



**MEMORANDUM**

**TO:** Borough Council  
Mayor Burton

**FROM:** Christopher Bashore, Borough Manager

**DATE:** May 7, 2019

**RE:** 2019 Operating Budget  
First Quarter Report

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This report will provide Borough Council with a status update on budget activity through the first quarter of 2019. The 2019 Budget was approved by Borough Council at the December 18, 2018 meeting through the adoption of Ordinance No. 2018 – 12.

**1. 2019 Budget – Summary**

The Borough’s 2019 Budget contains five (5) operating funds as outlined below:

- **Revenues**

01 – General Fund:	\$4,490,367
08 – Sewer Fund:	\$877,877
20 – Sewer Capital Reserve Fund:	\$1,268,545 <sup>1</sup>
30 – Capital Reserve Fund:	\$3,951,232 <sup>2</sup>
35 – Highway Aid Fund:	\$308,547 <sup>3</sup>
<b>Total projected revenues for 2019:</b>	<b>\$10,896,568 <sup>4</sup></b>
  
- **Expenditures**

01 – General Fund:	\$4,790,678
08 – Sewer Fund:	\$877,877
20 – Sewer Capital Reserve Fund:	\$430,000
30 – Capital Reserve Fund:	\$3,123,836
35 – Highway Aid Fund:	\$87,100
<b>Total projected expenditures for 2019:</b>	<b>\$9,009,180</b>

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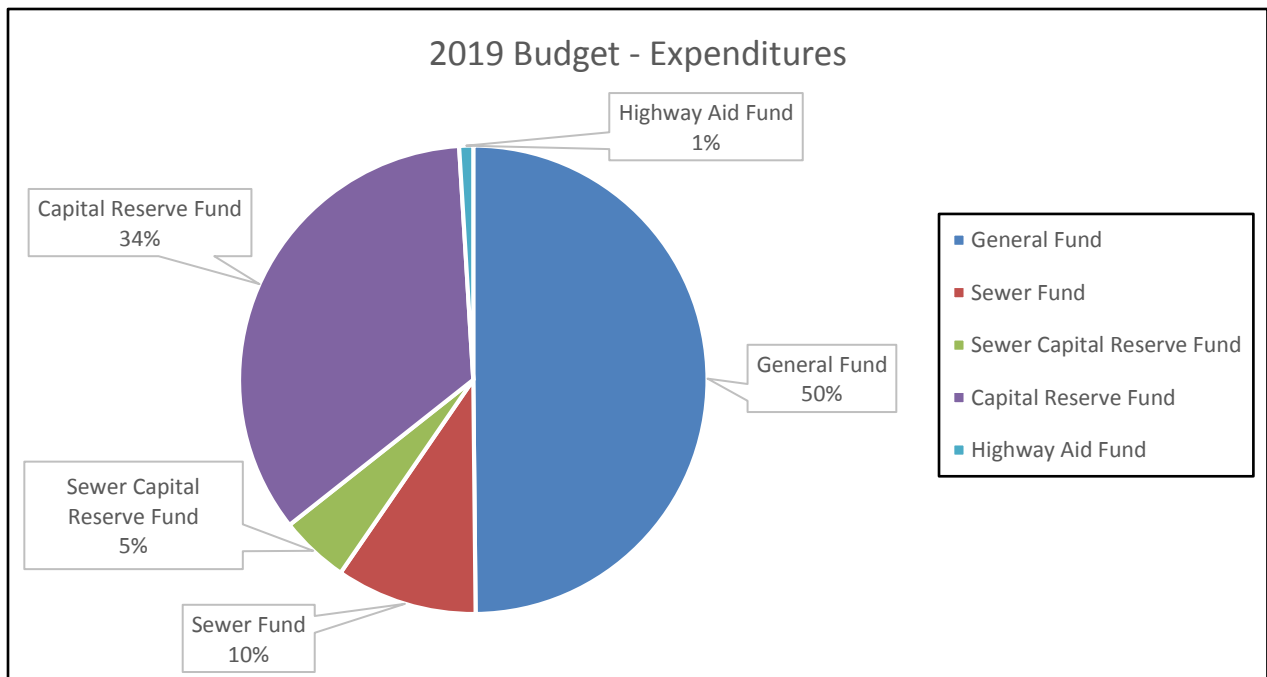
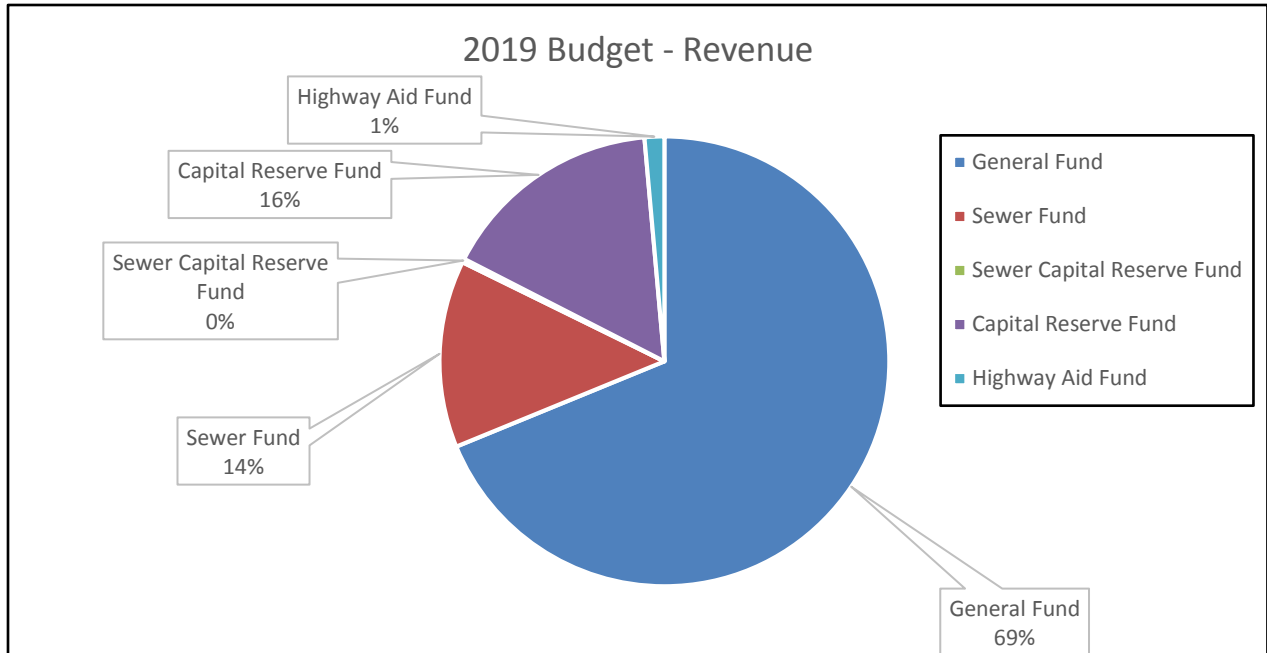
<sup>1</sup> Includes a beginning cash balance of \$1,251,002, plus projected transfers into the Sewer Capital Reserve Fund. Revenues projected for 2019 are \$17,543, all through interfund transfers.

<sup>2</sup> Includes a beginning cash balance of \$2,903,842, plus projected transfers into the Capital Reserve Fund. Revenues projected for 2019 are \$1,047,390, all through interfund transfers and interest.

<sup>3</sup> Includes a beginning cash balance of \$215,257, plus projected revenue received from the Liquid Fuels Tax Fund. Revenues projected for 2019 are \$92,590, all derived from state funds received by the Borough.

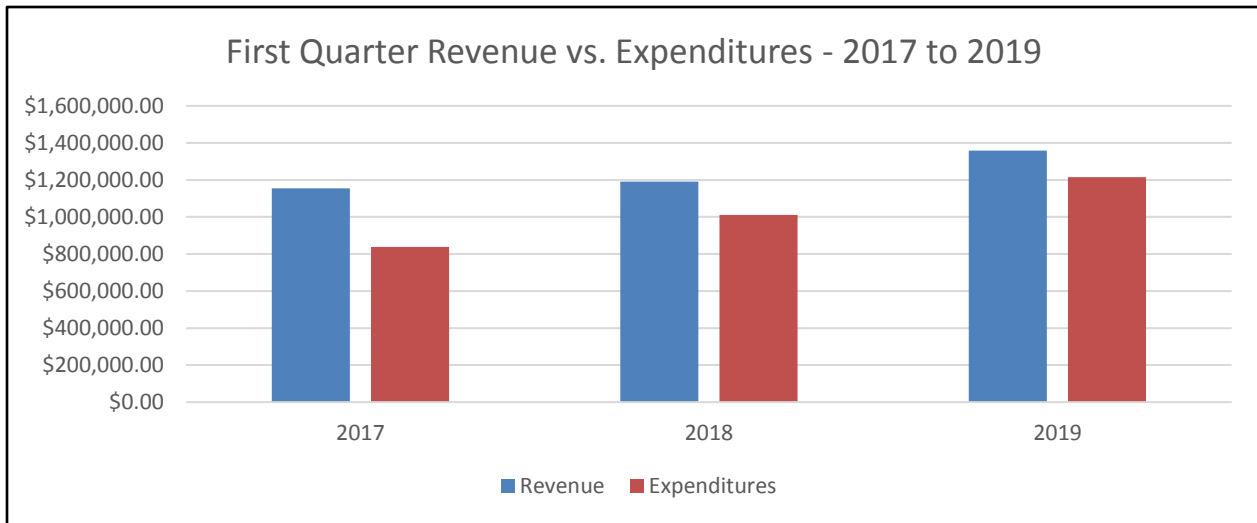
<sup>4</sup> Includes the beginning cash balances for the Sewer Capital Reserve, Capital Reserve, and Highway Aid funds.

The charts below provide a breakdown of the 2019 Operating Budget for Malvern Borough:



Please note that the chart titled “2019 Budget – Revenue” only includes revenue that will be realized by the respective funds during 2019. For the Sewer Capital Reserve, Capital Reserve, and Highway Aid Funds, **this chart does not include the beginning cash balance.**

Across all funds, **revenue has exceeded expenditures by \$144,784.01**. The chart below outlines revenue and expenditure comparisons across all Borough funds through the first quarter of the year from 2017 to 2019:



In comparing the first quarter statistics over the previous years, I would note the following:

1. The chart indicates that revenue collection during the first quarter of 2019 is 14% higher than during the first quarter of 2018. Additionally, revenue collection during the first quarter of 2019 is approximately 18% higher than during the first quarter of 2017. This may be attributed to the following factors:
  - a. Increased collection of Act 511 taxes, most notably current-year Earned Income Tax (approximately \$43,000 higher), Real Estate Transfer Tax (approximately 57% higher), and prior-year Local Services Tax (approximately 22% higher) revenues. Overall, revenue derived from Act 511 Taxes is 9% higher than compared to the first quarter of 2018.
  - b. Real Estate Tax revenue has witnessed an 11% increase when compared to the first quarter of 2018.
  - c. Receipt of grant revenue from Chester County for the Woodland Avenue Streetscape Project.
2. Expenditures are approximately 45% higher when comparing 2017 to 2019. However, compared to the first quarter of 2018, expenditures across all Borough funds are up approximately 20%. This may be attributed to the following:
  - a. Budgeted capital purchases in the Public Works Department, specifically the purchase of a new truck, occurred earlier in the year than in the past.
  - b. Costs associated with the administration and operation of the Borough's sanitary sewer system are approximately 17% higher than in previous years. Sewage disposal costs are approximately 26% higher than compared to the first quarter of 2018.

- c. Expenditures in the Capital Reserve Fund are approximately 114% higher when compared to the first quarter of 2018. This is due to expenditures related to the N. Warren Avenue Transit Project and final payment for the Woodland Avenue Streetscape Project.

The information below will provide a report on each fund in the 2019 budget, including standing through the first quarter, projections through the balance on 2019, and recommendations for Borough Council to consider in the coming months. The reports throughout the year may also serve as a guide to assist in preparation of the 2020 budget.

## 2. Significant purchases in the first quarter

The following significant expenditures were made by the Borough during the first quarter of 2019:

- New Truck for the Public Works Department: \$31,285.00
- Purchase of a new server: \$7,414.89
- CODY Computer Services Annual Fee: \$4,048.33
- General Liability & Property Insurance: \$53,909.00
- Sewage disposal costs: \$110,373.00
- Roadway de-icing salt: \$11,327.62
- Woodland Ave. Streetscape Project: \$124,906.50
- Debt Service payment (principal & interest): \$34,866.64

Several other expenses through the first quarter include general operating costs for the Borough, which include employee salaries and benefits, insurance costs, general maintenance of the Borough's infrastructure, and contracted costs (e.g., professional services, trash and recycling collection). Several major expenditures are planned for the balance of 2019. Projects outlined include the following:

- Purchase of a new police vehicle: \$45,000 budgeted
- Upgrade of the fire alarm system in Borough Hall: \$15,000 budgeted
- 2019 Paving Program (Green St. & King St.): \$150,000 budgeted
- Ruthland Ave. Force Main Improvements: \$240,000 budgeted
- Installation of E. King St. pedestrian signals: \$128,000 (traffic engineer's estimate)
- Paving of Burke Park trails and parking lot: \$50,000 budgeted
- N. Warren Ave. Transit Project: \$800,000 budgeted

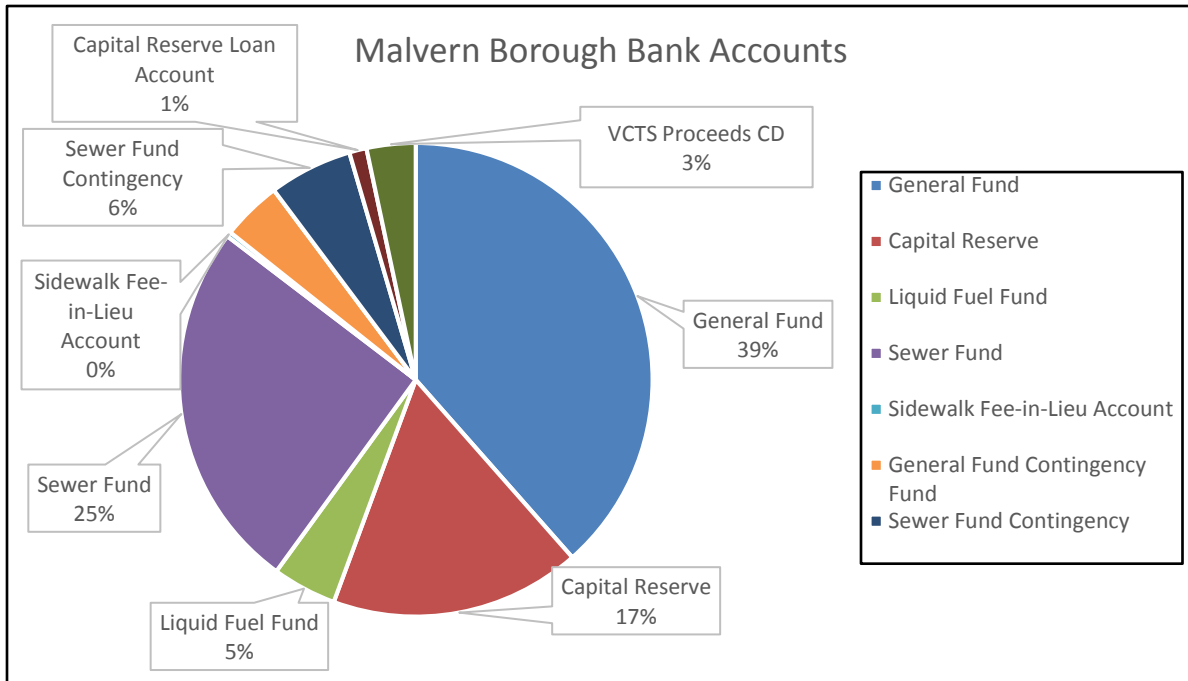
Please be advised that the Borough has received \$560,000 in grant funding for the N. Warren Ave. Transit project from the PA Department of Community and Economic Development and the PA Department of Transportation. Certain projects must be awarded through the competitive bidding system. As such, the final price may be different than the budgeted amount.

## 3. Cash Reserve Balance

The Borough's cash reserve balance through the first quarter of 2019 is **\$7,141,111.26**. This represents an increase of \$337,540.24 compared to the balance through the first quarter of 2018 (\$6,803,571.02). Currently, the cash reserve balance for the Borough represents **79% of budgeted expenditures in 2019**. This balance represents all funds, including restricted accounts. The Borough's

unrestricted cash accounts (General, Capital Reserve, Highway Aid, and Sewer/Sewer Capital Reserve Funds) through the first quarter of 2019 have a balance of **\$6,095,784.68**. This represents an increase of \$198,053.15 (3%) in the unrestricted cash accounts compared to the first quarter of 2018 (\$5,897,731.53).

The chart below illustrates a breakdown of the Borough’s bank accounts:



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.

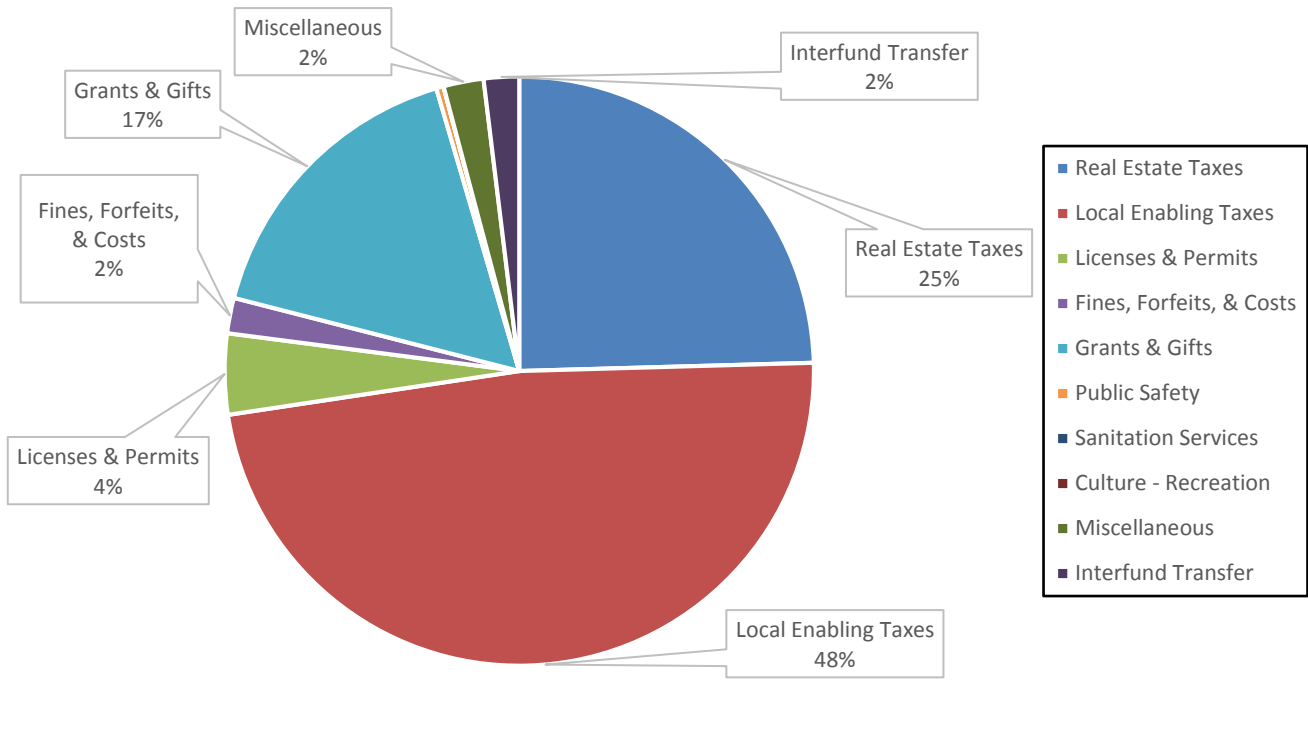
The Governmental Finance Officers Association (GFOA) recommends that municipalities maintain a general reserve fund balance of 5% to 15% of regular general fund operating revenues. The current fund balance represents **61% of the projected 2019 revenue for the General Fund**. This represents a strong reserve capacity for the Borough.

**4. 2019 Budget – Fund Report**

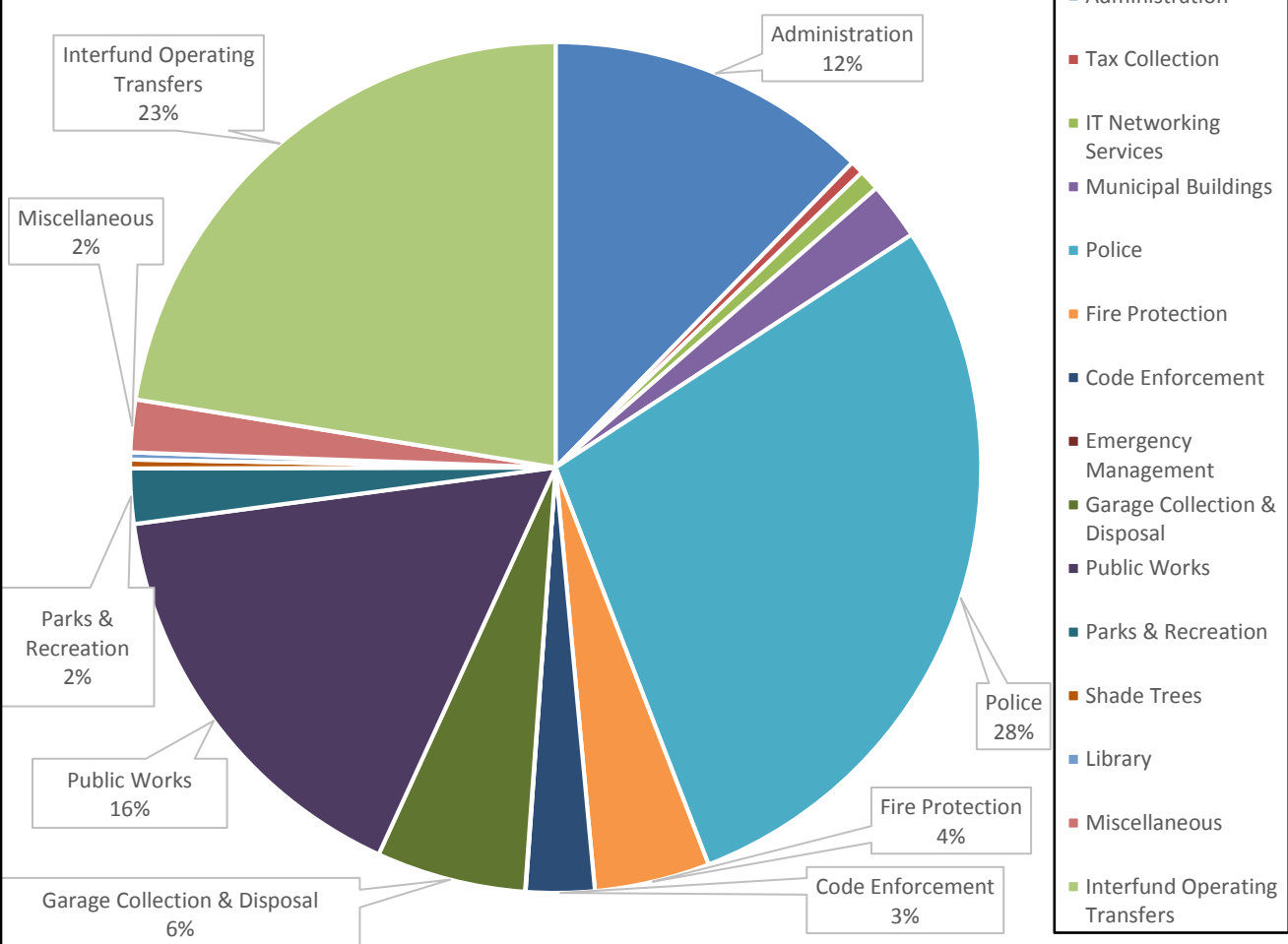
**a. General Fund**

The General Fund is the largest fund in the 2019 budget. This fund constitutes 69% of revenue received by the Borough and 50% of the Borough’s annual expenditures. The charts below provide a visual representation of the breakdown of the Borough’s revenues and expenditures per category of the General Fund budget:

### 2019 General Fund Revenue



### 2019 General Fund Expenditures



As outlined in the revenue chart above, the primary source of revenue for the Borough are taxes, which constitute 73% of all projected revenue in 2019. These include real estate, local services, per capita, and earned income taxes. The Borough's largest tax revenue source is generated through the Earned Income Tax, which represents 59% of projected tax revenue in 2019.

The largest expenditure for the Borough is the Police Department, which represents the largest governmental function expenditure in the General Fund at 28%.

Overall, through the first quarter of 2019, **revenue has exceeded expenditures by \$265,961.36 in the General Fund.** This represents an increase of 57% when examining year-to-date revenue compared to expenditures compared to the first quarter of 2018.

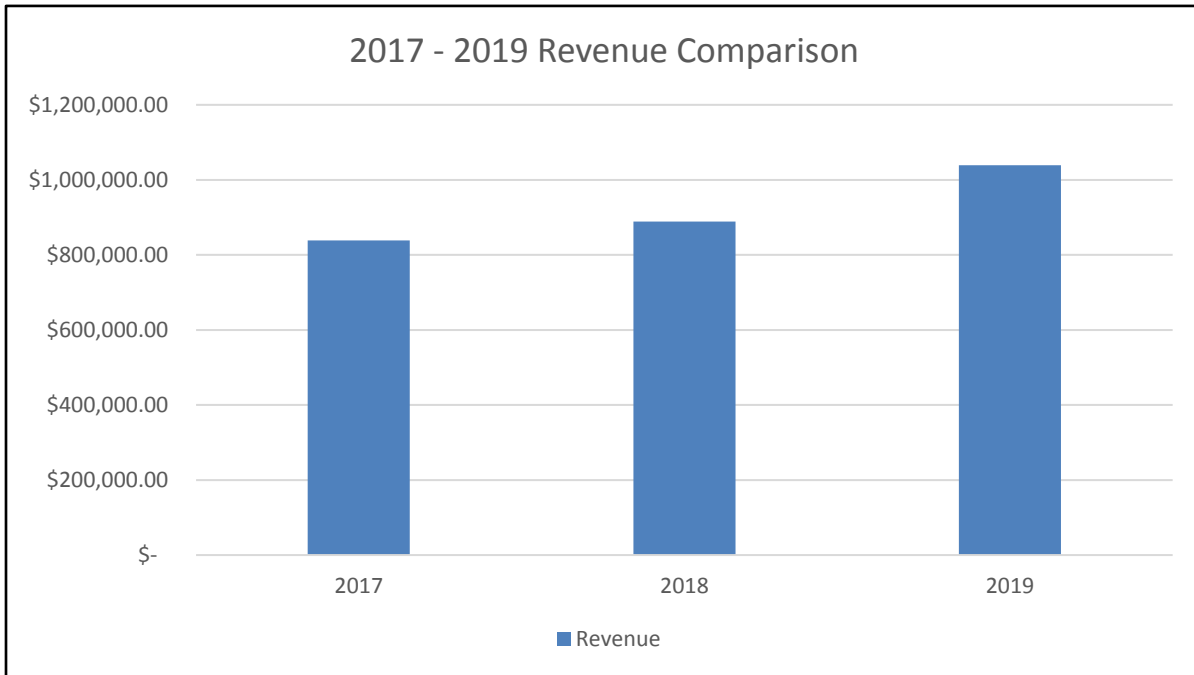
The information below will provide a more detailed examination of revenue and expenditure standing through the first quarter of 2019.

i. **Revenue**

Revenue collection through the first quarter of 2019 is at 23% of budget (\$1,038,602.90). This is higher when compared to 2017 and 2018 (both years were at 18% of budgeted revenue). Revenue collection overall is \$150,001.63 higher than the first quarter collections in the General Fund compared to 2018. The increase revenue received may be attributed to the following:

1. Increased revenue from Real Estate taxes, including an 11% increase in current-year Real Estate Tax revenue.
2. Increased revenue from Act 511 taxes, most notably in the areas of current-year Earned Income and Real Estate Transfer taxes.
3. Increase revenue from interest on the Borough's bank accounts.
4. Receipt of grant reimbursement from Chester County for the Woodland Avenue Streetscape Project.

The chart below shows a comparison of revenue collection through the first quarters of 2017 – 2019:



As noted in the chart above, the Borough’s revenue collection during the first quarter of 2019 is approximately 17% higher when compared to the first quarter of 2018 and 24% higher over the three (3) year period outlined above.

Real Estate Tax Collection is currently at 20% of budget. Current year real estate taxes are at 20% of budgeted revenue. As Council will recall, the real estate tax rate was increased by 5% in 2018. This is a comparable position compared to the first quarters of 2017 and 2018 (21% and 20%, respectively). The 2019 real estate tax bills were mailed out on March 1, 2019 and the Borough should witness increased collections in the second quarter. Actual funds collected are \$22,382.08 higher when compared to the first quarter of 2018.

Examining Local Enabling Tax collections, the Borough has realized 28% of budgeted revenue through the first quarter of 2019. This is comparable to the Borough’s position when examining the first quarters of 2017 and 2018 (24% and 28%, respectively). Prior year earned income tax revenue has exceeded the budget by 10% and is currently at 110% of budget. Current year Earned Income Tax revenue is currently at 4% of budget, which represents a 3% increase compared to the first quarter of 2018. Real Estate Transfer Tax revenue has witnessed an increase compared to the first quarter of 2018. Revenue collection is at 26% of budget and actual funds collected are 57% higher than compared to the first quarter of 2018. Additionally, Real Estate Transfer Tax revenue is 5% higher when compared to the first quarter of 2017. Please note that, in 2017, Real Estate Transfer Tax revenue finished 37% above budgeted projections.

Revenue from permits and licenses is currently at 34% of budget through the first quarter of 2019. This is lower compared to the first quarter of 2018 by approximately 4%. Building permit fee revenue is currently at 13% of budget, which is approximately 33%



lower than compared to the first quarter of 2018. The reason for this decline is due to the fact that a significant increase in permit fee revenue was witnessed due to the construction at Malvern Preparatory School. It should be noted that the Borough has several permits under review and the revenue has not been realized in the first quarter and will be reflected in the second quarter budget report.

Revenue collections are typically higher in the second and third quarters of the year. Approximately 64% of the Borough's revenue is received in the second and third quarters of the year. An influx in revenue in the General Fund should be witnessed in the second quarter budget report.

ii. **Expenditures**

Expenditures in the General Fund are currently at 17% overall of budgeted projections (\$772,641.54). This is comparable to expenditure levels during the first quarter of 2018. Major expenditures from this fund during the first quarter included the following:

- Purchase of a new truck in the Public Works Department
- Renewal of the Borough's property and liability insurance (60% of this cost is in the General Fund with the remaining 40% allocated in the sewer fund)
- Renewal of the Police Department's CODY licenses

An item worth noting is the reduction witnessed in the Borough's utility costs. Through the first quarter of 2019, the Borough's utility costs are \$8,060.84 lower (64%) when compared to the first quarter of 2018. A significant contributing factor to this reduction was the replacement of the boiler in Borough Hall. Additionally, the change in the type of heating fuel used (oil vs. natural gas) also resulted in a cost savings for the Borough.

The Borough's costs related to professional services (e.g., solicitor, engineer, labor counsel) are currently at 25% of budget. This is comparable to the expenditure levels through the first quarter in 2017 and 2018. Legal services are currently at 24% of budgeted expenditures through the first quarter of 2019 as compared to 31% through the first quarter of 2018 and 24% of budget through the first quarter of 2017. Please note that I anticipate an increase in expenditures for legal services as the Borough enters contract negotiations with the Police Officers' Association for a new Collective Bargaining Agreement. Projections for legal services were increased by 15% in order to account for this additional cost.

Engineering services are at 18% of budgeted expenditures through the first quarter of 2019, which is 10% higher when compared to the first quarter of 2018. The increased expenditures are primarily due to increased costs associated with design work for certain projects (e.g., paving projects), mandated requirements for the municipal storm sewer (MS4) permit, and addressing stormwater drainage concerns. A significant portion of the engineering costs for the Borough are reimbursable and a large portion are allocated in the Capital Reserve Fund for various projects.

Please note that professional services are also budgeted in the Sewer Fund. Additionally, it should be noted that a significant portion of the expenditures in the General Fund

through the first quarter of 2019 have been operating costs, primarily personnel costs. Major projects will be realized in the second and third quarters of the year.

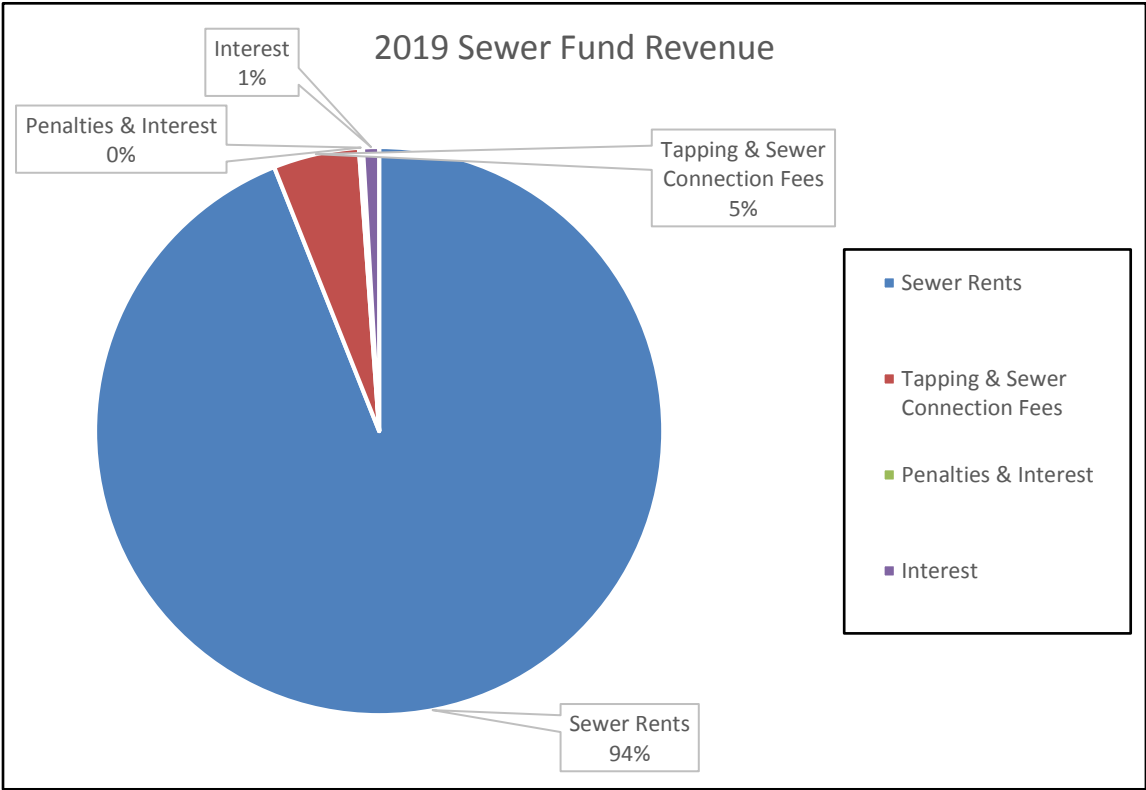
Projects on the horizon for the latter portion of 2019 include the following:

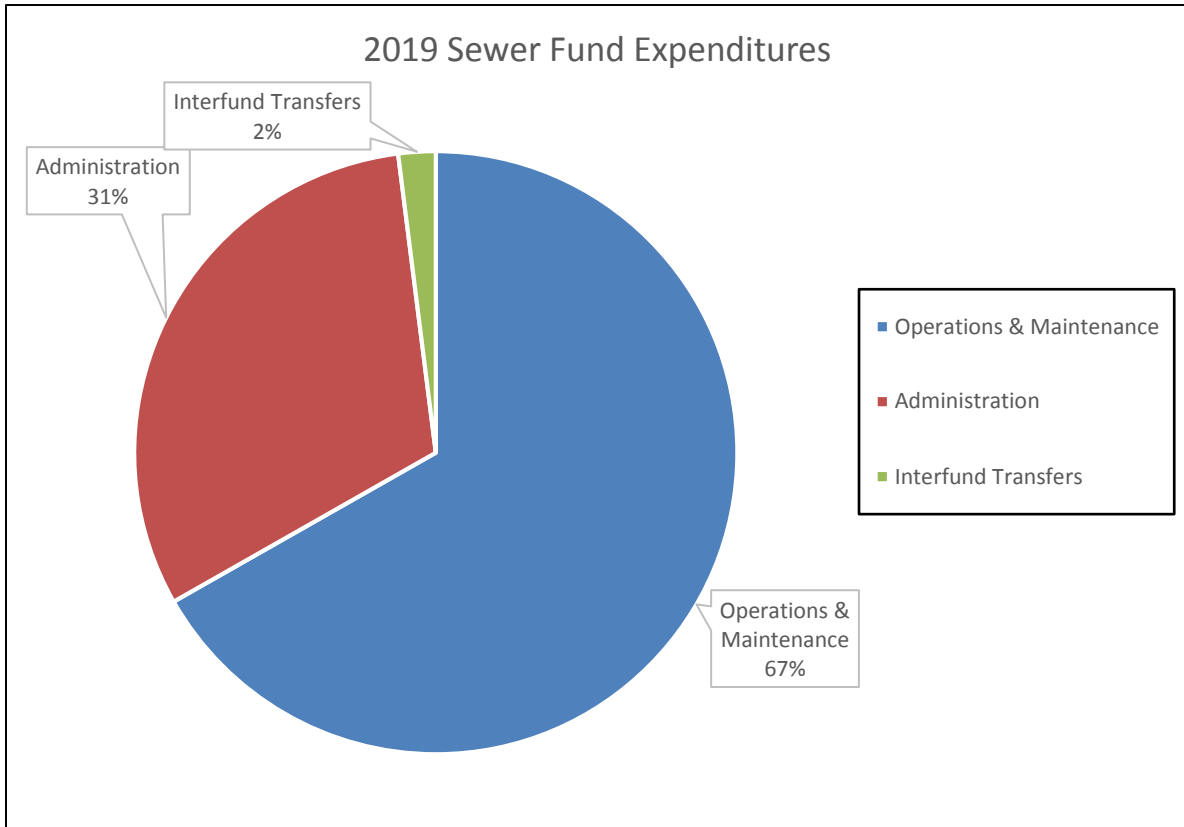
- Purchase of a new vehicle for the Police Department: \$45,000 budgeted
- 2019 paving program (sections of Green St. & King St.): \$150,000 budgeted
- Upgrade of the fire alarm system in Borough Hall: \$15,000 budgeted

Expenditures are currently in a comparable position when examining previous years. At this point, it is difficult to provide an accurate projection on year-end expenditure levels. This is due to the fact that large projects must be bid and actual results may change from the estimates provided in the budget. A more accurate final projection will be provided in the second quarter report.

**b. Sewer Fund**

The Sewer Fund represents 14% of revenue and 10% of expenditures in the Borough’s 2019 budget. 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. The charts below provide a visual representation of the breakdown of the Borough’s revenues and expenditures per category of the Sewer Fund budget:





Sewer rents (user fees & charges) constitute 94% 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.

Overall, through the first quarter of 2019, expenditures have exceeded revenue by \$12,322.51. Revenue is \$14,429.26 ahead compared to the first quarter of 2018. Expenditures are \$39,420.18 ahead compared to the first quarter of 2018.

The information below will provide a more detailed examination of revenue and expenditure standing through the first quarter of 2019. This section will also include a comparison with 2018.

**i. Revenue**

Total revenue through the first quarter of 2019 is **\$223,411 (25% 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 represents 94% of revenue for this fund, is currently at 27% of budgeted revenue. Please note that billing is done on a quarterly basis. Total revenue collected in this category is approximately \$13,000 ahead compared to the first quarter of 2018. During the first quarter of 2019, the Borough did not receive any revenue from tapping fees. Please note that this the same as the first quarter of 2018. The second quarter budget report will reflect one (1) tapping fee payment for Brick & Brew in the amount of approximately \$23,000.

Revenue in the sewer fund finished 2018 ahead of budget by approximately 32%; however, this ending number should be considered inflated due to receipt of the payment for the sale of the Valley Creek Trunk Sewer (VCTS) Line. In reviewing trends, this fund traditionally ends the year approximately 8% above projections. I anticipate receiving additional funds through tapping fees as approved projects commence construction. Additionally, the Borough should receive funds from the Valley Forge Sewer Authority after completion of the annual audit.

## ii. Expenditures

Total expenditures through the first quarter of 2019 is **\$235,733.51 (27% of budget)**. This is approximately 4% higher compared to the first quarter of 2018. The information below provides an examination of each of the budgetary categories:

- **Operation & Maintenance:** Through the first quarter of 2019, operation and maintenance costs are at 28% of budgeted expenditures. This is approximately 4% higher compared to the first quarter of 2018. Sewage disposal and treatment costs represent approximately 68% of expenditures and is currently at 28% of budget through the first quarter of 2019. Sewage disposal and treatment costs are approximately 5% higher in 2019 compared to the first quarter of 2018. This may be attributed to the increased flow in the system as land development and other projects are being completed. Through the first quarter of 2019, sewage disposal and treatment costs represent 47% of overall expenditures in the Sewer Fund.

Maintenance and repair costs are currently at 17% of budget. This is approximately 42% lower compared to the first quarter of 2018. The increased maintenance costs in 2018 were due to pump station repairs that were completed in the first quarter.

- **Administration:** Administrative costs budgeted in the Sewer Fund include costs related to such items as engineering, communications systems at the pump stations, a portion of personnel costs, and insurance. Through the first quarter of 2019, administration costs are at 27% of budgeted expenditures. This is approximately 2% higher compared to the first quarter of 2018. This is due to higher personnel costs in the Sewer Fund, including increased costs for Workers Compensation insurance, employee benefits (e.g., health and dental insurance), and salaries.
- **Interfund Operating Transfers:** Budgeted interfund operation transfers have not occurred in the first quarter of 2019. These will typically done in the third and fourth quarters of the year.

## c. Sewer Capital Reserve Fund

Revenue for the Sewer Capital Reserve Fund is derived from interfund transfers from the Sewer Operating Fund. Total budgeted revenue for 2019 in this fund is \$1,268,545, including the beginning cash balance. Through the first quarter of 2019, there have been no transfers into the

Sewer Capital Reserve Fund. This was the case in previous years. Transfers are typically done near the end of the year.

Expenditures in the Sewer Capital Reserve Fund total \$430,000. Budgeted projects include repair to the sewer laterals, an upgrade to the Ruthland Ave. force main, payment into the construction fund for the Valley Forge Sewer Authority, repair of joints to address inflow and infiltration, and rebuilding of pumps at pump station #1. Several of these projects have rolled-over from previous years, most notably the upgrade to the Ruthland Ave. force main. Through the first quarter of 2019, the only expenditures in this fund are engineering costs related to the upgrade of the Ruthland Ave. force main. This work represents 2% of the expenditures budgeted in this 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, Building Renovations Fund, and Capital Reserve Fund. This includes proceeds from the 2002 and 2013 General Obligation Notes. Through the first quarter of 2019, there have been no transfers into this fund.

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 first quarter in this fund are **\$198,002.34 (6% of budgeted expenditures)**. Costs expended out of this fund include engineering costs related to the N. Warren Ave. Transit, ordinance codification, debt service principal and interest costs, traffic engineering costs, and final payments for the Woodland Avenue Streetscape Project.

Several projects are slated to be completed of this fund in 2019. The following notable expenditures are projected for the balance of the year:

1. Completion of the N. Warren Ave. Transit Project – Budgeted at \$800,000 (\$560,000 being funded through grants from the PA Department of Transportation and the PA Department of Community and Economic Development)
2. Installation of pedestrian signals on E. King St. (bid documents currently being prepared) – Engineer's estimate = approximately \$128,000
3. Paving trails in Burke Park – Budgeted at \$11,000
4. Paving of the parking lots at Burke Park and on King St. – Budgeted at \$50,000

Due to the fact that these projects are longer term, it is difficult to project the final expenditure level for this fund. A better projection may be made in the second and third quarters of 2019.

#### **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 2019 is \$95,108.89 and was deposited on March 1, 2019. This represents a 3% increase from 2018.

The only expenditure budget in this fund is an interfund transfer to the General Fund. The Borough uses these funds to cover the costs of vehicles used in the maintenance of the Borough's road network and the costs associated with electricity service for the Borough's street lighting. In

2019, the Borough budgeted to replace a 1995 Ford F350 Pick-Up truck in the Public Works Department. This vehicle has been purchased. The budgeted interfund transfer is to reimburse the General Fund for the cost of this purchase and street lighting. To date, this transfer has not occurred.

The Borough's 2019 Budget is on par with projections and is in a comparable position to previous years in a majority of categories. Overall, revenue is exceeding expenditures. Based on past trends, it should be expected that the Borough will witness an increase in revenue collection in the second and third quarters of the year. Reserve funds are higher compared to the same period in 2018, which indicates a strong financial capacity. The Borough administration will continue to explore cost reduction opportunities and efficiency measures.

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

Respectfully submitted by,

*Christopher Bashore*

Christopher Bashore  
Borough Manager