects allocated in the Capital Reserve Fund are 44% lower compared to the second quarter of 2019.

During the second quarter, expenditures totaled $956,563.73 (47% of expenditures to date occurred during the second quarter). In comparison to the second quarter 2019, expenditures during the second quarter of 2020 are approximately 8.4% lower.

During the second quarter of 2020, the following significant expenditures occurred:

- Purchase of new computers for the Borough Treasurer and Superintendent of Public Works – $2,549.17
- Renewal of the Borough’s property and liability insurance – $55,995.00 (allocated 60% in the General Fund and 40% in the Sewer Fund)
- Contribution to the Malvern Fire Company – $28,750.00
- Repair and maintenance work associated with Pump Station #2 of the Borough’s sanitary sewer system – $11,294.68
- Sewage disposal and treatment costs – $120,654.00
- Payment for the purchase of the Borough’s streetlight system from PECO – $14,356.58
- Costs associated with the N. Warren Avenue Transit Project – $38,590.00
• Costs associated with the development of a master plan for the Randolph Woods Nature Preserve – $12,134.57

In addition, the following contracts were awarded by Borough Council:

• 2020 Paving Program\(^1\)
  ○ E. King St. (from Warren Ave. to Bridge St.) – Awarded to John A. DiRocco Contractors, Inc. – $43,541.84 (labor = $27,341.84, material = $16,200.00)
  ○ N. Warren Ave. (from Pennsylvania Ave. to the Borough boundary) – Awarded to John A. DiRocco Contractors, Inc. – $51,717.16 (labor = $28,217.16, material = $23,500)

Please note that both of the awarded contracts are under budget. Additionally, due to the COVID-19 pandemic, the following cost control measures have been implemented by the Borough’s departments:

• The budgeted paving projects on W. King St. and Malvern Ave. will not be bid out. This will result in an estimated budgetary savings of $226,000.00.

• Part-time positions allocated in the budget will not be filled. This includes positions in the Administration and Public Works departments.

• Reducing the use of overtime and part-time patrol officers in the Police Department.

• Cancellation of events for the Parks & Recreation Committee.

Borough administration continues to explore grant opportunities in order to offset the cost for certain projects. The following grants have been awarded to date:

• Chester County Vision Partnership Program – $31,890 for the update to the Borough’s Comprehensive Plan

• Chester County Preservation Partnership Program – $21,279 for improvements to Quann Park

A grant application has also been submitted to the PA Department of Conservation and Natural Resources for additional funding toward the improvements to Quann Park. Borough staff will continue to explore cost-control and grant opportunities to offset project costs.

\(^1\) Funds for these projects allocated in both the General Fund and the Highway Aid Fund.
2. Cash Reserve Balance

The Borough’s cash reserve balance through the second quarter of 2020 is $7,729,458.62. This represents a decrease of $189,451.56 (a 2.4% decrease) compared to the balance through the second quarter of 2019 ($7,918,910.18). Currently, the cash reserve balance for the Borough represents 89% of budgeted expenditures in 2020. This balance represents all funds, including restricted accounts. The chart below illustrates a breakdown of the Borough’s bank accounts:

The chart below outlines the increases in the Borough’s reserve funds through the second quarters of 2016 – 2020:
As indicated by the chart above, the Borough’s reserve fund balances have increased steadily when examining the balances through the second quarter of the last five (5) years, with a net increase of 19%. This may be attributed to the following:

- Cost saving initiatives, primarily through changes to employee benefits and adjustments in Borough insurance policies.
- Increases in certain revenue categories, most notably witnessed in the collection of earned income taxes.
- Increased development and construction activity has proceeded higher assessment values for properties, resulting in higher property tax revenue. While the increases in the Borough’s overall assessment has begun to plateau, it has still increased in the last few years. The most significant increase was witnessed from 2014 – 2016.

While the overall information outlines an increase in the Borough’s cash position, it is important to note that a decline has been witnessed. This may be attributed to the completion of the Ruthland Avenue Force Main project during the latter part of 2019.

Please be advised that I also anticipate a decline in the Capital Reserve Fund as major projects begin construction, most notably the N. Warren Ave. Transit Project. These funds will be replenished as grant reimbursement is received.

Please note that the Sewer Fund bank account constitutes both the sewer operating and capital funds. The contingency account is used to supplement the operating fund. The Borough has two (2) contingency accounts that serve as an emergency fund. These accounts are as follows:

- General Fund Contingency – $305,274.85
- Sewer Fund Contingency – $425,712.82

The Governmental Finance Officers Association (GFOA) recommends that municipalities maintain a general reserve fund balance of 5% to 15% of regular general fund operating revenues. The current fund balance represents 74% of the projected 2020 revenue for the General Fund. This represents a strong reserve capacity for the Borough.

3. **2020 Budget – Fund Report**

   **a. General Fund**

   The General Fund is the largest fund in the 2020 budget. This fund constitutes 71% of revenue received by the Borough and 51% of the Borough’s annual expenditures. Overall, through the second quarter of 2020, revenue has exceeded expenditures by $918,997.87 in the General Fund. Revenue in the General Fund has totaled $2,346,950.65, and expenditures have totaled $1,427,952.78. The information below will provide a more
detailed examination of revenue and expenditure standing through the second quarter of 2020. This section will also include a comparison with 2019.

i. **Revenue**

Revenue in the General Fund is at 52% of budget overall through the second quarter of 2020. Through the second quarter of 2019, revenue was at 58% of budget. Real estate tax bills were mailed to property owners in March 2020, with primary collection occurring in April and May 2020. The COVID-19 pandemic and resulting economic impacts have resulted in a reduction in revenue in the Borough’s General Fund. In terms of actual dollars collected, revenue in the General Fund is approximately 10.5% compared to the second quarter of 2019. Please be advised that a portion of the revenue realized in 2019 included reimbursement of grant funding from Chester County in the amount of $78,720.57. Removing these funds from the calculation results in revenue being down 7.7% compared to the second quarter of 2019.

The Borough’s revenue from real estate taxes is lower compared to the second quarter of 2019. On April 21, 2020, Borough Council approved an extension of the discount period as authorized by Act No. 15 of 2020. The resulting extension has produced a loss in revenue; however, it is important to note that the budget is based on all collections being received during the discount period. Overall, revenue from real estate taxes is at 93% of budget, while it was at 98% of budget through the second quarter of 2019. Current year real estate taxes are at 94% of budgeted revenue ($1,028,373.74). This represents a decline of approximately 4% compared to the second quarter of 2019. Revenue collected from delinquent real estate taxes is 56% lower than through the second quarter of 2019 when examining the actual funds collected. Through the second quarter of 2020, delinquent real estate tax revenue is at 43% of budget compared to 96% of budget during the second quarter of 2019. No revenue was received during the second quarter of 2020 from interim real estate taxes. I anticipate this will change in third quarter as the Borough Treasurer recently issued interim real estate tax bills to several property owners.

Local Enabling Tax revenue (e.g., Per Capita, Earned Income, Real Estate Transfer, and Local Service taxes) is currently at 52% of budget through the second quarter of 2020. This is approximately 5% lower compared to the second quarter of 2019. Real Estate Transfer Tax revenue has declined 17.6% compared to the same time period in 2019. Through the second quarter of 2019, this revenue category had rebounded 30.7% compared to the previous year. The COVID-19 pandemic resulted in a delay in real estate transactions, except for those already under agreement. The Borough has processed numerous requests for tax and sewer certifications, which may be an indicator of an improving housing market. As such, the Borough may realize more revenue in this category during the third quarter.
In evaluating trends, the Borough is currently slightly ahead (8% ahead) of the levels witnessed in 2018.

Total combined Earned Income Tax (EIT) revenue (current and prior years) is at 53% of budget. This represents a 6% decrease ($64,522.07) in revenue collected when compared to the second quarter of 2019. Through the second quarter of 2020, current year Earned Income Tax revenue is at 35% of budget. Prior year Earned Income Tax revenue is currently at 107% of budget. In reviewing collection data from Keystone Collections Group, total collections are approximately 2.6% lower compared to the second quarter of 2019. While collected throughout the year, EIT distributions to municipalities occur primarily in the months of February, May, August, and November, with the largest distribution occurring in May. Distributions during the second quarter were down 7.2% compared to the second quarter of 2019. A significant factor in the decline of the Borough’s EIT revenue has been the reduction in delinquent collections. Reviewing data through the second quarter of 2020 indicates that revenue from delinquent EIT is down 42% compared to the second quarter of 2019. Keystone Collection Group paused collection of delinquent EIT at the start of the COVID-19 pandemic, but did restart the program, which may result in the Borough seeing increased revenue.

Revenue from the Local Services Tax (LST) is currently at 54% of budget through the second quarter of 2020. Please note that this includes both current and prior year Local Services Tax revenue. Through the second quarter of 2020, LST revenue is approximately 9.7% higher compared to the second quarter of 2019. Distributions during the second quarter of 2020 were approximately 7.5% higher when compared to the second quarter of 2019. In reviewing reporting information from Keystone Collections Group, gross LST collections are 9% higher compared to the second quarter of 2019.

Permit fee revenue is considerably lower compared to the second quarter of 2019. This may primarily be attributed to the construction halt that was put in place at the start of the COVID-19 pandemic. Overall, this budget category is approximately 34% lower when compared to the second quarter of 2019. Building permits alone are down 71% compared to the second quarter of 2019. Revenue from plumbing and street opening permits are also down 32% compared the second quarter of 2019. In speaking with the Borough’s Building & Code Enforcement Official, an influx in permit activity has been increased, but not to the level witnessed in 2019. This may be attributed to the large number of new housing starts witnessed in 2019. As such, I anticipate that this category will finish below the level witnessed in 2019.

Earnings on investments are at 32% of budget and actual revenue is 61% lower when examining actual collections. The total revenue realized through the second quarter of 2020 is $8,024.27. The decrease may be primarily contributed to the
lower rates being received due to the COVID-19 pandemic and the rate cuts imposed by the Federal Reserve Bank.

The impact of the COVID-19 pandemic and subsequent economic results may be witnessed at all levels throughout the General Fund’s revenue sources. The Borough’s revenue sources are down compared to past years, albeit, not to the levels anticipated at the start of the pandemic. Data still indicates that the Borough is monitoring these items closely and taking steps to mitigate the reduced revenue. During preparation of the Borough’s 2021 budget, we should look to control costs where possible to counter the anticipated reduction in revenue. Primarily, major capital expenditures in the General Fund should be delayed if possible. The Borough will continue to monitor finances closely. Additional information will be included in the third quarter report to Borough Council.

ii. Expenditures

Expenditures in the General Fund are currently at 32% of budgeted projections. This is 6% lower compared to 2019. Major expenditures in the General Fund during the second quarter of 2020 included the purchase of two (2) new computers, renewal of the Borough’s property and liability insurance (this expense is split between the General Fund and the Sewer Fund, with 60% allocated to the General Fund), and a contribution to the Malvern Fire Company.

Due the COVID-19 pandemic, the Borough has witnessed a cost savings for certain administrative expenditures. Material and supply costs are approximately 41% lower and there have very limited costs for training activities. Advertising costs, however, are 53% higher due to the increased advertisements required for virtual meetings.

Professional service costs allocated in the General Fund are lower compared to the second quarter of 2019. Fees paid to the Borough Engineer are down 56% compared to the second quarter of 2019. Please note that costs associated with the Borough Engineer are separated among the General, Sewer, and Capital Reserve funds according to project type. Legal services are approximately 22% lower compared to the second quarter of 2019.

Police Department expenditures are approximately 5% lower when compared to the second quarter of 2019. Chief Marcelli instituted cost control measures at the start of the COVID-19 pandemic, including a reduction in overtime and the use of part-time patrol officers. Examining part-time patrol officers, this expenditure is approximately 49% lower compared to the second quarter of 2019. Additionally, the Police Department purchased a new vehicle in 2019. A significant purchase of this kind did not occur in 2020.
Expenditures in the Public Works Department are 20% lower when compared to the second quarter of 2020. Contributing factors to this reduction are the following items:

- There have been no purchases for roadway deicing salt due to the mild winter that was experienced. In relation to this, overtime costs are approximately 49% compared to the second quarter of 2019.

- Expenditures associated with vehicle maintenance and repairs are approximately 58% lower compared to the second quarter of 2019.

- A new Ford F350 truck was purchased in first half of 2019. The 2020 budget includes the purchase of a new Ford F550 truck to replace the 2005 Freightliner. While this vehicle has been ordered, payment has not been issued and the vehicle has not been received.

I commend each department in the Borough for their responsibility during the COVID-19 pandemic. With the anticipated revenue reduction, we have worked to control expenditures to the best of our ability. It is anticipated that the Borough will see additional savings in the General Fund due to the project reductions outlined previously. Additionally, not filling certain part-time positions allocated in the budget will produce a savings. As such, I anticipate expenditures in the General Fund to finish under budget. That being said, preparation of the 2021 budget will undoubtedly be a cautious exercise. Certain capital expenditures (e.g., vehicle purchases) may need to be delayed and adjustments to services may be necessary.

b. Sewer Fund

The Sewer Fund represents 14% of the Borough’s 2020 budgeted revenue and 12% of the 2020 budgeted expenditures. This fund covers all non-capital costs related to the Borough’s sanitary sewer system, including maintenance, treatment/disposal, and engineering. The primary source of revenue for this fund are sewer rental charges and tapping/connection fees. Sewer rents (user fees & charges) constitute 95% of all revenue realized by the Sewer Fund. This is a standard practice as there is no tax levy for this fund. Tapping fees related to new construction is the other major revenue source, but not near the same level as user fees. The 2020 budget utilized $142,599 in reserve funds to balance the budget. These funds were derived from the sale of the Valley Creek Trunk Sewer (VCTS) line.

The most significant expenditure in the Sewer Fund is related to the operation and maintenance of the Borough’s sanitary sewer system. Approximately 70% of this cost is related to sewage treatment and disposal. These include fees paid to Aqua Resources,
Inc. and East Whiteland Township for conveyance, as well as the Valley Forge Sewer Authority for treatment. The remaining costs relate to general maintenance and operations for the Borough’s sanitary sewer system.

Overall, through the second quarter of 2020, expenditures have exceeded revenue by $30,496.98. Revenue in the Sewer Fund is $38,389.25 lower compared to the second quarter of 2019. Expenditures in the Sewer Fund are $27,859.90 higher compared to the second quarter of 2019.

Expenditures in the Sewer Fund are at 46% of budget, which is approximately 4% lower when doing a budget-to-budget comparison to the data through the second quarter of 2019. However, when examining actual dollars expended, expenditures in this fund are 6.4% higher than the second quarter of 2019. Revenue is currently at 50% of budget, which represents a 4% decrease when performing a budget-to-budget comparison to the data through the second quarter of 2019. When examining actual dollars received, the Borough has witnessed an 8% decrease in revenue received in the Sewer Fund.

The information below will provide a more detailed examination of revenue and expenditure standing through the second quarter of 2020. This section will also include a comparison with 2019.

i. Revenue

Total revenue through the second quarter of 2020 is $435,257.83 (54% of budget). Revenue in the Sewer Fund is derived from four (4) sources: sewer rental fees, tapping fees, penalties, and interest earnings.

Sewer rental fees, which represent 95% of revenue for this fund, are currently at 50% of budgeted revenue. Please note that billing is done on a quarterly basis. Sewer rent revenue is down 4% compared to the same time period in 2019. Due to the fact that commercial properties receive water meter readings on a quarterly basis, it is my assumption that the business closure due to the COVID-19 pandemic is the primary contributor to this reduction. Through the second quarter billing on 2020, the current delinquent amount is $29,852.75, which represents approximately 14% of the Borough’s accounts being delinquent. Please note that several delinquent accounts are in bankruptcy, limiting the actions that the Borough is able to collect outstanding fees. Additionally, sewer tapping fee revenue is down 66% compared to the second quarter of 2019. Through the second quarter of 2020, the Borough has received $8,575.36 in tapping fee revenue. This represents tapping fees paid for the approved subdivisions at 13 Lovers Lane, 51 Ruthland Ave., and 11 Griffith Ave. This revenue category was reduced by approximately 50% in 2020 due to the anticipated decline in tapping fees for commercial projects. Please be advised that the Borough is anticipating
receipt of a refund from the Valley Forge Sewer Authority of approximately $50,000. This will be reflected in the third quarter budget report.

Total revenue in the Sewer Fund in 2019 finished 14% above budgeted projections. As noted with other funds, I would anticipate a potential decline in revenue for the year. Additionally, expenditures will most likely exceed revenue in this fund; however, that was anticipated in the budget projections. Borough Council will need to evaluate sewer rates for 2021 and this is actively being discussed by the Finance & Administration Committee.

ii. Expenditures

Total expenditures through the second quarter of 2020 are $465,754.81 (46% of budget). This is 4% lower when compared to the second quarter of 2019 when performing a budget-to-budget comparison; actual dollars expended are 6.4% higher when compared to the second quarter of 2019. The information below provides an examination of each of the budgetary categories:

- **Operation & Maintenance**: Through the second quarter of 2020, operation and maintenance costs are at 47% of budgeted expenditures ($339,916.76). This is approximately 7.6% higher than the total expenditures in this category through the second quarter of 2019. Sewage disposal and treatment costs represent approximately 71% of expenditures to date and is currently at 47% of budget through the second quarter of 2020. Sewage disposal and treatment costs are approximately 6.2% higher in 2020 compared to the second quarter of 2019. This is primarily due to increased disposal and treatment costs to both the East Whiteland Township. Sewage conveyance costs paid to East Whiteland increased by 9%, which is slightly lower than the historical increase (12%). Costs for treatment paid to the Valley Forge Sewer Authority (VFSA), which have traditionally increased about 7% each year, were increased by 1% in 2020. That being said, the Borough’s cost for conveyance and treatment have witnessed a marked increase over the past five (5) years (up 63% since 2016).

  Maintenance costs for the sanitary sewer system are also considerably higher compared to the second quarter of 2019. This is due to a failure and necessary repairs at pump station #2. Costs associated with maintenance are three (3) times higher when compared to the second quarter of 2019.

  Due to the increased costs for treatment and conveyance, as well as the age of the Borough’s system, Borough Council must consider increasing sewer rates in 2021. Utilization of reserve funds to balance the Sewer Fund
is possible; however, it is not a financially responsible practice in the long term. The Borough’s sewer rate is actively being discussed by the Finance & Administration and will be discussed as part of the 2021 budget.

- **Administration**: Administrative costs budgeted in the Sewer Fund include costs related to such items as engineering, communications systems at the pump stations, and insurance. Through the second quarter of 2019, administration costs are 43% of budgeted expenditures ($125,838.05). This is slightly ahead of the total expenditures in this category through the second quarter of 2019 (3.3% higher). Certain expenditures in this category have witnessed a decline. Most notably, engineering costs associated with the sanitary sewer system are 21% lower when compared to the second quarter of 2019. Other expenditures in the Sewer Fund are stable.

Total expenditures finished 2019 at 96% of budget. I would anticipate this fund finishing 2020 at a similar level.

c. **Sewer Capital Reserve Fund**

Revenue for the Sewer Capital Reserve Fund is derived from interfund transfers from the Sewer Operating Fund and the beginning cash balance. No transfers from the Sewer Operating Fund were allocated in the 2020 budget. Total budgeted revenue for 2020 in this fund is $1,294,166, which represents the projected beginning cash balance (actual beginning balance was $1,342,203.00).

Expenditures in the Sewer Capital Reserve Fund total $135,000. Budgeted projects include repair to the sewer mains, replacement of the check valve at Pump Station #2, inflow and infiltration work, and payment into the construction fund for the Valley Forge Sewer Authority. To date, there have been no expenditures in the Sewer Capital Reserve Fund.

d. **Capital Reserve Fund**

Revenue for the Capital Reserve Fund is derived from the beginning cash balance and interfund operating transfers from the Borough’s General Fund. Through the second quarter of 2020, there have been no transfers into this fund; all revenue has been in the form of interest earnings.

The Capital Reserve Fund serves as a savings account for major projects, including building renovations, infrastructure improvements, and debt service obligations. Total expenditures through the second quarter of 2020 in this fund are $149,437.31 (5% of budgeted expenditures). Costs expended out of this fund include codification of the Borough’s ordinances, engineering and construction costs related to the N. Warren
Avenue Transit Project, payments to the Borough Traffic Engineer, engineering costs associated with improvements to Old Lincoln Highway’s underground drainage and improvements to Quann Park, purchase costs for the Borough’s streetlight network, the development of a Master Plan for the Randolph Woods Nature Preserve, and debt service principal payments.

The majority of expenditures in the Capital Reserve Fund (41.5%) have been associated with the N. Warren Avenue Transit Project. Please be advised that the construction costs for this project are being substantially offset by grant funding from Pennsylvania. Additionally, the Borough has successful secured grant funding for certain budgeted projects, including the update to the Borough’s Comprehensive Plan, the development of a Master Plan for the Randolph Woods Nature Preserve, and improvements to Quann Park. Borough administration is continuing to pursue grant funding to offset project costs. Furthermore, certain projects have been delayed in an effort to reduce costs due to the COVID-19 pandemic, most notably the paving of Malvern Avenue.

Several of these projects will not be completed in 2020 and will most likely be carried into the 2021 budget.

e. Highway Aid Fund

The Highway Aid Fund receives revenue from the Pennsylvania Liquid Fuels Tax Fund. This is the only revenue source for this fund. The Borough’s Liquid Fuels Tax Funding for 2020 is $91,983.51 and was deposited on March 1, 2020. This represents a 3.3% decrease from 2019.

There are two (2) expenditures allocated in this fund. An interfund transfer to the General Fund has been allocated in order to reimburse the General Fund for the cost of the purchase of a new vehicle for the Public Works Department and the cost of street lighting. To date, this transfer has not occurred. Paving costs for N. Warren Avenue (from Pennsylvania Avenue to the Borough boundary) have also been allocated. This project is anticipated to finish approximately $34,000 under budget based on the bid results and anticipated labor costs. To date, this project has not commenced construction.

5. Conclusion

The second quarter 2020 budget report continues to outline similar trends as the Borough has witnessed in the past. While major revenue sources have declined due to the COVID-19 pandemic, the reductions are not at the levels anticipated at the start of the pandemic. The Borough has practiced strong financial management as indicated in the budget practices and the healthy reserve balance. I commend all members of the Borough staff, professionals, and Borough Council for maintaining fiscal responsibility during the COVID-19 pandemic and taking the appropriate steps to mitigate the impact that this episode has had on the Borough. Despite the uncertainty of the current situation, the Borough’s financial position remains
relatively comparable to previous years and has maintained forward movement, albeit at a controlled rate. That being said, it is important to continue sound fiscal practices as the Borough prepares the 2021 budget. There are going to be difficult choices that must be considered. I would caution against continued utilization of cash reserves to balance projected deficits in certain funds as this not a sound long-term financial practice. Additionally, as certain projects commence, I expect that the gap between revenues and expenditures to close. Outlined below is an expected calendar for the development and eventual adoption of the 2021 budget.

6. **2021 Budget Calendar**

The following is an outline of the calendar for the completion of the 2021 budget:

- **Budget process per the Home Rule Charter:**
  1. At the time the Manager submits the proposed budget to Council, we will submit tentative financial projections for at least the next five (5) years for long range planning purposes.
  2. At least by the first Regular Meeting in November, the Manager will prepare and submit a proposed budget for the following year.
  3. At least by the first Regular Meeting in December, the Council shall complete considerations of the Manager’s proposed budget, modify as necessary, and adopt a preliminary budget.
  4. At least by the last Regular Meeting in December, Council shall adopt the budget for the following year.
  5. On or before the adoption of the operating budget, Council shall adopt a capital program and a capital budget.

- **Proposed budgetary timeline:**
  1. Beginning of August – Borough staff will begin discussing recommendations for the 2021 budget.
  2. 2nd meeting of August – Preliminary year-end projections will be provided to Council
  3. 1st meeting of September – Cost estimates would be provided to Finance & Administration Committee
  4. 2nd meeting of September – Discussion/review of Capital Projects
5) 2nd meeting in October – First public presentation of the draft budget

6) 1st meeting in November – Complete budget package with comments to Finance & Administration Committee

7) 2nd meeting of November – Final budget numbers provided to Council for comment and authorization to advertise

8) 1st meeting of December – Complete budget package with comments to Council, public hearing on the budget as required, and adoption of the preliminary budget

9) 2nd meeting of December – Council to adopt Budget and the tax levy ordinance

**Additional information:**

1) Real Estate Valuations come in November – that gives us the assessment information and we determine how much money we expect in 2021 based on millage

2) The Minimum Municipal Obligation for Pensions comes in September

3) Pension contribution comes the end of September (State Aid)

4) Projected Liquid Fuels Funding is traditionally received around October

5) Increases for health insurance rates should be received around October 15th

Please let me know if you have any questions. Thank you.

Respectfully submitted by,

**Christopher Bashore**

Christopher Bashore
Borough Manager