



MEMORANDUM

TO: Borough Council
Mayor Burton

FROM: Christopher Bashore, Borough Manager

DATE: April 30, 2021

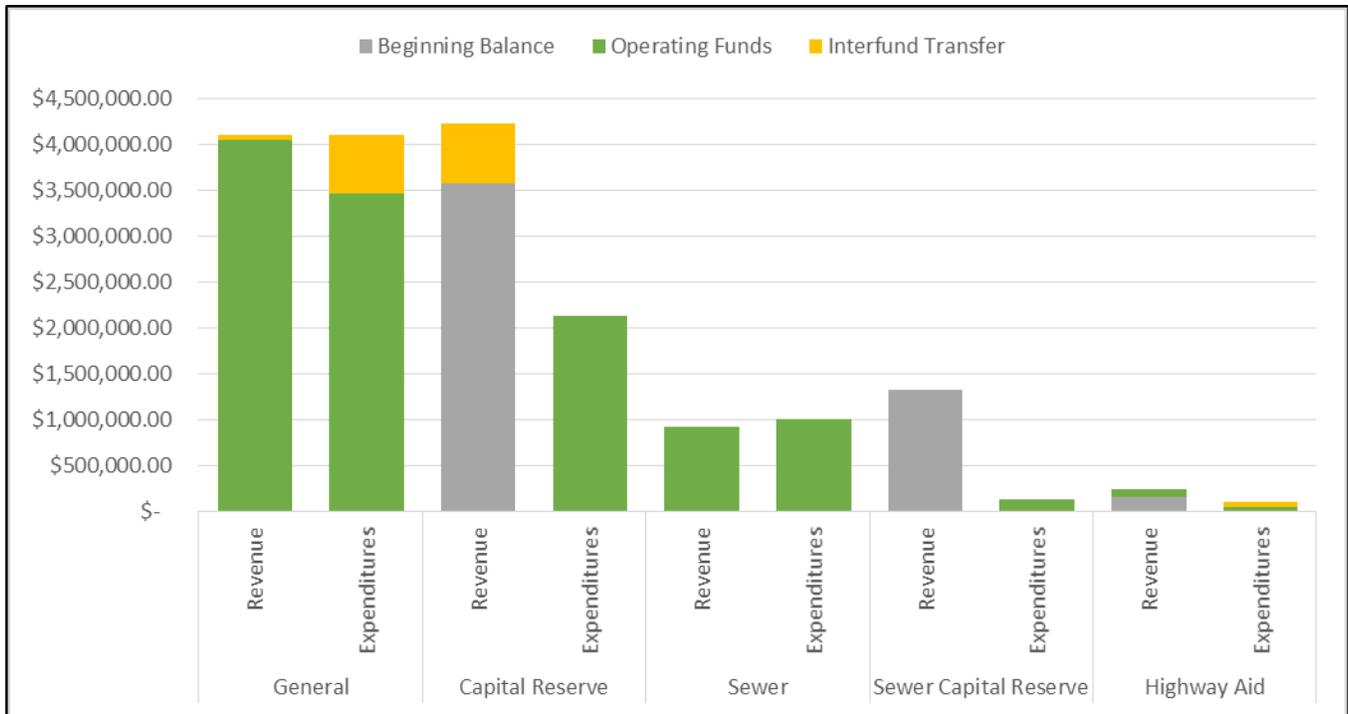
RE: 2021 Operating Budget
First Quarter Report

This report will provide Borough Council with a status update on budget activity through the first quarter of 2021. The 2021 Budget was approved by Borough Council at the December 15, 2020 meeting through the adoption of Ordinance No. 2020 – 6.

1. 2021 Budget – Summary

The Borough’s 2021 Budget contains five (5) operating funds as outlined below:

Fund	Type	Beginning Balance	Operating Funds	Interfund Transfer	Total
General	Revenue	\$ -	\$ 4,044,997	\$ 50,000	\$ 4,094,997
	Expenditures		\$ 3,456,180	\$ 638,816	\$ 4,094,997
Capital Reserve	Revenue	\$ 3,573,797	\$ 6,000	\$ 638,816	\$ 4,218,613
	Expenditures		\$ 2,134,241	\$ -	\$ 2,134,241
Sewer	Revenue	\$ -	\$ 924,717	\$ -	\$ 924,717
	Expenditures		\$ 1,014,688	\$ -	\$ 1,014,688
Sewer Capital Reserve	Revenue	\$ 1,331,021	\$ -	\$ -	\$ 1,331,021
	Expenditures		\$ 141,000	\$ -	\$ 141,000
Highway Aid	Revenue	\$ 161,659	\$ 84,421	\$ -	\$ 246,080
	Expenditures		\$ 55,000	\$ 50,000	\$ 105,000



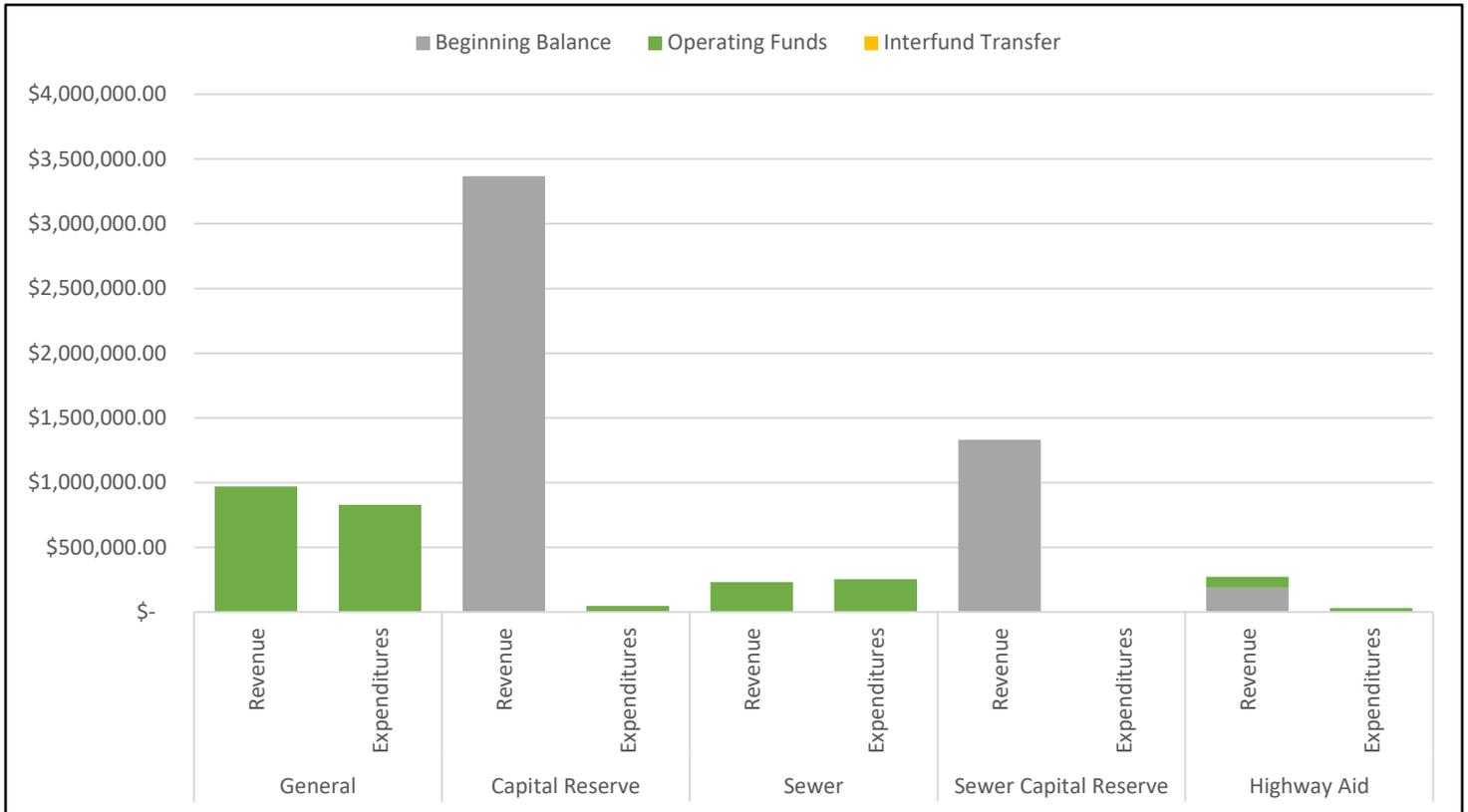
Total Revenue – \$10,815,428

Total Expenditures – \$7,489,926

Across all funds, **revenue has exceeded expenditures by \$111,548.88**. The information below outlines a per fund breakdown of the Borough’s revenue and expenditures during the first quarter of 2021, including the beginning balances from the end of 2020:

Fund	Type	Beginning Balance	Operating Funds	Interfund Transfer	Total
General	Revenue	\$ -	\$ 970,413.77	\$ -	\$ 970,413.77
	Expenditures		\$ 827,869.33	\$ -	\$ 827,869.33
Capital Reserve	Revenue	\$ 3,366,067.00	\$ 458.71	\$ -	\$ 3,366,525.71
	Expenditures		\$ 48,210.73	\$ -	\$ 48,210.73
Sewer	Revenue	\$ -	\$ 231,080.11	\$ -	\$ 231,080.11
	Expenditures		\$ 252,590.47	\$ -	\$ 252,590.47
Sewer Capital Reserve	Revenue	\$ 1,331,021.00	\$ -	\$ -	\$ 1,331,021.00
	Expenditures		\$ 17,094.70	\$ -	\$ 17,094.70

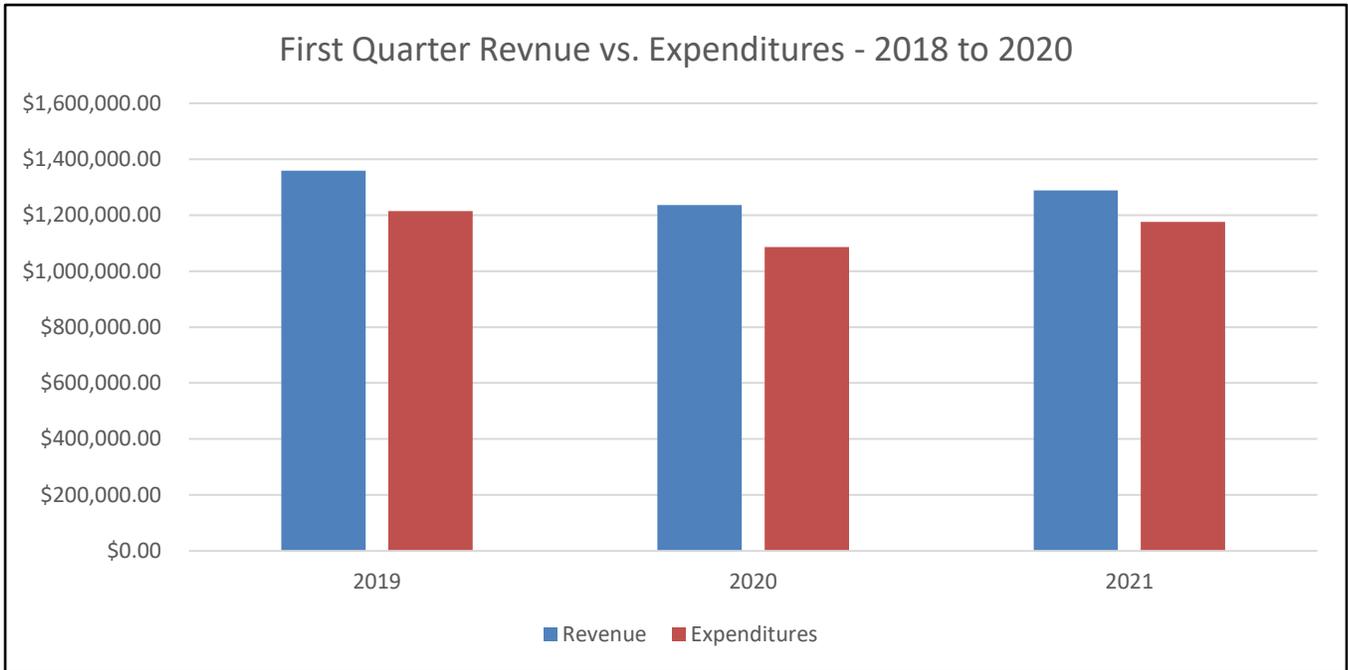
Highway Aid	Revenue	\$ 185,719.00	\$ 86,007.39	\$ -	\$ 271,726.39
	Expenditures		\$ 30,645.87	\$ -	\$ 30,645.87



Total revenue through the first quarter of 2021 is \$1,287,959.98 (22% of budgeted revenue across all Borough funds). This is \$51,738.94 higher when compared to the first quarter of 2020. This may be attributed to the receipt of a grant reimbursement during the first quarter of 2021 in the amount \$39,359.00 for the final release for the N. Warren Avenue Transit Project.

Total expenditures through the first quarter of 2020 are \$1,176,411.10 (16% of budgeted expenditures across all Borough funds). This represents an increase of \$89,829.93 compared to the first quarter of 2020. Contributing factors to this increase include increased costs for professional services (e.g., Borough solicitor, engineer), snow removal costs (e.g., overtime and purchases of roadway de-icing salt), and cost associated with the Borough’s capital contributions to the Valley Forge Sewer Authority (VFSA) treatment plant.

The chart below outlines revenue and expenditure comparisons across all Borough funds through the first quarter of the year from 2019 to 2021:



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 2021 is 4.2% higher than during the first quarter of 2020. This may be attributed to the following factors:
 - a. Collection of Act 511 taxes is approximately 4% higher overall through the first quarter of 2021 compared to the first quarter of 2020. The most significant contribution to this has been in Real Estate Transfer Tax revenue, which has witnessed a 49% increase compared to the first quarter of 2020. This revenue category is in a comparable position to the first quarter of 2019.
 - b. Receipt of the Borough's 2020 904 Recycling Grant during the first quarter of 2021. These were delayed due to the COVID-19 pandemic.
 - c. Receipt of grant revenue from the PA Department of Community and Economic Development for the N. Warren Avenue Transit Project.
 - d. Receipt of an insurance reimbursement for costs associated with the malfunction of pump station #2 in 2020.
 - e. Increased revenue from Sewer Rents and Tapping Fees.
2. Expenditures are approximately 8.3% higher when compared to the first quarter of 2020. This may be attributed to the following:
 - a. Increased costs for the Borough's professional services, most notably legal expenditures. In assessing legal expenditures, these are \$55,245.66 higher compared to the first quarter of

2020, primarily due to personnel costs and land use processes for which the costs are not reimbursable to the Borough.

- b. Snow removal costs are significantly higher compared to the first quarter of 2020. In 2020, the Borough did not make any purchases for roadway de-icing salt and overtime costs were minimal. Through the first quarter of 2021, the Borough has spent approximately 40% of its budget for roadway de-icing salt (\$12,101.27).
- c. There have been a total of \$17,094.70 in expenditures in the Sewer Capital Reserve Fund. In 2020, there were no expenditures from this fund in the first quarter.

The information below will provide a report on each fund in the 2021 budget, including standing through the first quarter, projections through the balance on 2021, 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 2022 budget.

2. Significant purchases in the first quarter

The following significant expenditures were made by the Borough during the first quarter of 2021:

- Purchase of new computers (2) for the Police Dept.: \$2,764.20
- CODY Computer Services Annual Fee: \$3,336.92
- Emergency Response Team Fee: \$2,500.00
- General Liability & Property Insurance: \$51,203.00
- Sewage disposal costs: \$130,970.45
- VFSA Construction Fund: \$14,070.00
- Alarm system repair to pump station #1: \$3,024.70
- Comprehensive Plan Update (to date): \$10,940.00
- Randolph Woods Grant Applications: \$3,091.50
- Debt Service (Principal & Interest): \$32,999.23

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 2021. Projects outlined include the following:

- 2021 Paving Program (Green St. & Ruthland Ave.): \$58,882.22 – bid results
- First quarter contribution to Malvern Fire Company: \$28,750.00
- Repairs to hydraulic grinder in pump station #1: \$14,962.53 – emergency repair
- Document imaging: \$40,000.00 – budgeted
- Virtual meeting participation: \$7,548.04 – budgeted \$10,000
- Randolph Woods Grant Application Preparation: \$3,158.50 – balance of contract
- Old Lincoln Highway Improvements Design: \$75,000.00 – budgeted
- Comprehensive Plan Update: \$55,560.00 – balance of budget
- Cybersecurity Insurance Coverage: \$4,900.00 – awarded contract

- Quann Park Improvements: \$185,000.00 – budgeted

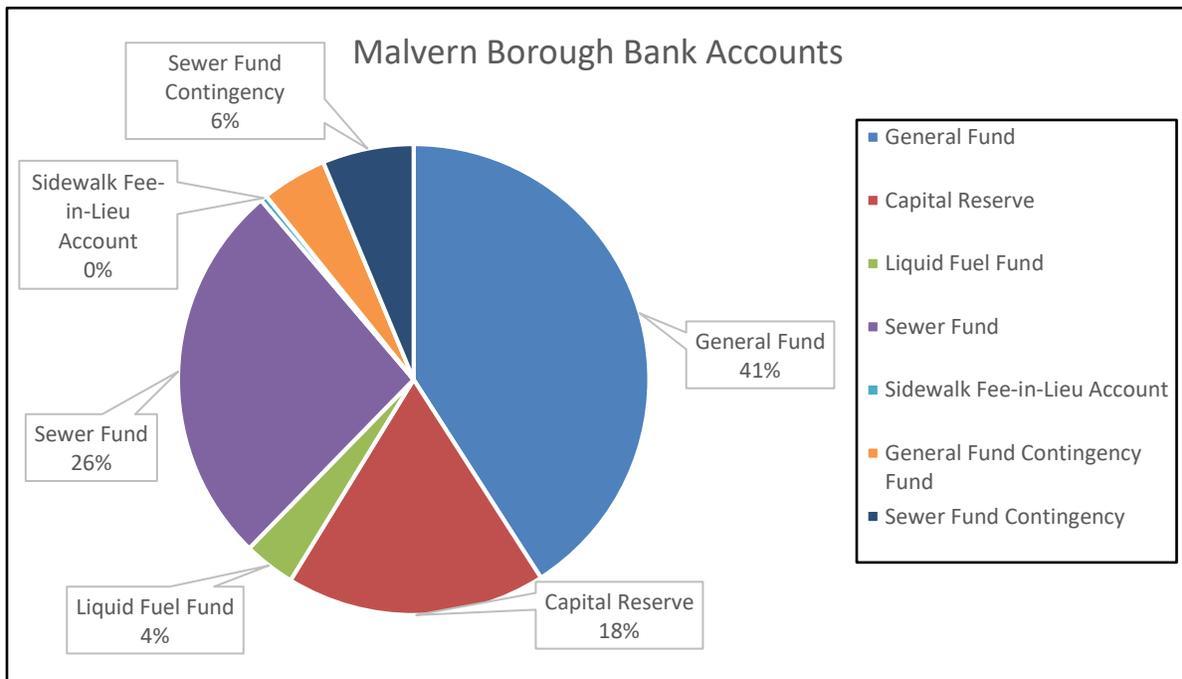
Please be advised that the Quann Park Improvements and the update to the Borough’s Comprehensive Plan are being offset by grants that have been received.

3. Cash Reserve Balance

The Borough’s cash reserve balance through the first quarter of 2021 is **\$6,814,806.35**. This represents a decrease of \$212,040.28 compared to the balance through the first quarter of 2020 (\$7,026,846.63). Currently, the cash reserve balance for the Borough represents **91% of budgeted expenditures in 2021**. This balance represents all funds, including restricted accounts.

The Borough’s unrestricted cash accounts (General (including the Borough’s PLGIT and Meridian accounts), Capital Reserve, Highway Aid, and Sewer/Sewer Capital Reserve Funds) through the first quarter of 2021 have a balance of **\$6,050,324.35**. This represents a decrease of \$236,590.42 (4%) in the unrestricted cash accounts compared to the first quarter of 2020 (\$6,286,914.77). In comparing the Borough’s unrestricted cash accounts, the reduction has been primarily witnessed in the Capital Reserve and Highway Aid accounts due larger projects paid from those accounts in 2020 (e.g., the N. Warren Avenue Transit Project, paving of the northern part of N. Warren Avenue, streetlight costs), as the General and Sewer/Sewer Capital Fund accounts are in a comparable position to the first quarter of 2020 (the General Fund bank accounts balance is \$214,333.18 higher (8.4%) when compared to the first quarter of 2020).

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



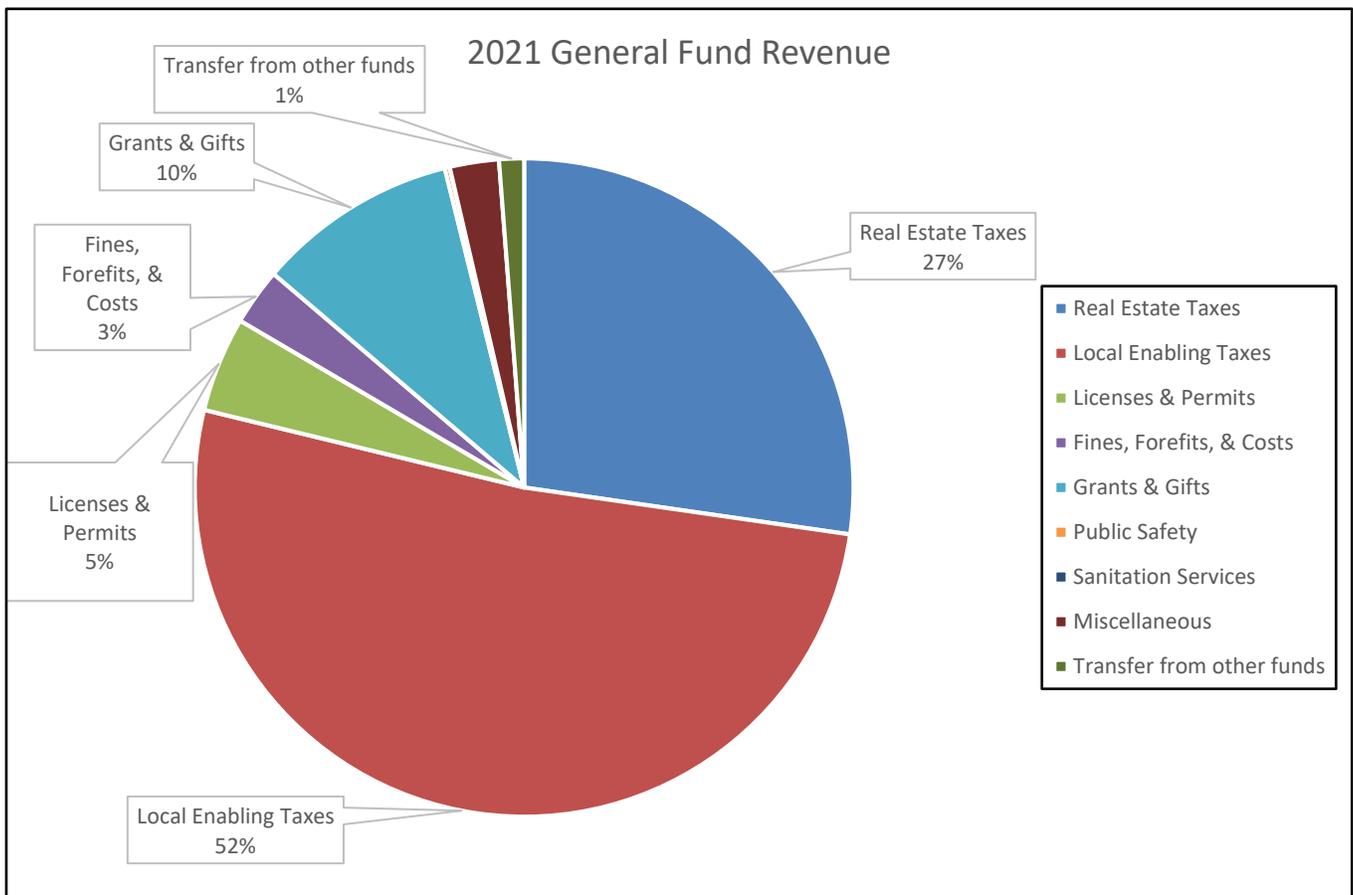
Please note that the Sewer Fund bank account constitutes both the sewer operating and capital funds. The contingency account is used to supplement the operating fund.

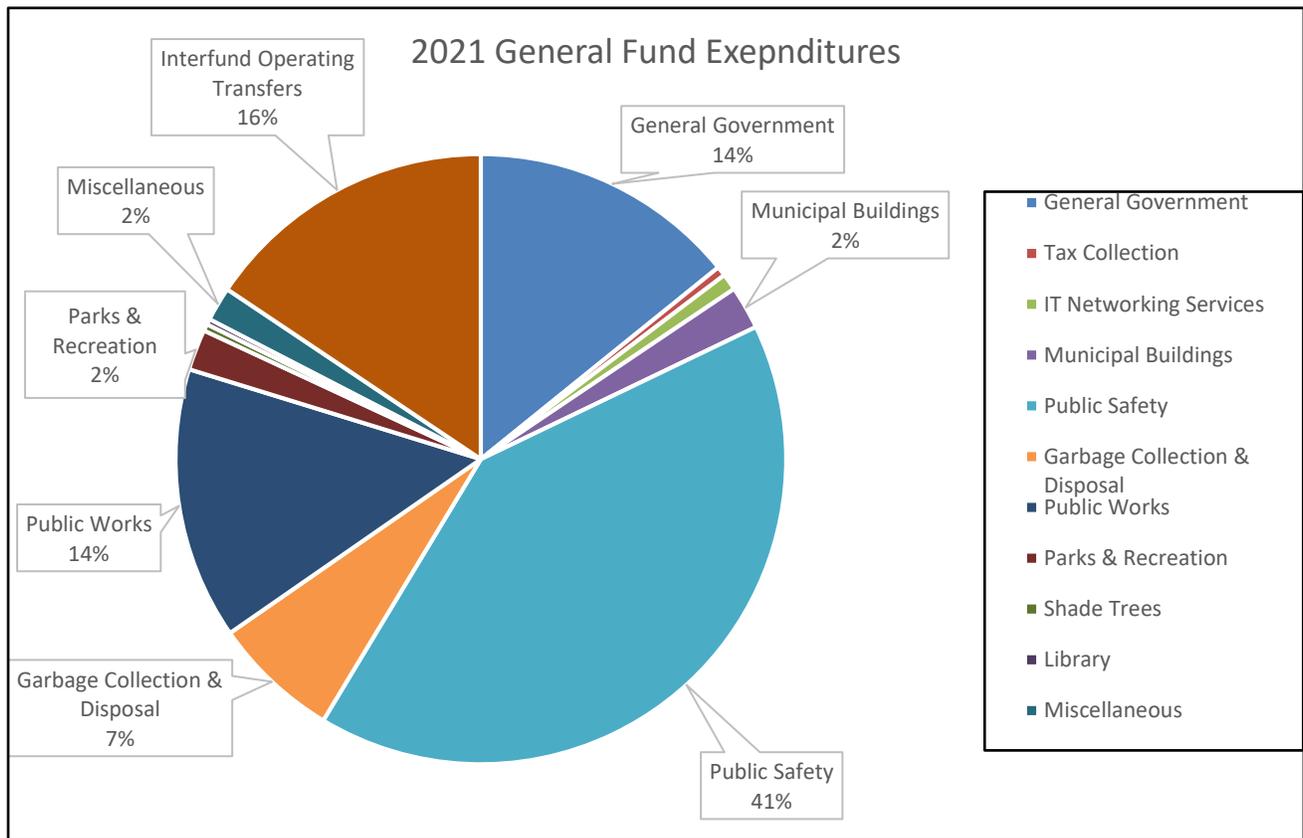
The Governmental Finance Officers Association (GFOA) recommends that municipalities maintain a general reserve fund balance of 5% to 15% of regular general fund operating revenues. The current fund balance represents **68% of the projected 2021 revenue for the General Fund**. This represents a strong reserve capacity for the Borough.

4. 2021 Budget – Fund Report

a. General Fund

The General Fund is the largest fund in the 2021 budget. This fund constitutes 71% of revenue received by the Borough and 55% 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:





As outlined in the revenue chart above, the primary source of revenue for the Borough are taxes, which constitute 79% of all projected revenue in 2021. 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 58% of projected tax revenue in 2021.

The largest expenditure for the Borough is the Police Department, which represents the largest governmental function expenditure in the General Fund at 33%.

Overall, through the first quarter of 2021, **revenue has exceeded expenditures by \$142,544.44 in the General Fund.** The information below will provide a more detailed examination of revenue and expenditure standing through the first quarter of 2021.

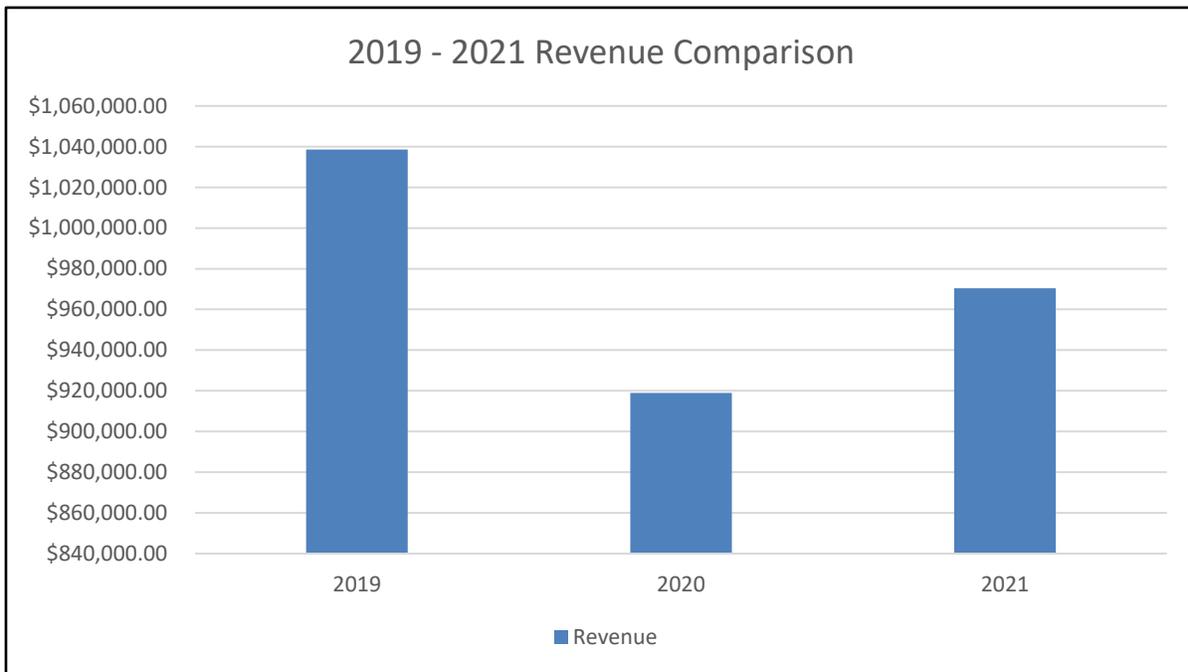
i. Revenue

Revenue during the first quarter of 2021 is at 24% of budget (\$970,413.77). This represents an increase of 5.6% (\$51,517.15) compared to the first quarter of 2020. This increase may be attributed to the following:

1. Act 511 tax revenue (e.g., Earned Income, Per Capita, Local Services, and Real Estate Transfer taxes) are approximately 4.2% higher when compared to the first quarter of 2020. This is primarily due to a significant increase in Real Estate Transfer Tax revenue, which is currently at 42% of the budgeted projection.

2. The receipt of grant revenue from the PA Department of Community & Economic Development (DCED) for the N. Warren Avenue Transit Project, which totaled \$39,359.00. Please be advised that the Borough is still awaiting the release of the funds from the PA Department of Transportation (PennDOT) for the balance of the grant funding for this project.
3. Receipt of payment for Willistown Township’s portion of the State Workers Insurance Fund workers compensation insurance premium for 2020, which totaled \$16,342.15. This is the mandatory insurance coverage for the volunteers with the Malvern Fire Company.
4. Receipt of the Borough’s Act 904 Recycling Performance Grant in the amount of \$14,185.16. The 2019 funds were delayed due to the COVID-19 pandemic and received in March 2021.
5. Higher interest earnings when compared to the first quarter of 2020. Interest earnings are approximately 28% higher.

The chart below outlines a revenue comparison for the first quarter from 2019 to 2021:



As noted in the chart above, the Borough’s revenue collection during the first quarter of 2021 is higher when compared to the first quarter of 2020. However, the grant reimbursement from DCED must be taken into consideration. Examining the Borough’s primary source of revenue, the Borough’s tax revenue is in a comparable position to the first quarter of 2020 (\$806,740.16 in the first quarter of 2021 compared to \$818,518.79 in the first quarter of 2020). Please be advised that certain revenue sources are significantly higher compared to 2020.

Revenue from Real Estate Taxes is currently at 18% of budget overall. This represents a 4% decrease when comparing budget figures to the first quarter of 2020; when measuring actual funds collected, this budget category is approximately 14.8% lower (\$35,722.23). Current year Real Estate Taxes is the primary contributor to this decrease. This revenue source is 15.7% lower (\$37,442.68) when compared to the first quarter of 2020. In analyzing 2020 to 2021, I believe that the reduction may primarily be attributed to the rate in which the Borough has been processing payments and the timing in which the Borough received distributions from mortgage companies. When I look ahead to the end of April 2021, current year Real Estate Tax revenue is ahead of the same time period in 2020 by 7.7% (\$51,353.99). Other Real Estate Tax revenue sources (e.g., Prior Year, Delinquent, Interim Real Estate taxes) are ahead of the first quarter of 2020. Total other Real Estate Tax revenue sources are 52% higher (\$1,720.45) when compared to the first quarter of 2020. Please be advised that I anticipate additional revenue in this category, specifically Interim Real Estate tax revenue, as the Borough did not receive the final orders for the tax assessment appeals for Malvern Crossing Apartments and East Side Flats until the end of the first quarter of 2021.

Act 511 tax revenue (Per Capita, Earned Income, Real Estate Transfer, and Local Services Taxes) is 4.1% higher (\$23,943.60) compared to the first quarter of 2020. This has been led by a significant increase in Real Estate Transfer Tax revenue, which is currently at 42% of budget. This revenue source is 49% higher compared to the first quarter of 2020 and is 47% higher than the first quarter of 2019. Per Capita and Local Services Tax revenue is also stable compared to 2020, with Local Services Tax revenue relatively comparable to the first quarter of 2019.

Earned Income Tax revenue is in a comparable position to the first quarter of 2020 (\$517,028.27 in 2020 compared to \$522,061.93 in 2021). The largest distribution month for this revenue source from Keystone Collections Group to the Borough has historically been May; however, with the delay in the filing deadlines due to the COVID-19 pandemic, the largest month in 2020 was August. Keystone Collections Group has announced a shift in the filing deadline to May 17, 2021. As such, I anticipate that the Borough will witness higher collections during the second and third quarters due the filing deadline adjustment. Earned Income Tax revenue is still lower than the first quarter of 2019, however, by 5.5% (\$30,150.34). Distributions will continue to be monitored regularly.

Revenue from permits are comparable to the first quarter of 2020 (\$53,705.34 in 2020 compared to \$53,279.50 in 2021). In speaking with the Borough's Building & Code Enforcement Official, Bill Wilfong, the number of permits being received and processed is comparable to 2020; however, he noted that the increase in the cost of building materials may impact the Borough's permit revenue in 2021. In examining specific categories, building permit revenue is comparable to the first quarter of 2020, while zoning permit revenue has increased by 42%. Revenue from Use & Occupancy Permits has also increased by 56%. Notably, revenue from Plumbing Permits has declined compared to the first quarter of 2020, as has Franchise Fee revenue. Please be advised that revenue from Franchise Fees has continued to decline as more individuals move from traditional television services to streaming platforms.

While certain revenue sources continue to be impacted by the COVID-19 pandemic, the primary sources (i.e., tax revenue) has maintained a level of stability. Permit fee revenue appears to be the most significantly impacted. I anticipate the Borough's trend of witnessing increased revenue collection in the second and third quarters to continue, with 31% of revenue traditionally realized in the second quarter. Borough administration will continue to monitor the Borough's revenue sources on a monthly basis and provide updates accordingly.

ii. **Expenditures**

Expenditures in the General Fund are currently at 20% of budget (\$827,869.33). This is approximately 3% higher when compared to the first quarter of 2020. When comparing actual funds spent from the General Fund, expenditures were 7.8% higher when compared to the first quarter of 2020 (\$767,905.19) in the first quarter of 2020 compared to \$827,869. Major expenditures from the General Fund during the first quarter included the following:

- Renewal of the Borough's property and liability insurance (60% of this cost is allocated in the General Fund, while the remaining 40% is allocated in the Sewer Fund)
- Costs associated with snow and ice removal, including roadway de-icing salt and overtime costs
- The purchase of new computers for the Malvern Police Department (the budgeted purchase for the Administration will be reflected in the second quarter)
- Renewal of certain software licenses, including the Borough's CODY license for the Malvern Police Department and the Borough's antivirus software
- The Malvern Police Department's membership in the Chester County Emergency Response Team

Expenditures in the Public Works Department are approximately 27% higher compared to the first quarter of 2020. This may primarily be attributed to snow removal costs as a result of the storms this winter, including costs for overtime and road de-icing salt, as well as the costs for an additionally full-time employee that was not with the Borough until the second quarter of 2020. As noted in the first quarter 2020 budget report, the winter of 2020 saw a significant reduction in the Borough's expenditures for ice and snow removal due to the mild winter. This attributed to reduced costs for both overtime and roadway de-icing salt (there were no expenditures for roadway de-icing salt in the first quarter of 2020). During the first of 2021, however, the Borough witnessed an increase in these costs due to winter storm activity. Costs associated with overtime work are \$16,841.94 higher compared to the first quarter of 2020, while the Borough has spent \$12,101.27 in costs for roadway de-icing salt. Please be advised that there remains 49% of the budget for overtime in the Public Works Department and 60% of the budget remains for roadway de-icing salt.

Expenditures in the Administration department are approximately 50% higher (\$63,952.15) compared to the first quarter of 2020. This is primarily due to increased legal services, which are \$55,245.66 higher compared to the first quarter of 2020. The increase is due to the following:

- Legal costs associated with personnel matters, which included expenditures associated with the January 2021 Civil Service Commission hearing (e.g., legal and court reporter costs).
- Costs associated with the Conditional Use application 147 W. First Avenue, which included legal and court reporter costs.

Please be advised that these items constitute 54.6% (\$44,139.50) of the Borough's total legal expenditures during the first quarter of 2021. Additionally, the costs associated with the Conditional Use hearing for 147 W. First Avenue totaled \$6,665.00 during the first quarter of 2021. Combined, these two (2) events constitute 63% (\$50,804.50) of the Borough's legal expenditures to date. Please be advised that the Borough has received the invoice for the final legal costs associated with this application (\$6,245.00). Due to the fact that the costs associated with the Borough's legal representation for Conditional Use applications are not reimbursable to the Borough by the applicant, Borough Council may wish to re-evaluate this provision in the Zoning Ordinance for residential dwelling units.

Engineering service fees are currently at 23% of budgeted expenditures. Total expenditures are \$6,649.78 higher than compared to the first quarter of 2020. These costs are higher due to planning efforts associated with the Borough's paving program and MS4 requirements. Please be advised that 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.

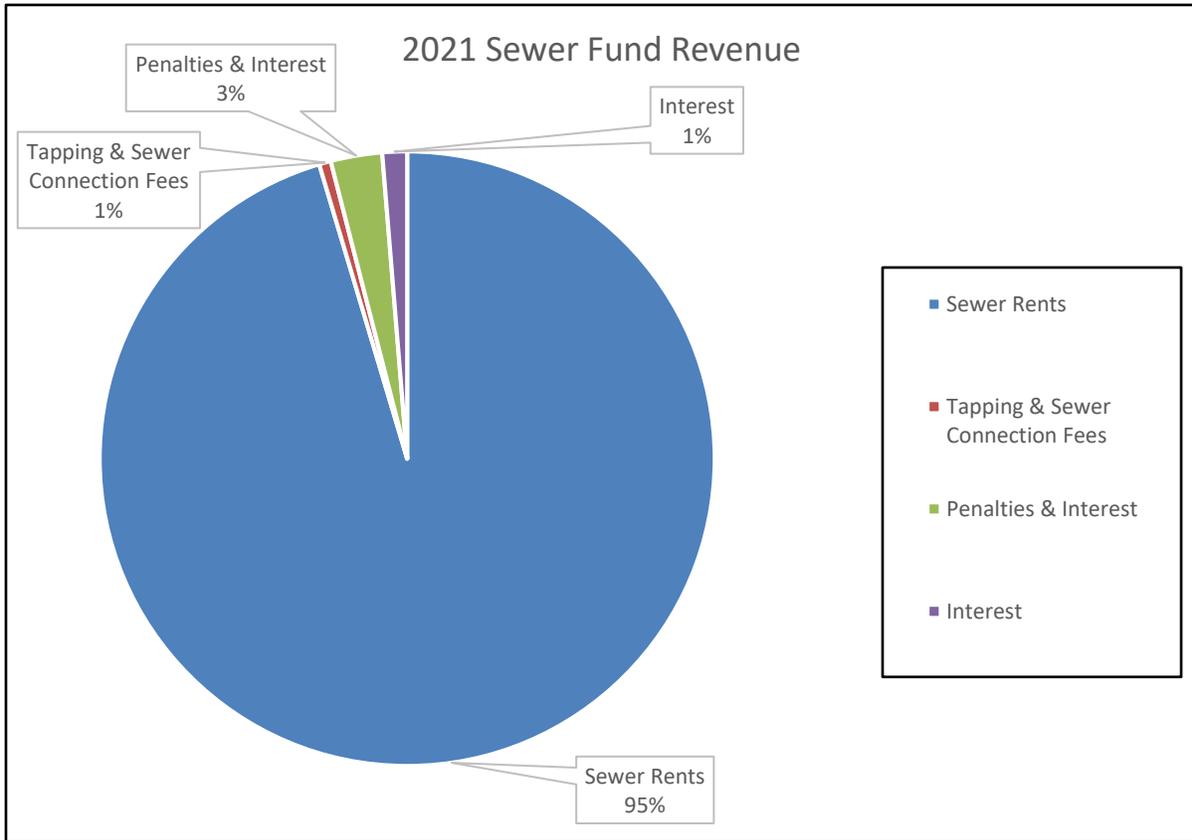
Expenditures in the Police Department are approximately 10.3% lower (\$34,170.68) compared to the first quarter of 2020. Please be advised that there was an unbudgeted expenditure pertaining to health and dental insurance in the Police Department. During the first quarter, an officer informed me that they needed to enroll in the Borough's coverage due to a life event. Due to the tier, this line-item may end the year 16.7% over budget assuming that the officer remains on the Borough's health insurance coverage for all of 2021. Additionally, costs for dental insurance in the Police Department are projected to finish 13.3% over budget assuming the officer remains on the Borough's coverage for all of 2021.

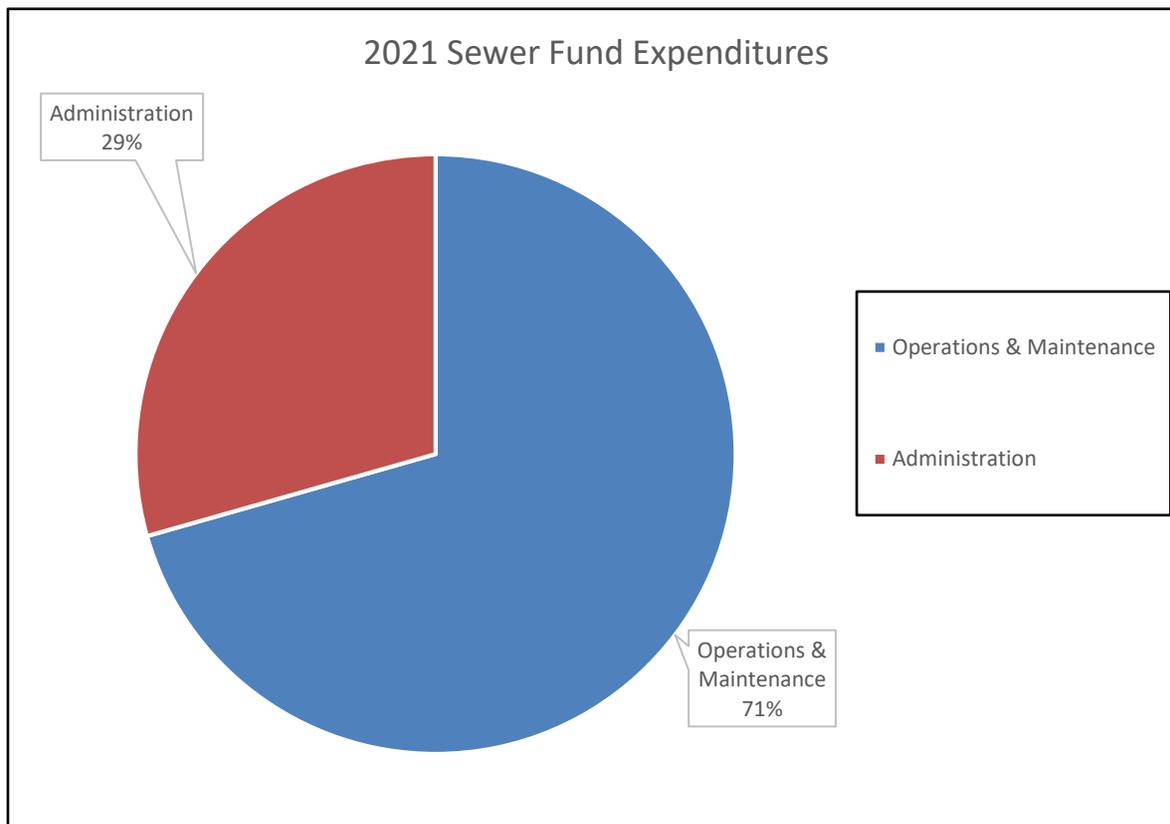
Additionally, it should be noted that a significant portion of the expenditures in the General Fund through the first quarter of 2021 have been operating costs, primarily personnel costs. Most major projects, include road paving projects, have been shifted to other funds and will be discussed with their analyses.

In reviewing the current status of expenditures in the General Fund, costs are ahead of both 2019 and 2020. However, the Borough's total expenditures were exacerbated through legal costs due to personnel and zoning matters. All departments within the Borough will continue to monitor expenditures regularly and make recommendations accordingly.

b. Sewer Fund

The Sewer Fund represents 16% of revenue and 14% of expenditures in the Borough’s 2021 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 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.

This fund was not balanced as part of the 2021 budget. As part of the 2021 budget, Borough Council approved an increase to the variable sewer rate. Additionally, in order to balance the budget, the Borough is utilizing a projected \$89,971 of reserve funds in addition to the approved rate increase.

In reviewing the status of the Sewer Fund, expenditures have exceeded revenue by \$21,510.36. Revenue in the Sewer Fund has totaled \$231,080.11 in the first quarter of 2021, while expenditures have totaled \$252,590.47. Please be advised that revenue in the Sewer Fund is currently 4% higher (\$8,862.99) when compared to the first quarter of 2020. Additionally, the rate increase included in the 2021 budget was not included in the first billing of 2021 since that was for the usage that occurred in the fourth quarter of 2020. The new rate will go into effect with the first quarter billing of 2021. Regarding expenditures, through the first quarter of 2021, expenditures are approximately 3.1% higher compared to the first quarter of 2020 based on actual funds expended.

The information below will provide a more detailed examination of revenue and expenditure standing through the first quarter of 2021. This section will also include a comparison with 2020.

i. Revenue

Total revenue through the first quarter of 2021 is **\$231,080.11 (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 95% of revenue for this fund, is currently at 24% of budgeted revenue. Please note that billing is done on a quarterly basis. Total revenue collected in this category is approximately \$3,888.53 higher compared to the first quarter of 2020. As previously noted, this is based on the 2020 sewer rates as the bills issued in the first quarter of the year were for usage in the fourth quarter of 2020. Revenue from tapping fees has met budgeted projections. The Borough received certain tapping fees that were anticipated in 2020 (for the new subdivision on Ruthland Avenue) at the beginning of 2021. As such, this revenue category will exceed budgeted projections.

Interest earnings are currently at 15% of budgeted revenue. Please be advised that the interest revenue from the first quarter of 2020 were inflated due to the closing of the CD for the Valley Creek Trunk Sewer (VCTS) proceeds. Additionally, other income sources are currently than in previous years due to the fact that the Borough received an insurance reimbursement in the first quarter of 2021 for the malfunction that occurred in pump station #2. A portion of this was also received in fourth quarter of 2020.

Revenue in the sewer fund finished 2020 ahead of budget by approximately 12%. In reviewing trends, this fund traditionally ends the year approximately 5% to 8% above projections. However, the year-end 2020 revenue was inflated due to the receipt of the aforementioned insurance reimbursement. At this time, I believe that the Borough will finish close to budgeted revenue in this fund; however, the impact of the approved rate increase remains to be seen.

ii. Expenditures

Total expenditures through the first quarter of 2021 is **\$252,590.47 (25% of budget)**. This is approximately 1% higher compared to the first quarter of 2020. The information below provides an examination of each of the budgetary categories:

- **Operation & Maintenance:** Through the first quarter of 2021, operation and maintenance costs are at 24% of budgeted expenditures. This is comparable to the first quarter of 2020. Sewage disposal and treatment costs represent approximately 75% of expenditures and is currently at 26% of budget through the first quarter of 2021. Actual expenditures for sewage disposal and treatment is approximately 8.4% higher compared to the first quarter of 2020. This due the fact that the Borough paid the April invoice for transmission through the VCTS line ahead of schedule and it was counted in the first quarter. If this is removed, sewage disposal and treatment costs are comparable to the first quarter of 2020. Please be advised that the rates the Borough pays to Aqua, East Whiteland Township, and the Valley Forge Sewer Authority have not increased in 2021. This may be due to the pending sale of East Whiteland Township's sanitary sewer system. Additionally, the fee paid to Aqua for transmission through the VCTS line is in the final year of the three-year rate hold.

As of the preparation of this report, all other operation and maintenance costs appear stable. However, as Borough Council is aware, a significant repair to pump station #1 (Crestside Way) will occur in the second quarter. This will be for the repair of the hydraulic grinder. The cost for this repair is approximately \$15,000. Additional repairs to this pump station have been recommended by the Superintendent of Public Works and will be considered by Borough Council.

- **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 2021, administration costs are at 26% of budgeted expenditures. This is approximately 4% higher compared to the first quarter of 2020. This is due to higher personnel costs in the Sewer Fund, including increased costs for Workers Compensation insurance, employee benefits (e.g., health insurance), and salaries.

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 balance. Total budgeted revenue for 2021 in this fund is \$1,331,021.00, which represents the beginning cash balance. There are no transfers from the Sewer Operating fund budgeted. However, any additional revenue over expenditures will be transferred from the Sewer Operating Fund to the Sewer Capital Reserve Fund.

Expenditures in the Sewer Capital Reserve Fund total \$141,000. Budgeted projects include repair to the sewer laterals, payment into the construction fund for the Valley Forge Sewer Authority, repair of joints to address inflow and infiltration, and replacement of the electronic motor and a new alarm system at pump station #1. Through the first quarter of 2021, total expenditures from the Sewer Capital Reserve Fund have been \$17,094.70. This includes the Borough's contribution to the Valley Forge Sewer Authority construction fund (\$14,070.00) and the new alarm system for pump station #1 (\$3,024.70).

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, interest, and grant funds. Through the first quarter of 2021, total revenue is \$458.71, which represents interest payments.

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 **\$48,210.73 (2% of budgeted expenditures)**. Costs expended out of this fund include work related to the update to the Borough's Comprehensive Plan, grant application preparation for Randolph Woods, engineering work related to improvements to Old Lincoln Highway, engineering work related to the improvements to Quann Park, and the Borough's debt service obligations.

Several projects are slated to be completed of this fund in 2021. The following notable expenditures are projected for the balance of the year:

1. Improvements to Quann Park – Budgeted at \$185,000 (\$21,279 in grant funding secured from Chester County; \$92,000 in grant funding received from the PA Department of Conservation & Natural Resources).
2. Preparation and submission grants applications pertaining to the Randolph Woods Master Plan – \$6,250 (total for both applications that have been authorized – \$3,091.50 paid to date).
3. Virtual/hybrid meeting set up for the Borough Hall meeting room – \$7,548.04
4. Document imaging – \$40,000 budgeted (currently in phase 1)
5. Paving projects on Malvern Avenue, Karen Drive, and W. King Street – \$225,000 budgeted

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 2021.

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 2021 is \$85,938.44 and was deposited on March 1, 2021. This represents a 6.6% decrease from 2020. The PA Department of Transportation advised the Borough that Liquid Fuels Tax Funding would decline due to reduced gasoline sales as a result of the COVID-19 pandemic. However, the amount received was \$2,517.44 higher (3%) than what was projected based on the information received during the preparation of the 2021 budget.

Budgeted expenditures include the paving of Ruthland Avenue (from First Avenue to King Street) and Green Street (from Second Avenue to First Avenue) and costs for the Borough streetlights; the latter will be an interfund transfer to the General Fund. To date, the transfer to the General Fund has not occurred. The bid results for the referenced paving projects indicates that this project will cost be approximately \$58,882.22, which is approximately \$3,882.22 higher than the amount budgeted. This is due to an expansion of the limits of paving and additional base repair that was required during the field survey. These projects were awarded by Borough Council on April 20, 2021.

Please be advised that there is a \$30,645.87 expenditure reflected in the Highway Aid Fund for paving. This was payment for the 2020 paving of N. Warren Avenue (from Pennsylvania Avenue to the northern Borough boundary). The payment was issued in 2020, by the contractor did not deposit the check until January 2021. This will be adjusted as part of the 2020 audit currently underway to accurately reflect when the check was written by the Borough.

5. Conclusion

The 2021 budget through the first quarter indicates relative stability in the Borough's finances. Revenue across all funds is stable, while expenditures have witnessed increases in certain areas. Major revenue sources have begun to return closer to pre-pandemic levels; however, the second and third quarters will be more indicative of a return to form. In reviewing expenditures, the Borough has witnessed significant cost increases during the first quarter, primarily in regards to professional expenditures due to factors beyond the Borough's control. Unfortunately, I see these costs remaining relatively high during the latter part of 2021, but efforts will be made to reduce their impact. Additionally, in reviewing certain expenditures, primarily related to the Conditional Use application for 147 W. First Avenue, I would

recommend that Borough Council strongly consider whether or not it is beneficial to retain this provision as these costs are non-reimbursable.

In reflecting on the impact of the COVID-19 pandemic, the Borough appears to have maintained a strong financial position and this continues to be reflected in the first quarter of 2021. I believe that the ability to address this situation was attributed to the efforts made by the Borough to reduce expenditures due to the unforeseen nature of the COVID-19 pandemic and the prudent financial management that the Borough has exercised over the last 20 years. The Borough staff will continue to explore avenues for cost reduction and efficiency to the maximum extent possible. I commend the Borough Council and staff for their continued efforts, as well as their work navigating the current situation.

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

Respectfully submitted by,

Christopher Bashore

Christopher Bashore
Borough Manager