



**MEMORANDUM**

**TO:** Borough Council  
Mayor Burton

**FROM:** Christopher Bashore, Borough Manager

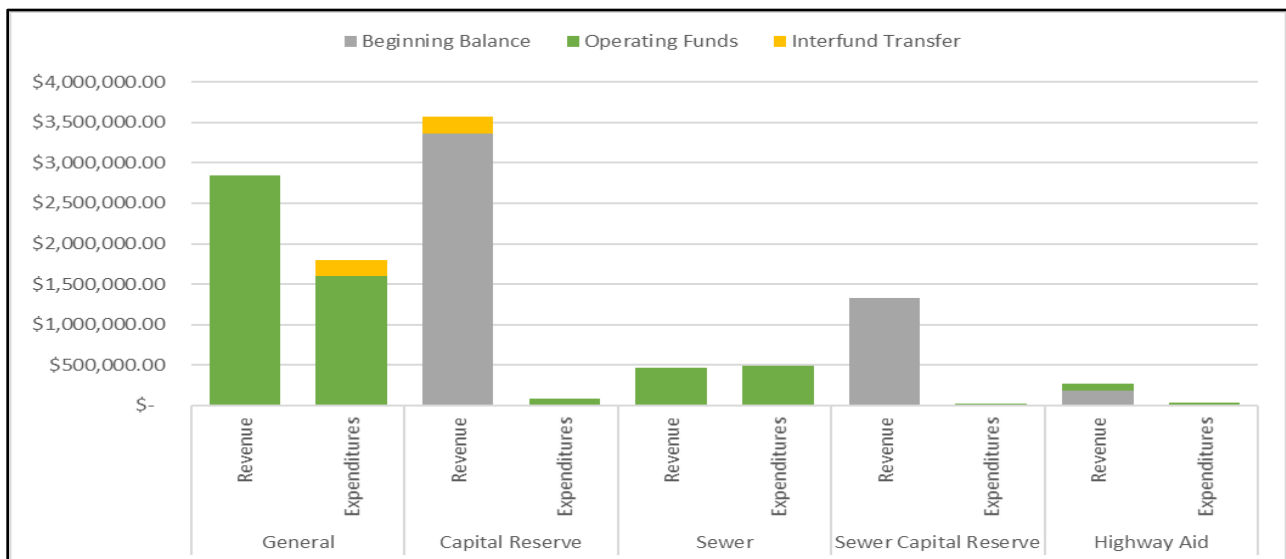
**DATE:** July 28, 2021

**RE:** 2021 Operating Budget  
Second Quarter Report

This report will provide Borough Council with a status update on budget activity through the second quarter of 2021. The 2021 Budget was approved by Borough Council at the December 15, 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 2021 budget, a calendar for the 2022 budget process has also been provided at the end of this report.

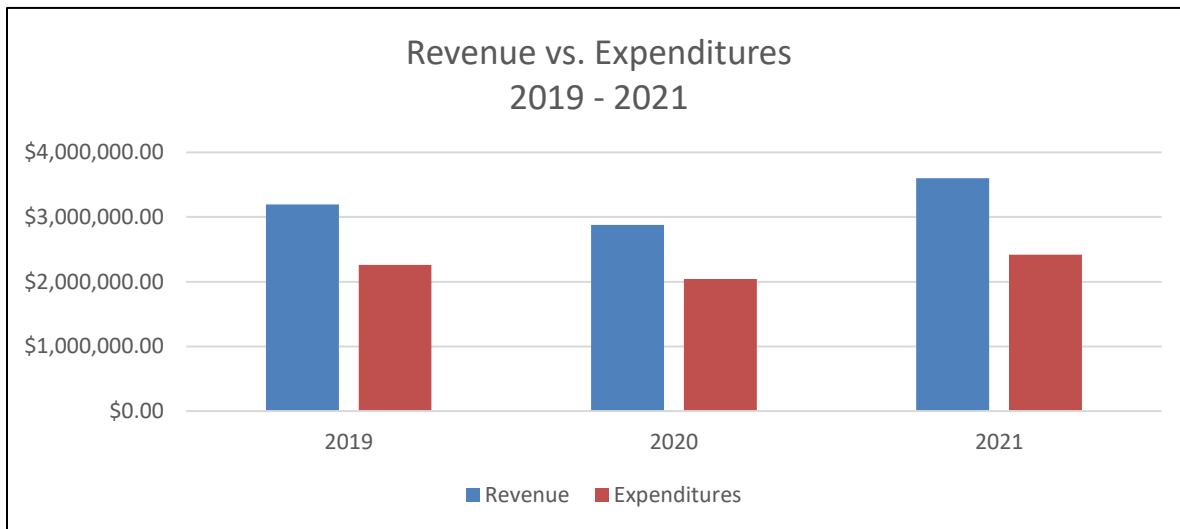
**1. Revenue & Expenditures during the second quarter of 2021**

Through the second quarter of 2021, revenue has exceeded expenditures by **\$1,180,236.91** across all Borough funds. During the second quarter, revenue exceeded expenditures by **\$1,060,706.68**. Below is the per fund information on the Borough’s 2021 budget to date:



Fund	Type	Beginning Balance	Operating Funds	Interfund Transfer	Total
General	Revenue	\$ -	\$ 2,847,408.99	\$ -	\$ 2,847,408.99
	Expenditures		\$ 1,595,343.49	\$ 199,359.00	\$ 1,794,702.49
Capital Reserve	Revenue	\$ 3,366,067.00	\$ 937.67	\$ 199,359.00	\$ 3,566,363.67
	Expenditures		\$ 80,672.82	\$ -	\$ 80,672.82
Sewer	Revenue	\$ -	\$ 464,903.42	\$ -	\$ 464,903.42
	Expenditures		\$ 490,388.01	\$ -	\$ 490,388.01
Sewer Capital Reserve	Revenue	\$ 1,331,021.00	\$ -	\$ -	\$ 1,331,021.00
	Expenditures		\$ 22,060.54	\$ -	\$ 22,060.54
Highway Aid	Revenue	\$ 185,719.00	\$ 86,097.56	\$ -	\$ 271,816.56
	Expenditures		\$ 30,645.87	\$ -	\$ 30,645.87

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.

Please note the following items:

- The Borough received the final grant reimbursement for the N. Warren Avenue Transit Project in the second quarter. As such, these funds are counted as both revenue and an expenditure. Actual expenditures in the General Fund minus the inter-fund transfer are approximately 12% higher compared to the second quarter of 2020 as opposed to approximately 26% higher with this transfer included.

- The expenditure outlined in the Highway Aid Fund was for the 2020 paving project on N. Warren Avenue. This check was issued in 2020, but not recorded until the beginning of 2021. As the Borough's 2020 audit has been completed, this will be adjusted as noted in the first quarter 2021 report.
- Revenue in the General Fund has witnessed a recovery in most areas, particularly Act 511 tax revenue.

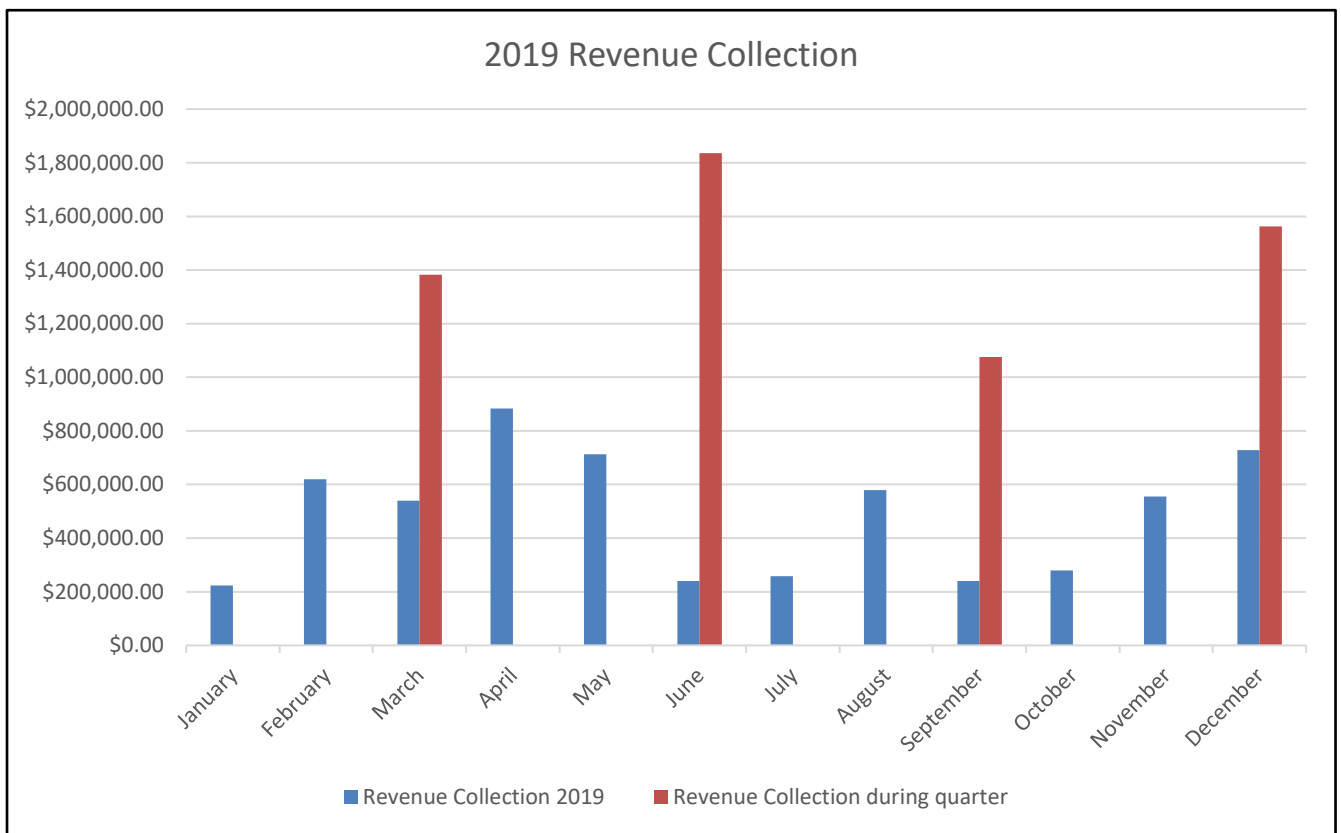
**a. Revenue**

Total revenue collection across all Borough funds through the second quarter was **\$3,598,706.64 (60% of budgeted revenue)**. During the second quarter, revenue collection totaled **\$2,303,496.66 (64% of revenue collected to date occurred during the second quarter)**. The Borough's revenue has witnessed an increase of approximately 40% compared to the second quarter of 2020. Please note the following factors that have contributed to this increase:

- The Borough received the final grant reimbursement for the N. Warren Avenue Transit Project during the second quarter of 2021 (\$160,000.00). The total outstanding amount for 2021 was \$199,359.00, which was received in the first half of the year.
- Revenue from real estate taxes is currently 6.7% higher (\$69,080.12) compared to the second quarter of 2020. Total revenue from real estate taxes through the end of the second quarter of 2021 is \$1,100,879.66. In examining the individual components of this category, current year real estate tax revenue is currently 3.3% higher (\$33,528.22) compared to the second quarter of 2020. Additionally, interim real estate tax revenue is currently at \$31,273.84. This increase is due to the re-assessment of East Side Flats for tax years 2020 and 2021.
- Act 511 tax revenue (e.g., Per Capita, Real Estate Transfer, Earned Income, and Local Service taxes) is approximately 15% higher (\$170,744.36) compared to the second quarter of 2021. Real Estate Transfer Tax revenue has witnessed a significant increase compared to the second quarter of 2020 and is more than double in terms of revenue realized (\$35,348.57 through the second quarter of 2020 and \$81,960.93 through the second quarter of 2021). Earned Income Tax revenue is 8.7% higher (\$100,400.60) compared to the second quarter of 2020. Local Services Tax revenue is 33% higher (\$15,647.31) compared to the second quarter of 2020.

- Revenue from earnings on investments is also beginning to increase. Through the second quarter of 2021, this revenue source is approximately 19.4% higher (\$1,552.54) compared to the second quarter of 2020.
- Revenue in the Sewer Fund is approximately 7% higher compared to the second quarter of 2020. Please be advised that this is the first report reflecting the rate increased approved by Borough Council as part of the 2021 budget.

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:



In these reports, I would usually include a comparison to the previous year; however, due to the actions taking in 2020 as a result of the COVID-19 pandemic, I do not believe that outlining revenue trends for 2020 provides a good comparison. As noted in the chart above, revenue increased by 33% from the first to second quarter of 2019. In 2021, total revenue increased by approximately 79% from the first quarter to the second quarter. This should not be viewed as a standard event as there are unique factors as a result of the COVID-19 pandemic that have resulted in this anomaly that will be discussed during the per fund analysis. However, I will note that the Borough’s

revenue stream has stabilized considerably compared to the unknown circumstances witnessed in 2020 at this time.

## **b. Expenditures**

Total expenditures across all Borough funds during the second quarter was **\$2,418,469.73 (32% of budgeted expenditures)**. This is \$375,324.83 (18.4%) higher compared to second quarter of 2020. The reason for this difference may be attributed to the following:

1. An inter-fund transfer from the General Fund to the Capital Reserve Fund for grant funding received for the N. Warren Avenue Transit Project.
2. Increased costs associated with professional services, primarily legal costs, due to several factors including personnel matters, land use issues, and Right-to-Know requests/appeals.
3. Increased costs in the Public Works Department as a result of expenditures necessary during the 2020/2021 winter, including roadway de-icing salt and overtime costs.
4. Increased costs in the Police Department, primarily the use of part-time patrol officers due to staffing needs.
5. Maintenance costs associated with the Borough's sanitary sewer system, as well as capital costs, including the Borough's contribution to the Valley Forge Sewer Authority construction fund.

During the second quarter, expenditures totaled **\$1,242,789.98 (51% of expenditures to date occurred during the second quarter)**. In comparison to the second quarter 2020, expenditures during the second quarter of 2021 are approximately 30% higher; however, 16% of the expenditures during the second quarter (\$199,359.00) were the result of an inter-fund transfer from the General Fund to the Capital Reserve Fund.

During the second quarter of 2021, the following significant expenditures occurred:

- Inter-fund transfer from the General Fund to the Capital Reserve Fund for the grant funding for the N. Warren Avenue Transit Project – \$199,359.00
- Purchase of new computers for the Administration and Police Departments – \$4,416.75
- Quarterly contribution to the Malvern Fire Company – \$28,750.00
- Renewal of the Borough's cybersecurity insurance coverage – \$4,900.00 (allocated 60% in the General Fund and 40% in the Sewer Fund)

- Repair and maintenance work associated with Pump Station #1 of the Borough's sanitary sewer system – \$18,879.61 (hydraulic grinder (“Muffin Monster”) and platform repair)
- Sewage disposal and treatment costs – \$108,962.75
- Purchase of hybrid meeting equipment for the Borough Council meeting room – \$7,548.04
- Costs associated with grant applications associated with the master plan for the Randolph Woods Nature Preserve – \$5,156.25

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

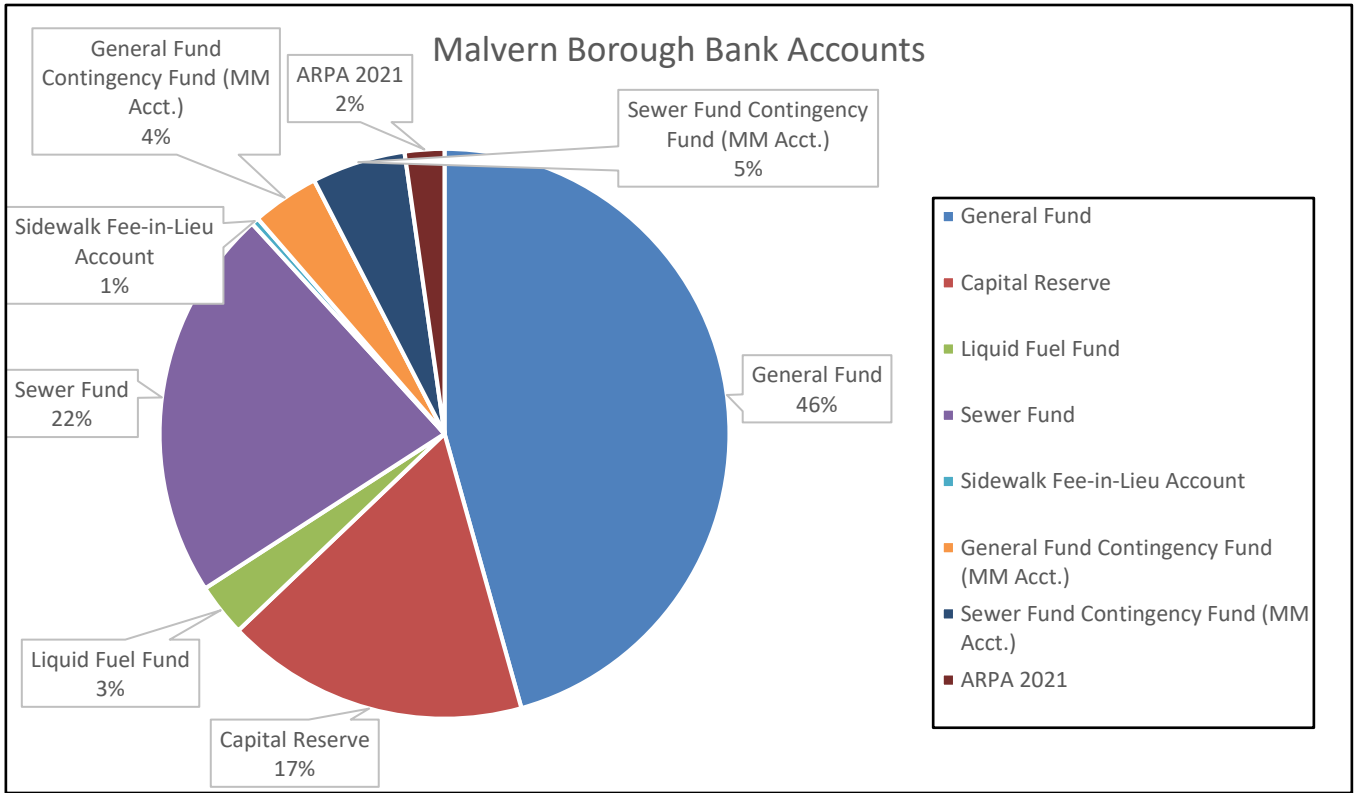
- Paving of Ruthland Avenue and Green Street – Awarded to John A. DiRocco for labor in the amount of \$32,582.22. Total estimated cost = \$58,882.22 (\$26,300.00 in material). As Borough Council is aware, certain emergency repairs were necessary, resulting in this project being approximately \$17,000 higher than anticipated.

During the second quarter of 2021, the following grants were awarded to the Borough:

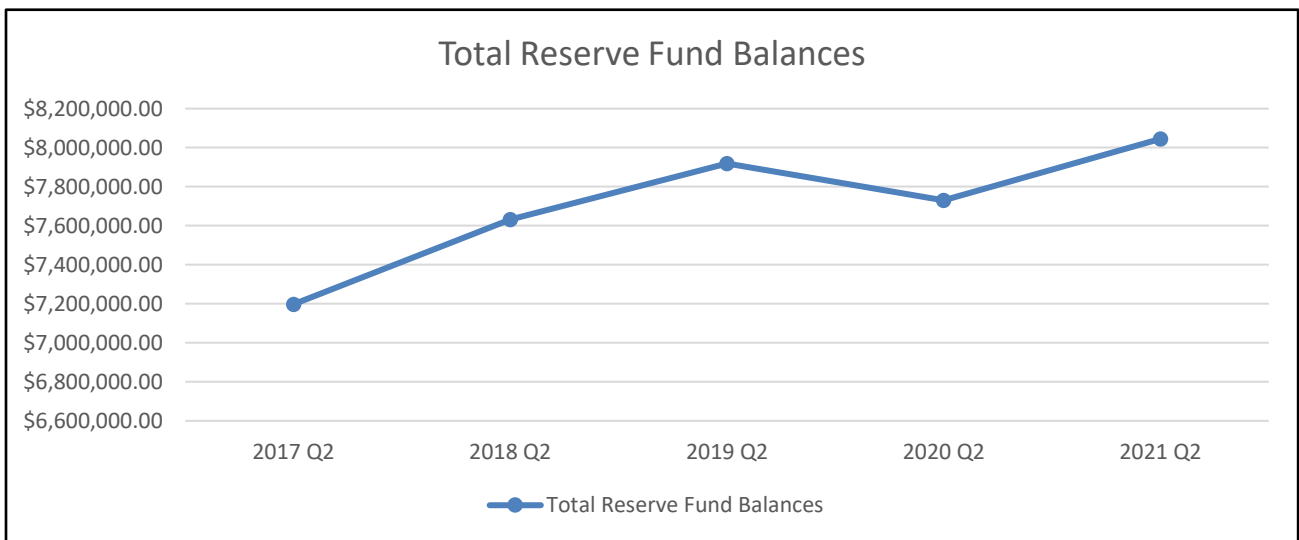
- Chester County Park Improvement Grant in the amount of \$91,677 for the construction of a bicycle pump track off of Ruthland Avenue.

## **2. Cash Reserve Balance**

The Borough's cash reserve balance through the second quarter of 2021 is **\$8,044,994.06**. Please be advised that this includes the funds that were received through the American Rescue Plan Act of 2021 (ARPA) (\$180,816.06). Please be advised the June 2021 Treasurer's Report incorrectly stated that amount as \$186,816.06 and this will be corrected for the July report. If the ARPA funds are removed, the Borough's existing cash balance is approximately 2% higher (\$134,719.38) compared to the second quarter of 2020. Additionally, the Borough's existing cash balance is in a comparable position to the second quarter of 2019. Currently, the cash reserve balance for the Borough represents **107% of budgeted expenditures in 2021**. 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 2017 – 2021:



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 12%. 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.
- The cost saving efforts through the COVID-19 pandemic.

The current balances will see a decline the third quarter of 2021 as the Borough pays for purchases currently under construction, most notably the paving projects that are underway.

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 – \$306,586.92
- Sewer Fund Contingency – \$427,542.54

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 **90% of the projected 2021 revenue for the General Fund**. This represents a strong reserve capacity for the Borough.

### 3. 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. Overall, through the second quarter of 2021, **revenue has exceeded expenditures by \$1,052,706.50 in the General Fund**. Revenue in the General Fund has totaled \$2,847,408.99, and expenditures have totaled \$1,794,702.49. The information below will provide a more detailed examination of revenue and expenditure standing through the second quarter of 2021. This section will also include a comparison with 2020.

#### i. **Revenue**

Revenue in the General Fund is at 70% of budget overall through the second quarter of 2021. Through the second quarter of 2020, revenue was at 52% of budget. Real estate tax bills were mailed to property owners in March 2021, with



primary collection occurring in April and May 2021; 78% real estate taxes received to date were received in April and May. The increased revenue received in 2021 compared to 2020 may be attributed to the following:

- The receipt of grant revenue from the PA Department of Community & Economic Development and the PA Department of Transportation for the N. Warren Avenue Transit Project (\$199,359.00).
- The extension of deadlines pertaining to the payment of certain types of taxes, including a filing deadline extension for Earned Income Tax returns and the extension of the discount period for real estate taxes, which did not occur in 2021.
- Receipt of the interim tax payment for the re-assessment of Eastside Flats.

The Borough's revenue from real estate taxes is higher compared to the second quarter of 2020. Overall, revenue from real estate taxes is at 99% of budget, while it was at 93% of budget through the second quarter of 2020. Current year real estate taxes are at 96% of budgeted revenue (\$1,061,901.96). This represents an increase of approximately 2% compared to the second quarter of 2020 when performing a budget-to-budget comparison; in terms of actual dollars collected, the Borough has witnessed an increase of 3.3% compared to the second quarter of 2020 (\$33,528.22). While I cannot say this definitively, it is safe to assume that not having the discount period extended in 2021 has contributed to this increase. Revenue collected from delinquent real estate taxes is 58% higher than through the second quarter of 2020 when examining the actual funds collected. Through the second quarter of 2021, delinquent real estate tax revenue is at 78% of budget compared to 43% of budget during the second quarter of 2020. The Chester County Tax Claim Bureau paused the collection of delinquent taxes due to the COVID-19 pandemic; this collection resumed in the latter part of 2020. Interim real estate tax revenue has exceeded budget significantly. This is due to receipt of tax payments for the re-assessment of Eastside Flats.

Local Enabling Tax revenue (e.g., Per Capita, Earned Income, Real Estate Transfer, and Local Service taxes) is currently at 62% of budget through the second quarter of 2021. This is approximately 10% higher compared to the second quarter of 2020. As with the Borough's other tax revenue sources, I believe that the deadline extensions initiated due to the COVID-19 pandemic are the primary reason for this increase as they did not occur in 2021 to the degree that was witnessed in 2020. Real Estate Transfer Tax revenue has witnessed a significant increase and is currently at 96% of budget and is more than double where it was through the second quarter of 2020. This revenue source is also nearly double what the Borough realized through the second quarter of 2019. This primarily due to the

dramatic increase in home prices that has occurred. While I do not anticipate this stream to continue at the same magnitude witnessed during the first half of the year, the Borough will see this revenue source exceed budget for 2021.

Total combined Earned Income Tax (EIT) revenue (current and prior years) is at 61% of budget. This represents an 8% increase (\$100,400.60) in revenue collected when compared to the second quarter of 2020. Through the second quarter of 2021, current year Earned Income Tax revenue is at 44% of budget. Prior year Earned Income Tax revenue is currently at 112% of budget. In reviewing collection data from Keystone Collections Group, total collections are approximately 6.6% higher compared to the second quarter of 2020. 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 (please be advised that the largest distribution in 2020 was in the month of August, most likely due to the filing deadline being extended to July 15, 2020). Distributions during the second quarter were up 23% compared to the second quarter of 2020. I will note that EIT revenue for 2020 was the highest in the Borough's history. Moving further back to 2019, EIT revenue during the second quarter of 2021 is 14.4% higher compared to the second quarter of 2019.

Revenue from the Local Services Tax (LST) is currently at 47% of budget through the second quarter of 2021. Please note that this includes both current and prior year Local Services Tax revenue. Through the second quarter of 2021, LST revenue is approximately 12% higher compared to the second quarter of 2020. Distributions during the second quarter of 2021, however, were approximately 21% lower when compared to the second quarter of 2020.

Permit fee revenue continues to be impacted by the COVID-19 pandemic. Revenue from building permits is 13.7% lower compared to the second quarter of 2020. Additionally, plumbing and road opening permits has also declined. Supply chain issues and the cost of building materials have significantly impacted construction activity. Additionally, the large-scale projects, such as new homes, have declined compared to previous years. However, the Borough is witnessing an increase in permit activity. Franchise fee revenue has also declined and is approximately 2.7% lower when compared to the second quarter of 2020. This is primarily the result of the continued shift from traditional cable to streaming services. However, I will note that Zoning Permit revenue has increased compared to the second quarter of 2020. This revenue category is approximately 45% higher compared to the second quarter of 2020.

Earnings on investments are at 80% of budget and actual revenue is 19% higher when examining actual collections. The total revenue realized through the second quarter of 2021 is \$9,576.81. This increase may be primarily attributed to the

slight rebound in rates being received and the increased savings that the Borough has in its accounts.

The Borough took the necessary steps during the preparation of the 2021 budget and reduced revenue projections. However, the primary sources of revenue for the Borough appear to have recovered from the decline that was witnessed during the second of 2020. This recovery began in the third quarter of 2020 and continued. In reviewing the budget data through the second quarter of the 2021, revenue in the General Fund is tracking ahead of the levels witnessed in 2020. There are still unknowns as it pertains to the COVID-19 pandemic and the possibility of new restrictions that could impact the Borough's revenue is a risk. That being said, I am optimistic based on the numbers received to date. As the Borough begins preparation of the 2022 budget, these trends will continue to be monitored.

ii. **Expenditures**

Expenditures in the General Fund are currently at 44% of budgeted projections. This is 12% higher when compared to the second quarter of 2020. Major expenditures in the General Fund during the second quarter of 2021 included the purchase of new computers for the Administration and Police Departments, purchase of cybersecurity insurance (this expense is split between the General Fund and the Sewer Fund, with 60% allocated to the General Fund), an inter-fund transfer from the General Fund to the Capital Reserve Fund for the N. Warren Avenue Transit Project, purchase of new firearms for the Malvern Police Department, and a contribution to the Malvern Fire Company. Please be advised that the inter-fund transfer to the Capital Reserve Fund represents 11% of the expenditures to date in the General Fund.

Expenditures in the Administration department are approximately 27.6% higher (\$71,521.25) compared to the second quarter of 2020. This is primarily due to increased expenditures associated with legal services. As reported during the first quarter report, legal service costs have been elevated 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.

Additionally, the Borough has had to respond to several Right-to-Know requests for records sensitive in nature, as well as two (2) appeals filed with the PA Office of Open Records. The total costs associated with these items is \$12,057.50.

Expenditures in the Police Department are approximately 8.5% higher (\$49,326.02) compared to the second quarter of 2021. This is primarily due to increased utilization of part-time patrol officers needed due to staffing shortages and an unbudgeted expenditure for health, dental, and vision insurance. During the first quarter, an officer informed me that they needed to enroll in the Borough's coverage due to a life event. In examining part-time patrol officer and overtime costs due to staffing shortages, I would note that overtime costs are 9.6% lower when compared to the second quarter of 2020. Regarding part-time officer costs, this expenditure category is approximately three (3) times higher than it was during the second quarter of 2020. Due to the COVID-19 pandemic, Chief Marcelli significantly reduced the number of part-time officers being utilized in the Malvern Police Department last year. For 2021, instead of utilizing full-time officers at an overtime rate to fill shifts, Chief Marcelli used part-time officers to cover these shifts. I believe that this was the appropriate course of action.

Expenditures in the Public Works Department are approximately 17.9% higher (\$40,213.86) compared to the second quarter of 2020. This is primarily due to costs associated with snow removal during the 2021 winter. Overtime costs are over four (4) times higher when compared to the second quarter of 2020 and the Borough spent \$12,120.26 on roadway de-icing salt, whereas no funds were expended on roadway de-icing salt during the winter of 2020. Additionally, the 2020 budget had allocated an additional full-time laborer who did not start until May 2020, while this employee has been with the Borough all of 2021.

While expenditures have increased in certain areas, the Borough's departments continue to be mindful of expenditures. Certain costs incurred to date have been beyond the Borough's control to a certain extent and represent necessary expenditures that had to be incurred. Issues that occurred in the first quarter of 2021 have continued to impact the Borough's expenditure levels in the General Fund budget, most notably in terms of professional costs. However, I would note that the expenditure levels in the General Fund are in a comparable level to the second quarter of 2019. As with the Borough's revenue stream, I believe it will be important for the 2022 budget process that the Borough continues to be mindful of expenditure levels and evaluate cost saving options where possible.

#### **b. Sewer Fund**

The Sewer Fund represents 16% of the Borough's 2021 budgeted revenue and 14% of the 2021 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. As part of the 2021 budget, Borough Council approved a rate increase for usage over 5,000 gallons per quarter. The 2021 budget also utilized \$89,971 in reserve funds to balance the budget.

The most significant expenditure in the Sewer Fund is related to the operation and maintenance of the Borough's sanitary sewer system. Approximately 71% 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 2021, expenditures have exceeded revenue by **\$25,484.59**. Revenue in the Sewer Fund is 7% higher (\$29,645.59) compared to the second quarter of 2020. Expenditures in the Sewer Fund are 5.3% higher (\$24,633.20) compared to the second quarter of 2020.

Expenditures in the Sewer Fund are at 48% of budget, which is approximately 2% higher when doing a budget-to-budget comparison to the data through the second quarter of 2020. This may primarily be attributed to the repairs that were necessary to pump station #1. Revenue is currently at 50% of budget, which is identical when performing a budget-to-budget comparison to the data through the second quarter of 2020.

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

#### **i. Revenue**

Total revenue through the second quarter of 2021 is **\$464,903.42 (50% 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 4% higher (\$24,918.44) compared to the same time period in 2020. The first quarter billing that occurred in April 2021 was the first cycle with the rate increase approved by Borough Council. This increase may be attributed to the rate increase. Through the second quarter billing on 2021, the current delinquent amount is \$21,639.52, which represents approximately 3% of the Borough's accounts being delinquent. The current delinquent account represents a decline of 28% compared to the second quarter of 2020. The Borough Treasurer, Mary Lou Whitcomb, has been working diligently to address these accounts and it is reflected in this reduction. Please note that several delinquent accounts are in

bankruptcy, limiting the actions that the Borough is able to take to collect outstanding fees. Sewer tapping fee revenue is approximately 33% higher compared to the second quarter of 2020. The increase in this revenue category is due to the receipt of tapping fees for the final lots at the 51 Ruthland Avenue subdivision, the new home at 525 Monument Avenue, and the last lot for the subdivision at 13 Lovers Lane. Please be advised that an existing property at 631 Monument Avenue, which is not currently connected to the Borough's sanitary sewer system, will be connecting. This revenue will be reflected in the third quarter budget report.

Total revenue in the Sewer Fund in 2020 finished 12% above budgeted projections. Certain revenue sources in this fund are tracking higher than in 2020; however, that may be due to the approved rate increase included in the 2021 budget. Certain revenue items will be reflected in the third quarter report, most notably the refund from the Valley Forge Sewer Authority from the annual audit. Additionally, expenditures will most likely exceed revenue in this fund; however, that was anticipated in the budget projections.

## ii. Expenditures

Total expenditures through the second quarter of 2021 are **\$490,388.01 (48% of budget)**. This is 2% higher when compared to the second quarter of 2020 when performing a budget-to-budget comparison; actual dollars expended are 5.3% higher when compared to the second quarter of 2020. The information below provides an examination of each of the budgetary categories:

- **Operation & Maintenance:** Through the second quarter of 2021, operation and maintenance costs are at 49% of budgeted expenditures (\$349,014.88). This is approximately 3% higher than the total expenditures in this category through the second quarter of 2020. Sewage disposal and treatment costs represent approximately 69% of expenditures to date and is currently at 47% of budget through the second quarter of 2021. Sewage disposal and treatment costs comparable to the second quarter of 2020. This may be due to the fact that the municipalities the Borough's sewage is conveyed through did not increase in 2021, most likely due to anticipated sales. However, it is important to note that the Borough will most likely see an increase in transmission costs through the Valley Creek Trunk Sewer line in 2022 as 2021 represents the final year of the rate lock outlined in the Agreement of Sale.

Maintenance costs for the sanitary sewer system continue to be high. As Borough Council is aware, pump station #1 experienced a significant failure earlier this year that resulted in an expenditure of \$14,962.53.

- **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 2021, administration costs are at 47% of budgeted expenditures (\$141,373.13). This is ahead of the total expenditures in this category through the second quarter of 2020 (12% higher). This is due to an increase in certain insurance costs for the Borough, increased engineering expenditures associated with the Borough's sewer system, certain legal expenditures pertaining to the sale of neighboring municipal sewer systems, and increased costs for certain employee benefits.

Total expenditures finished 2020 at 94% of budget. I would anticipate this fund finishing 2021 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 2021 budget. Total budgeted revenue for 2021 in this fund is \$1,331,021, which represents the beginning cash balance.

Expenditures in the Sewer Capital Reserve Fund total \$141,000. Budgeted projects include repair to the sewer mains, replacement of the electric motor and installation of the new alarm system at pump station #1, inflow and infiltration work, and payment into the construction fund for the Valley Forge Sewer Authority. Through the second quarter of 2021, total expenditures in this fund are \$22,060.54. These costs include the Borough's contribution to the Valley Forge Sewer Authority construction fund (\$14,070.00) and the budgeted upgrades to pump station #1 (\$7,990.54).

#### d. Capital Reserve Fund

Revenue for the Capital Reserve Fund is derived from the beginning cash balance and inter-fund operating transfers from the Borough's General Fund. Through the second quarter of 2021, the Borough completed the budget inter-fund transfer from the General Fund for the grant funds received for the N. Warren Avenue Transit project (\$199,359.00). Total revenue through the second quarter of 2021 is \$200,296.67.

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 2021 in this fund are **\$80,672.82 (4% of budgeted expenditures)**. Costs expended out of this fund include codification of the Borough's ordinances, professional costs associated with the update to the Borough's Comprehensive Plan (costs offset by a Vision Partnership Program grant from Chester County), costs for the preparation of grant applications for improvements to the

Randolph Woods Nature Preserve, the purchase of the Borough's streetlight network from PECO, the improvements to Quann Park (costs offset by grants received from Chester County and the PA Department of Community & Economic Development), and debt service expenditures.

Certain road projects were allocated in the Capital Reserve Fund for the 2021 budget. This includes the paving of the Malvern Avenue (from Highland Avenue to King Street) and Karen Drive. As reported to Borough Council, the paving of Green Street. A portion of this cost will utilize the funds allocated in the Capital Reserve Fund. Borough Council has awarded the contract for the paving of Malvern Avenue and Karen Drive. Including the estimated material cost from the Borough Engineer, this project is estimated to be under budget.

Several of these projects may not be completed in 2021 and will most likely be carried into the 2022 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 2021 is \$85,938.44 and was deposited on March 1, 2021. This represents a 6.6% decrease from 2020.

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 the cost of street lighting. To date, this transfer has not occurred. Paving costs for Ruthland Avenue and Green Street (from First Avenue to Second Avenue) has also been allocated. As previously reported, certain emergency repairs were required on Green Street and this project will finish 2021 over budget. The difference will utilize funds from the Capital Reserve Fund. While these projects have been completed, the Borough Engineer is still reviewing the invoice and payment has not yet been issued.

**5. Conclusion**

The second quarter of 2021 indicates the strength of the Borough's revenue stream, as well as the financial standing of the Borough. Cash balances in the Borough's bank accounts indicate a strong reserve capacity and this prudent financial management should be commended. Revenue sources that witnessed declines due to the COVID-19 pandemic have recovered and are exceeding trends in certain areas. While certain revenue sources have not yet recovered, the primary streams have witnessed a recovery. Expenditures are also higher compared to previous years. However, certain costs were beyond the Borough's control and were the result of other actions. As the Borough moves through the latter portion of 2021, the Borough staff will continue to explore cost control measures where possible and grants to complete major projects. The information below outlines a budget calendar for 2022.



## 6. 2022 Budget Calendar

The following is an outline of the calendar for the completion of the 2022 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 2022 budget.
  - 2) 2<sup>nd</sup> meeting of August – Preliminary year-end projections will be provided to Council
  - 3) 1<sup>st</sup> meeting of September – Cost estimates would be provided to Finance & Administration Committee
  - 4) 2<sup>nd</sup> meeting of September – Discussion/review of Capital Projects
  - 5) 2<sup>nd</sup> meeting in October – First public presentation of the draft budget
  - 6) 1<sup>st</sup> meeting in November – Complete budget package with comments to Finance & Administration Committee
  - 7) 2<sup>nd</sup> meeting of November – Final budget numbers provided to Council for comment and authorization to advertise

- 8) 1<sup>st</sup> meeting of December – Complete budget package with comments to Council, public hearing on the budget as required, and adoption of the preliminary budget
  - 9) 2<sup>nd</sup> 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 2022 based on millage
    - 2) The Minimum Municipal Obligation for Pensions comes in September
    - 3) Pension contribution arrives 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 15<sup>th</sup>

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

Respectfully submitted by,

*Christopher Bashore*

Christopher Bashore  
Borough Manager