

**East Marlborough Township**  
**721 Unionville Road**  
**Kennett Square, PA 19348**

December 5, 2022

The Honorable Board of Supervisors  
East Marlborough Township  
721 Unionville Road  
Kennett Square, PA 19348

**RE: 2023 BUDGET MESSAGE**

Board of Supervisors,

On behalf of the employees of East Marlborough Township (the “Township”), I am pleased to submit the 2023 Budget with no tax rate increase(s). This budget message sets forth the financial plan for the calendar year 2023, and calls attention to opportunities, trends and challenges we are likely to face in the coming years.

**Budget Process**

Under the PA Second Class Township Code, Section 3202, the Township budget must be balanced, and it must be approved by the Board of Supervisors no later than December 31<sup>st</sup>. The code also requires that the budget be advertised and available for public inspection for at least twenty (20) days in advance of the adoption of the budget.

A balanced budget is defined as one in which the projected revenues equal or exceed the projected expenses for the calendar year. The monies in the Township’s accounts at the end of this year are carried forward into the new year and are considered as “revenue” in determining whether the budget is balanced.

**Budget Schedule**

The scheduling for the 2023 Budget started in August, when Township staff began formalizing budget requests. Departmental budget requests were prepared and reviewed individually by the Township Manager with each respective department head. After thorough evaluation and revision, draft budgets were presented to the Board of Supervisors during a publicly advertised meeting on October 3, 2022. This meeting included line-item scrutiny and discussion of capital improvement planning.

### 2023 Budget Adoption Schedule:

- ✓ October 3, 2022 – Budget Presentation of the Draft 2023 Budget
- ✓ Month of October 2022 – Budget Workshops with Township Advisory Committees and Department Heads
- ✓ November 7, 2022 – Presentation and authorization to advertise the Preliminary 2023 Budget
  - *The Approved Preliminary Budget incorporated input and direction from the Board of Supervisors during the Budget Workshops.*
- ✓ December 5, 2022 – Discussion and adoption of the Final 2023 Budget

### Types of Funds

*What is a fund?* By definition, a fund is a set of interrelated accounts which record assets and liabilities related to a specific Township purpose. Funds allow for the monitoring of and accounting for revenues dedicated to a specific purpose and the sums of money that are available, budgeted and expended for a specific purpose.

*What types of funds does East Marlborough Township use?*

Over the years, the Township has established several types of funds that include operational funds, reserve funds, capital funds and an enterprise fund.

Operational funds distinguish revenue sources and expenditures for a specific operational purpose. Currently, the only true "operational" fund is the **General Fund**. The Township's General Fund is the largest and most complex operating fund as it provides for the day-to-day services that the taxpayers expect as carried out by the 3 departments: Administration, Police, and Public Works.

The Township's **Liquid Fuels Fund** (established per the requirements of the Commonwealth of PA) may also be used for operational and capital costs.

The Township has one **Operating Reserve Fund** to support the General Fund should the Township experience revenue shortfalls or unexpected expenditures

The Township has a **Capital Reserve Fund** ("*Capital Improvement/Building Fund*") that is designated exclusively for the purchasing of capital assets and/or for infrastructure expenditures. This Capital Reserve Fund is used for large capital items and projects. The purposes for which capital reserve funds can be used are subject to restrictions imposed by state law and/or Township ordinance.

The Township has one enterprise fund, the **Sewer Fund**, that provides for the operation and maintenance of our public sanitary sewer system, paid for by users through rates and fees. An enterprise fund accounts for operations that are financed and operated in a manner like a private business. The full costs of providing the service are financed primarily through charges and fees versus a tax subsidy, thus removing these expenses from the Township General Fund and the general tax rate.

The Township has also created a variety of specialized capital and operational type funds to monitor revenue and expenses for designated public services: **Parks, Open Space, Library, and Fire & Emergency Services**. Furthermore, the Township established a fund to capture reimbursable expenses, the **Rebill Fund**, and a fund for **American Rescue Plan Act** deposits and expenditures.

**As of 2022, the following Funds exist:**

- 1) General
- 2) Sewer (*Restricted and Unrestricted*)
- 3) Liquid Fuels
- 4) Parks
- 5) Open Space
- 6) Library
- 7) Fire & Emergency Services
- 8) Operating Reserve
- 9) Capital Improvement/Building
- 10) Rebill
- 11) American Rescue Plan Act (*Temporary for Federal Pandemic Disbursement*)

**Pre-2022, the following Funds existed:**

- 1) General
- 2) Sewer
- 3) State (i.e. Liquid Fuels)
- 4) Development/Unionville Park

As of the second and third quarters of 2022, all the funds were linked to bank accounts that include direct (electronic) deposits of tax revenue and user fees where appropriate. Every fund has its own bank account, checks, and 'Company' within QuickBooks to accurately track revenues and expenditures.

To further ensure for detailed and accurate fund accounting, at the October 3, 2002 meeting the Board of Supervisors resolved to memorialize a written, observable policy, which sought to ensure the Township maintains adequate fund balance and reserves to effectively: (i) Maintain an excellent bond rating; (ii) Provide sufficient cash flow for daily financial needs; (iii) Offset significant economic downturns or revenue shortfalls; (iv) Provide funds for unforeseen expenditures related to emergencies; and (v) Set minimum reserve standards.

**General Fund**

Revenue for the General Fund is derived primarily from the township Real Estate Tax at a rate of 1.05 mills on each dollar of assessed valuation as assigned by the Chester County Assessment Office. In other words, the sum of 10.5 cents on each hundred dollars of assessed valuation.

As of October 31, 2022, the Chester County Assessment Office calculated the Township's Real Estate Valuation to be \$779,566,230.00. This equates to real estate tax revenue of approximately \$818,000.00.

The 2023 Budget assumes that the real estate market will remain steady in 2023 for resales and for the sale of new homes under construction and approved for construction. In addition, in my discussions with real estate professionals, it is expected that commercial property sales will remain strong despite rising interest rates.

Other sources of revenue for the General Fund include revenue from business licenses and permits, rents and royalties, grants, and fees.

The 2023 budget projects a positive trend in building permits and inspections as more property owners look to improve existing dwellings.

Revenue projections for 'Business Licenses & Permits' from Cable/Internet Franchise fees remain steady despite the legal matters between the cable providers (e.g., Comcast) and the internet service-only providers (e.g., Netflix).

Revenue projections for 'Rents & Royalties' are based on lease agreements the Township has with the United States Postal Service for the Unionville Post Office and 2 cell tower sites. Projections include any annual escalations for the cell tower sites that range from 3.5% to 4%, as well as shared revenues from cellular tenants residing on these cell towers.

Revenue from grants and fees are projected to remain steady with the County Vision Partnership Grant in the amount of \$39,000.00 for the Unionville Regional Comprehensive Plan Update (every 10 yrs.) and the West Marlborough Township agreement for 12 hours of monthly law enforcement presence.

With respect to expenses, an Increase in fuel (i.e., Gasoline and Diesel) for municipal vehicles and equipment, including for the Po Mar Lin Fire Company (reimbursable), is anticipated. Insurance coverage continues to increase, but for 2023, at a lower percentage than in 2022. Non-Uniformed Pension Plan and Uniformed Pension Plan costs remain consistent with prior years as there are no anticipated retirements in 2023, nor any additional employees to be added to either plan.

### **Sewer Fund**

The Public Works Department diligently maintains the sewer system to maximize the useful life of the various components that makeup the 440,000 Gallons Per Day (GPD) system: over 600 grinder pumps, several miles of conveyance lines, 10 pump stations, 1 wastewater treatment plant with 3 lagoons, and 7 spray irrigation fields.

The Township-owned sanitary sewer system is aging and is enduring higher maintenance and repair expenses since going live in 1988. Aging grinder pumps from initial installations are breaking down more frequently and parts are less available. A new version of grinder pumps is being installed rather than incurring the continued expense of repairing the older versions. The 2023 Budget reflects for this change over of equipment. In addition, while continuing to manage the overall health of our spray fields, the Public Works Department is exploring the possible expansion of our spray fields to improve the overall functionality of the sewer system.

Sewer User Fees remain unchanged per Equivalent Dwelling Unit (EDU) for the two categories: \$460.00/per EDU per Year, and \$840/per EDU per Year. These rates were established on December 8, 1997 and were reasserted during a public meeting on February 7, 2022. This equates to managing the sewer system at rates that were set 25 years ago, when the system was first brought online. While these assessed rates have facilitated healthy reserves, the 2023 Budget is allocating approximately 25% of these reserves for capital expenses to contend with the aging system.

Sewer Tap Fees are projected to stay on the same upward trajectory as in prior years. Debt Service for 2019 General Obligations Bond continues with the final payment to be made 12/01/2032.

Energy efficiency options are being investigated as the costs for electrical service alone is budgeted in 2023 at \$120,000.00. The transfer of sewer user fee collection to the appointed Tax Collector, Berkheimer Tax Innovations, Inc., resulted in a significant monetary savings for the Township's Sewer Fund (e.g., minimizing staff time, postage, and office supplies) at the same time ensuring an accurate representation of sewer revenues. As of 2022, administrative staff have been able to redirect their focus from daily sewer fee collection, to methodically ensuring that every existing and new sewer user account is accurate and adhering to Township policies.

**2023 Sewer Projects:**

1) Effluent Pump Station Repairs -	\$175,000.00	<i>Viabie Grant Reimbursement</i>
2) Utility Truck Replacement -	\$90,000.00	<i>Replaces a 2012 Model Year</i>
3) Act 537 Plan Update -	\$64,000.00	<i>Last updated in 2007</i>
4) Bar Screen Replacement -	\$45,000.00	
5) Pump Station Upgrades -	\$40,000.00	<i>2022 Carryover</i>
6) Bio-Filter Replacement -	\$35,000.00	<i>2022 Carryover</i>
7) Baffle Replacement -	\$20,000.00	

**Liquid Fuels Fund**

As provided by Pennsylvania law, the Township's Highway Aid Fund has been in place for many years as part of the State's local state highway aid assistance program. This fund was created to account for the receipt and use of Liquid Fuels disbursements provided by the Commonwealth of Pennsylvania and the PA Department of Transportation. Liquid Fuels dollars are collected from the sale of vehicle fuel in Pennsylvania, a portion of which is earmarked for local government road maintenance assistance. Traditionally, this fund has been used to complete annual roadway improvements. The use of these payments is strictly monitored, and all liquid fuels disbursements are subject to regular audit by a state auditor and the regulations of the PA Department of Transportation.

In addition to the Liquid Fuels Tax (Act 665) revenue, the Township also receives state aid in the form of Turnback (Act 32) dividends for maintaining state roads that have a local benefit for the municipality to retain oversight (e.g., Unionville Road to lower the speed limit). The township receives \$4,000.00 per mile to maintain the state-owned roadways.

Starting in 2023, the Township is implementing a 20-year Road Improvements Program. This program is designed to maximize the useful life of infrastructure through proactive maintenance efforts and best management practices. Continuation of the road program is critical to ensure that an undue financial liability does not burden the next generation of residents. The Public Works Department will prepare a list of roads to be resurfaced in early 2023 and will re-evaluate this list at winter's end.

Our focus is to continue to maximize the benefit of each dollar spent on roadway maintenance. The incremental increase of State aid falls short of the necessary funding to meet our roadway maintenance demands. Therefore, in the 2023 Budget \$250,000 is allocated from the Operating Reserve Fund to offset the shortfall needed to successfully execute the road program. On our radar and being monitored closely is the rising costs of oil and how it will drive the scope of what we can accomplish in 2023.

**Parks Fund**

As of 2022, the Parks Fund obtains revenue from recreational fees paid to the Township in lieu of public park land required to be dedicated under the Township Ordinance NO. 99-13.

Proceeds from this Fee-In-Lieu-Of fund are received from private developers and allocated to recreational improvements. The current recreational fee is based on a calculation of not less than \$1,000 per proposed residential unit.

In 2022, the Township took an initiative to ensure that these funds are allocated in the budget process to guarantee that the fees are used within three (3) years of receipt, otherwise the developer can request a refund of paid fees.

In addition, approximately 30% of the Open Space Tax levied against property owners is transferred to the Park Fund as revenue. These generated revenues enable the Park Fund to remain in a healthy fiscal state for continued maintenance of the Unionville Community Park and future parks, including the one across from the Unionville Walk community on Route 82 (Unionville Road). This supplement commenced in 2022 and remains true for the 2023 Budget.

Expenditures from the Park Fund include supplies, lawn and landscape equipment, path/trail and facilities maintenance, utilities, and an estimated 10% of Public Works Department's salaries to manage and maintain the parklands.

### **Library Fund**

This fund is exclusively for the operations and maintenance of the Kennett Public Library. The tax is assessed at a rate of .183 mills on each dollar of assessed valuation, or the sum of 1.83 cents on each hundred dollars of assessed valuation. Of the 8 municipalities that are considered in the Kennett Public Library's service area, Kennett Township is the only other municipality to levy a similar municipal tax.

### **Fire & Emergency Services Fund**

This fund was established for the purpose of supporting the Kennett Fire and Emergency Services Regional Commission (KFERC) for the purchase and maintenance of emergency services apparatus and/or appropriations to fire companies located inside and outside the Township. The KFERC was established on September 20, 2017, through an inter-municipal cooperation agreement, with each municipality being a voting member for commission business. Presently, the KFERC is comprised of 5 townships and 1 borough: Kennett Township, Newlin Township, Pennsbury Township, Pocopson Township, East Marlborough Township, and Kennett Square Borough.

Revenue for this fund comes from the Fire Protection Tax, to support the fire companies that service the Township, Po Mar Lin, Longwood, and Kennett Fire Companies, for the purchase and maintenance of fire apparatus, assessed at a rate of .675 mills on each dollar of assessed valuation, or the sum of 6.75 cents on each hundred dollars of assessed valuation.

In addition to the Fire Protection Tax, the Township fixed a tax rate for the support of Ambulance, Rescue and Other Emergency Services at a rate of .075 mills on each dollar of assessed valuation, or the sum of .75 cents on each hundred dollars of assessed valuation for the purchase and maintenance of ambulance, rescue, and other emergency services and/or appropriations to ambulance, rescue and other emergency services located inside and outside the Township.

The total of these two taxes is 7.5 cents on each hundred dollars of assessed valuation.

This fund also includes the Fire Hydrant Tax revenue to account for the expenditures incurred for the rental of the hydrants from the water companies. The Fire Hydrant tax rate is assessed in the amount of \$26.73 to each property located within 780 feet of a fire hydrant. The 2023 budget projects that 1,600 customers will reside within 780 feet of a fire hydrant for 2023.

Lastly, the Fire & EMS Impact Fees, instituted by Ordinance NO. 86-1, effective on April 14, 1986, are included in calculating this Fund's revenues. Fire & EMS Impact Fees for new residential development are \$100.00 per lot or dwelling unit, and for non-residential development \$100.00 for each 1,000 sq. ft. of aggregate floor area of all stories.

The KFERC set the 2022 Municipal Funding at \$2,560,000.00 (30% increase from 2021 Municipal Funding). To supplement the projected shortfalls in revenues versus projected expenditures in 2022, the Board of Supervisors budgeted a portion of its Local Service Tax (LST) revenue to the Fire & Emergency Services Fund. The LST is assessed at a rate of \$52 per person to be paid by all employees and self-employed persons working within East Marlborough Township. Per the *Local Tax Enabling Act*, the Township has budgeted 25% of its LST revenue to the Fire & Emergency Services Fund. This supplement remains true for the 2023 Budget.

The KFERC set the 2023 Municipal Funding at \$3,205,000.00 (30% increase from 2022 Municipal Funding) to aid with a new recruitment and retention program, as well as to address increased operational and capital expenditures.

For the Township to sustain its rising contributions to the KFERC, an increase in the Fire Protection Tax (.675 mills) and/or the Ambulance, Rescue and Other Emergency Services (.075 mills) may be considered by the Board of Supervisors. In addition, the KFERC may consider a ceiling date and/or monetary amount that would be sufficient to sustain services for an extended period (5-10 yrs.) to aid municipalities in fixing justifiable tax rates.

#### **ARPA Fund**

The American Rescue Plan Act (ARPA) Fund was established in 2022 to accurately track deposits of the COVID-19 Stimulus funds that were allocated to the Township based on the U.S. Census demographics. In total, the Township received \$797,341 to combat the negative impacts caused by the coronavirus pandemic. Funding must be spent by the end of the 2024 calendar year.

For the 2023 Budget, the Township has allocated \$209,774 of its ARPA Funds to cover the deficit in tax revenue projected for the Fire & Emergency Services Fund to meet its municipal commitment to the Kennett Fire and Emergency Services Regional Commission of \$812,273.63.

For the 2024 Budget, township staff are investigating other potential uses for the remaining \$590,068 of funds, including sewer improvements, park enhancements, and other public services.

#### **Open Space Fund**

The Open Space Fund was established based on the passage of the Open Space Referendum and enacted by Ordinance NO. 99-10, adopted on July 29, 1999. Revenue for this fund is generated through the Open Space Preservation Tax, calculated as the sum of .20 mills on each hundred dollars of assessed valuation. Revenues generated through this tax are allocated to cover appraisals, consulting services, acquisition of easements, and maintenance of active and passive open space lands. As of 2022, this Fund transferred approximately 30% of its revenue to the Parks Fund to assist with the ongoing maintenance of the Unionville Community Park and future parklands. This fund transfer is continued for the 2023 Budget.

#### **Capital Improvement/Building Fund**

Established in 2011, the Capital Improvement/Building Fund was initially called the 'Building Fund' as township officials considered the need to plan for expanding its municipal facilities due to the growth in the number of residents. Over the years, this fund has incrementally grown to over \$3,000,000.00 by carrying over surplus/unassigned revenue from the General Fund.

The purpose of the fund is to account for resources legally set aside for anticipated capital expenditures. Projects funded include road and storm water improvements, park and recreation facilities, department vehicles and major equipment, land acquisition, property and building improvements, and similar capital needs.

In 2022, the Township implemented its *Capital Improvement Plan* to better plan for and allocate funds to projects that are valued over \$10,000.00 and have a useful lifespan of 5-years or based on an industry standard. On June 6, 2022, the Board adopted the Township's Capitalization Policy to memorialize a written, observable policy, which effectively: (i) identifies and defines capital purchases and projects; (ii) establishes asset and project life cycles; and (iii) identifies associated performance standards.

**2023 Large-Scale Projects:**

- 1) East Locust Lane Bridge Replacement - \$1,250,000.00 (*\$816,000 Grant Reimbursable*)
- 2) Municipal Separate Storm Sewer Systems (MS4) Total Maximum Daily Loads (TMDL) - plan for stormwater discharges to local surface waters with EPA-approved TMDLs - \$90,000.00
- 3) Kennett Library Capital Campaign Contribution - \$105,575.00 (*Year 4 of 6 Year Commitment*)

**Operating Reserve Fund**

The operating reserve fund was established to maintain a separate operating reserve to minimize future revenue shortfalls and deficits, provide greater continuity and predictability in funding vital Township services, minimize the need to increase taxes to balance the budget in times of fiscal distress, provide the capacity to undertake long-range financial planning, and develop fiscal resources to meet long-term needs.

The Board of Supervisors may make appropriations from the Operating Reserve Fund for (1) emergencies involving health, safety and welfare or the Township residents; (2) counterbalancing budget deficits from revenue shortfalls; or, with limitations, (3) for anticipated operating expenditures or expanding projects and programs.

**2023 Projects:**

1) Purchase 1-ton Dump Truck -	\$90,000.00	<i>2022 Carryover</i>
2) Purchase Rear-Flair Mower -	\$20,000.00	<i>2022 Carryover</i>
3) Purchase Large Dump Truck -	\$230,000.00	<i>Replace 2000 model year</i>
4) Road Pave, Oil, & Chip -	\$175,000.00	<i>Supplement Liquid Fuels Fund</i>

**Rebill Fund**

In May of 2022, Township Administration created a Rebill Fund to better manage invoicing developers, builders, and property owners that enlist the services of the Township's professional consultants, including but not limited to the solicitor and engineers. This fund is self-sustaining and does not utilize tax dollars to pay the original invoices from the Township's professional consultants for developer reviews, inspections, and correspondence. The Initial deposit in May of 2022, was from a thorough investigation and closeout of the QuickBooks' Company, titled 'Escrow.'

**Organizational Sustainability**

Our current S&P Global Rating remains at 'AA+', which is the highest rating a government agency of our size can receive. This continued fiscal recognition is in large part due to the staff's hard work and the Board's efforts to operate at the highest level of efficiency.



Township Departments continue to operate at a condensed staffing level, meaning employees in all three departments wear multiple hats to carry-out the expected services and responsibilities that cumulate from being a Second Class Township of 8,000 residents, encompassing 16 square miles.

#### 2023 Staffing Level

<u>Department</u>	<u>Full-Time</u>	<u>Part-Time</u>	<u>Seasonal</u>
Administration	2	2	---
Police	2	5	---
Public Works	7	5	5

At present, the Township Municipal Building has no remaining property to expand its facilities or its capabilities. Additional space is necessary should the demand for services continue to increase in correlation with the growth of the Township. As with all our assets, the Township will need to begin the process of calculating the depreciation of its buildings over their useful life, as well as to add that depreciated value (on an annual basis) to the Capital Improvement/Building Fund to cover future enhancements.

#### Conclusion

I sincerely appreciate being able to work with each of the township staff, who are dedicated, diligent, and continuously contributing to the betterment of our Township. Each individual employee strives to better themselves through professional enrichment and to contribute to the success of the Township.

These unique individuals come together to form a very proficient, flexible, and efficient team. As a team, we would like to thank the Board of Supervisors for their continued guidance, leadership, and commitment to the goals of our Township and the betterment of the community.

With this year's ongoing work to continue to control costs and contain spending, Township staff have exhibited their dedication to serving the residents of East Marlborough and are to be commended for their efforts for this year and past years.

Special recognition should be given to Jeff Simpson, Public Works Director, and Robert 'Clarkie' Clarke, Police Chief, for their time and assistance in crafting the 2023 Budget.

The Board of Supervisors should also be recognized for the many hours that they have dedicated to the budget process, gathering input, and carefully reviewing each line item. The 2023 Budget will be a valuable tool in making the important decisions that will impact East Marlborough citizens and Township government in the coming year.

I remain grateful for the opportunity to serve the Board of Supervisors and citizens of the East Marlborough community.

Respectfully Submitted,

Neil Lovekin  
Township Manager