Municipalities Financial Recovery Act
(Act 47 of 1987, as amended)

EVALUATION REPORT

BOROUGH OF MILLBOURNE

Prepared by:
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INTRODUCTION

This report will review the status of the recovery efforts of the Borough of Millbourne and will provide a recommendation as to whether the Borough should remain in a distressed status or whether the conditions that led to the determination of financial distress in the Borough have been alleviated. This report is undertaken pursuant to the Municipalities Financial Recovery Act (MFRA), Act 47 of 1987 as amended and consists of the following components:

- Background of the Borough’s involvement in the Municipalities Financial Recovery Program.
- A review of the financial trends and current financial position of the borough to determine if the conditions that led to the determination of fiscal distress have been alleviated.
- Recommendation as to rescinding the distress status supported by the following analysis.
- A review of the recommendations of the recovery plan amendments and progress made through the date of this report.
- Continuing recommendations to ensure the Borough will maintain the current level of fiscal stability.

SECTION I

Background on Act 47 Status Distress Determination

In 1989 the Department of Community Affairs (DCA) was contacted regarding concerns of fiscal distress for the Borough of Millbourne by the Mayor. Mr. David Stauffer and Mr. Jim Newell were tasked with preparing a consultative report to determine the municipality’s status of distress. The Report on Consulting Activity date October 11, 1989 indicated that with the closing and related relocation of the Sears Department Store the Borough stood to lose a significant portion of the tax base that the Sears store provided. This report indicated that expenditures will exceed revenues for 1989. One of the report’s comments indicated there would be no cash carryover from 1989 into 1990. The cost of services would continue to outpace revenues due to the loss of income from the Sears store closing.

The recommendations to rectify the financial management situation must include a formal commitment by Borough officials to improve financial management record keeping by utilizing a financial management software and hiring individual’s that possess the skills to record municipal financial transactions. It was concluded that the evidence provided through the consultative report, that the Borough of Millbourne meets the criteria for a determination of distress under Sections 201 and 203 of the Act.
In 1992 a formal consultative report was prepared in response to the Borough’s request for a determination of distress under the Act. The Borough of Millbourne alleged in its request for consideration under Act 47 that distress criteria 1, 2, 4, 5, 6, 7, and 11 were present. The consultant team found great difficulty in gathering the financial management information necessary to determine whether these criteria were present. The Borough did not have audits prepared by a Certified Public Accountant nor did they have accounting journals, a general ledger, or a trial balance available to review to make this determination. The records that were available were prepared on a cash basis thereby not recognizing either accounts receivable or accounts payable. The major concern was that there were number of unpaid invoices not incorporated into the cash based accounting records that were available. Because of the consultant team’s inability to obtain records for fiscal year 1990 they were unable to determine whether or not a deficit existed. Criteria 1 and 2 require the presence of a deficit for a period of 3 years or more which based on the limited cash based data available appeared to not have occurred. Criterion 7 requires the presence of a 5% deficit for a 2 year period which even if present in 1990 was not present in 1991; therefore, these criteria were not validated.

Criterion number four was not validated since the Borough presented no evidence that payrolls been missed as defined in criterion number 4 of the Act.

Criterion number five was not validated since there was no evidence that there were any judgments against the Borough. The solicitor further stated at the public hearing that he had no knowledge of any judgments that have been filed against the Borough.

Criterion number 6 was satisfied since the Borough had received notice from the United States Internal Revenue Service that interest and penalties had been incurred as a result of the Borough’s non-payment of the federal withholding tax. The IRS seized the Borough’s General Fund checking account to assure the payment was made. This account with Mellon Bank was levied and returned to Borough Control after the payroll tax payments were withdrawn. The Borough did later make payment arrangements with the IRS to pay the interest and penalty owed. Based on the information provided it was clear that this criterion was present.

The fact that criterion 6 was found to be present, enabled the DCA to conduct a further evaluation and recommend whether the Borough of Millbourne should be declared distressed under Act 47 though only criterion 6 was validated by the consultative report prepared by DCA staff. DCA found more serious concerns related to technical expertise available to manage the Borough’s financial management record keeping. This includes the lack of solid financial management systems, poor record keeping, little presence of internal control mechanisms, no annual budget, and late and inadequate annual audits. All of these contributing factors related directly to the policy objectives in the Act. As noted above, since appropriate financial records were not available to the DCA staff they had great difficulty in verifying criteria as defined in Section 201 of the Act. The inability to verify the presence of the criteria was the major concern of the DCA staff.
A public hearing set in accordance with Act 47 of 1987, Financially Distress Municipalities Act, was held on December 8, 1992 and the hearing officer Mr. George Klaus. Mr Klaus asked Mr. James Cavanaugh of DCA to explain what the consultative team found. Mr. Cavanaugh read, “The consultative team found great difficulty in gathering the information necessary to determine whether the criteria were present due to lack of audits, a general ledger, or incomplete financial records.” This was evidence that the reason for determination relates to the policy objectives of the Act, specifically the municipality’s ability to provide for proper financial management, accounting, and taxing practices. This hearing officer and related staff clearly conveyed the concerns that DCA had regarding the Borough’s ability to collect, maintain, and execute financial transactions properly and DCA was equally unsure as to the commitment the Borough officials had to change the circumstance that led to distress.

On January 7, 1993, and after the Departmental Consultative study was presented at the above mentioned public hearing the Secretary of DCA designated the Borough of Millbourne as distressed. DCA sent a request for proposal (RFP) for a recovery plan coordinator and Fairmount Capital Advisor team was selected to commence development of the Recovery Plan on February 6, 1993.

Fairmount Capital Advisors completed the recovery plan and filed it with the Borough on August 4, 1993. The recovery plan provided the following recommendations: Legislative Restructuring, Administrative Restructuring including the recommendation to hire a Borough Manager, Financial Management Improvements including procedures to properly track revenues and expenditures; development of a capital improvement plan; hire a pension administrator, review of revenue enhancements and expenditure containment, community development efforts, and improvement of the internal control mechanisms. These recommendations will directly address the fiscal condition deficiencies and in time help to remedy them.

Following an August 24, 1993 public hearing, the recovery plan was adopted by the Borough Council on September 9, 1993. Fairmount Capital Advisor continued as coordinator until 1999. James E. Newell of the Department of Community Affairs was assigned as plan coordinator and continued monitoring this project until he retired in March of 2000. Bruce E. Fosselman was then assigned as project coordinator in July of 2000.

A report was produced by Mr. Fosselman which reviewed the current status of recovery efforts in the Borough of Millbourne as of July, 2002. Subsequently, the results of that report were incorporated in an examination of the original Recovery Plan to assure the Borough was closely adhering to those recommendations. Mr. Harry Krot was assigned as the project coordinator until Ms. Marita J. Kelley was hired in August 2006. The most recent evaluation of the Recovery Plan Recommendations was completed on May 31, 2013. This evaluation is defined in detail later in this document.
This report was prepared by Marita J. Kelley, Local Government Policy Manager under the provisions of the Municipalities Financial Recovery Act—Act 47 of 1987 as amended. This report provides an updated analysis as to whether the Borough’s Distress Determination Status under the Act should be rescinded.

SECTION II

Factors that Led to a Distress Determination

1. At the time the Borough was designated a distressed municipality, the Borough had experience significant revenue loss created from the closing of a major department store.

2. The results of the DCED consultative evaluation indicated that the Borough should be designated as a distressed municipality based upon the following criteria:

   The Consultative team could only prove the presence of Criterion number 6: The municipality, for a period of at least 30 days beyond the due date, has failed to forward payroll taxes withheld on the income of employees or has failed to transfer employee contributions for Social Security and Medicare. The payroll liability payments were not made to the IRS as of December 3, 1992; therefore, funds were attached from the General Fund checking account by the IRS to cover those late payments. This was the only criteria that the Consultative Report could verify and prove. The Borough’s woefully inadequate financial record keeping and the lack of a formal GAAP compliant audit did not permit the consultative team to reach any other Act 47 financial criteria conclusion.

Resolution of Factors that Led to Distress Determination

Section 253 of the Municipalities Financial Recovery Act provides that the Secretary of the Department of Community and Economic Development (DCED) may issue a determination that the conditions that led to the earlier determination of financial distress are no longer present. In making this determination, the Secretary shall consider that:

   a. Monthly reports submitted by the Coordinator to the Department under Section 247 (3) indicate that termination of the status of municipal financial distress is appropriate.
   b. Accrued deficits in the municipality have been eliminated.
   c. Obligations issued to finance all or part of the municipality’s deficits were been retired.
d. The municipality has operated, for a period of at least one year, under a positive current operating fund, balance or equity, as evidenced by the municipality’s audited financial statements prepared in accordance with generally accepted accounting principles (GAAP).

Coordinator’s Recommendations

1. The Borough has taken action to implement a majority of the recommendations of the recovery plan and subsequent amendment(s). In implementing the recommendations of the recovery plan the Borough has developed a solid foundation from which positive projections for future fund balances are adequate to act as a reserve or contingency for both general purposes and capital improvement planning needs.

Progress made to date is primarily attributable to three factors. First and foremost, the Borough worked to implement the recommendations of the recovery plan and subsequent amendment(s). In developing the recommendations of the recovery plan, it was evident that the problems that led to distress were related to the Borough’s ability to control expenditures and its lack of accurate and timely financial reporting. This situation improved greatly as the municipal financial reporting information and related audit information became available for the proper review of Borough Council. This included utilizing an outside accounting firm to prepare the daily, weekly, quarterly, and annual financial reports using Quick Books accounting software. Through the use of Quick Books the accountants were able to prepare and provide chronologically ordered cash receipts journal, cash disbursement journal, payroll journal, and general journal; general and subsidiary ledgers, trial balance, and monthly financial Revenue and Expenditure Reports as compared to budget. These important reports provided an on-site audit trail of all financial activities and for a better review of financial records. Improvements also provided for better financial internal control mechanism as a Certified Public Accountant (CPA) now prepared the Audited Financial Statements. The ability of the Borough Council to better manage related expenses was a byproduct of producing these important financial management reports. It also permitted Council to monitor income and seek out more organized grant opportunities.

2. To Borough Council’s credit, the plan recommendations were implemented. Modifications were made throughout the recovery period to address needs that would make the Borough more efficient at administration, fiscal management, tax collection, and service delivery.

3. The final key to the Borough’s ability to correct fiscal problems contributing to the fiscal distress designation was the administrative reorganization of the Borough including the hiring of a part-time Borough Manager, enactment of financial
management, and personnel procedures, hiring an in-house part-time financial assistant, and an accounting firm to prepare their monthly, quarterly, and annual financial records. The hiring of a CPA firm to conduct the annual audit was also extremely beneficial. In addition, Borough Council revamped its tax collection practices through the election and appointment of tax collection officers and agencies resulting in increased revenue collections.

4. The Borough is now consistently demonstrating sound fiscal management practices, which has moved the Borough to the point where rescission of the distressed determination under Act 47 is being recommended. All factors that are to be considered by the Secretary of DCED in making such a determination have been met.

5. Current monthly reports and recent audits indicate that the Borough is exhibiting sound financial management practices, and all deficits have been eliminated. The Borough has largely continued to operate with a budget surplus with the exception of two years where they had a small budget deficit. The data related to the revenue and expenditure history can be found below. Surplus funds at the end of each year should be transferred to a capital reserve fund.

6. In compliance with Section 253 (a) of Act 47, it is the opinion of DCED staff that the conditions that led to the earlier determination of municipal distress are no longer present. As coordinator, it is recommended that the distress status of the Borough of Millbourne be rescinded.

7. While all problems faced by the Borough have not been totally alleviated, the Borough now has a more consistent series of revenue streams to provide more realistic and affordable service levels to its residents. Managerial changes now allow the Borough to better deal with those factors that led to the distress determination. Property values appear to have stabilized, and revenues generated from the SEPTA substation appear to be sufficient to fill voids left by the economic decline. The Borough must remain committed to continue to provide the political and administrative leadership to address these issues and to maintain fiscal stability in the future and continue towards the goal of an improved tax base.

SECTION III

Status of Plan Recommendations

Plan Recommendations

After reviewing and analyzing all of the pertinent information available, the coordinator concludes that the factors that originally led to a distress determination in the Borough of Millbourne have been alleviated. As mentioned earlier, the Borough has taken action to implement a majority of the recommendations of the recovery plan. In implementing the recommendations of the recovery plan the Borough has developed a solid foundation from
which positive projections for future fund balances are adequate to act as a reserve or contingency for both general purposes and capital needs. The DCED provided financial assistance to the Borough as part of the Act 47 recovery plan process in the form of grants. A grant to assist with the funding of the Borough Manager position was provided for the years 1993, 1994, and 1995. In addition, funding was provided for the codification of ordinances and for upgrading the Borough’s financial management system. A Legislative Initiative Grant was provided to the Borough of $10,000 to help to fund roof, heating, and garage repairs.

The implementation of the Recovery Plan recommendations has increased the administrative capacity; improved and enhanced regional service delivery through various highway/streets shared services with neighboring municipalities; and increased economic development activities that have helped to strengthen the tax base of the Borough.

Through shared services activities for highway operations with Upper Darby and other neighboring municipalities the Borough has been able to reduce the highway staff to part-time and seasonal only; thereby, reducing personnel related costs.

The addition of the Borough Manager position was introduced early in the recovery plan so as to assist with the administrative improvements. The Borough Manager took on the responsibility of fiscal officer and she brought in professional accounting staff to assist with the day-to-day accounting and hired an accounting firm to prepare monthly, quarterly, and annual financial reports. Also, in 1999 the Borough hired a professional Certified Public Accounting firm to conduct the annual audit and prepare financial statements and related footnotes thus making the audit GAAP compliant.

The ability to monitor and audit the financial records in a timelier manner greatly improved administrative and financial management capacity. The Borough Manager was able to guide the Recovery Plan improvement process by assuring that the recommendations were being addressed and executed in a timely and appropriate fashion. More recently, the Borough Council President has embarked on an assertive effort to improve the Borough’s economic development efforts which included improving store front facades and generally increasing the beautification of the central business district.

These combined efforts of the Borough Council President and Borough Manager have greatly improved the financial condition, economic growth, and overall administrative functions. This report will continue to outline specific actions that the municipal leadership has undertaken.

The balance of this report will review recommendations made in the plan amendment, and discuss their status and make recommendations on any future actions that may be necessary or appropriate. Many of the recommendations have been completed and the Borough has implemented a wide range of recommendations on an ongoing basis.

Millbourne Borough’s Manager has provided the current status of the Recovery Plan recommendations.
**Item A-6:** Solicit proposals and select a winning bid for codification of Borough ordinances.

**2013 Status:** Borough has completed the codification of ordinances that was conducted by Keystone Services. The Borough Council has adopted the codification. This will benefit the Borough by having a thorough reference of the approved ordinances in a bound document.

**Item B-3:** Adopt the organizational chart of the Borough as offered in Appendix 5 of the Recovery Plan.

**2013 Status:** The original organizational plan is still in place and has been amended to include a Financial Assistant position to assist the Borough Manager. Appendix 5 of the original recovery plan outlines the organizational chart. The Borough Manager said adding an in-house Finance Assistant to the organization and related chart has allowed her to more closely monitor the financial records of the Borough. She believes that having this in-house Financial Analyst along with the outside accounting firm preparing the financial reports has greatly improved the Borough’s ability to track finances on a monthly and quarterly basis.

**Item B-4:** The Borough shall update and develop comprehensive job descriptions for Borough employees.

**2013 Status:** Borough Manager indicated that she has developed job descriptions for all of the staff members and together with the Borough Council she will review, amend, and create job descriptions as necessary. All staff members are part time employees. Currently there are three administrative positions, ten police officers including a Sergeant who serves as the Officer-in-Charge and two Senior Officers who assist where necessary in leadership. The Borough currently employs a Code Enforcement Officer/Building Code Official and a Fire Marshall. There are also two Deputy Codes Enforcement Officers that assist with the Property Maintenance Code.

There are two part time parking enforcement officers and four temporary Seasonal Workers. The Seasonal Workers perform street maintenance and office maintenance functions as needed.

**Item C-3:** Implementation of a policy to develop an annual Borough budget of capital improvement program requirements and to take an annual inventory of Borough assets and infrastructure.

**2013 Status:** Borough Manager, Tina Mason and the Borough Council have developed a preliminary capital improvement plan that will be updated on an annual basis as part of the budget. The Borough Manager and her staff are working on preparing an inventory of fixed assets to assist in this effort. The Borough Manager has coordinated
the fixed assets with the insurance policy to insure that all assets are adequately covered with appropriate levels of insurance.

**Item F-1:** The Borough shall review all revenue-related ordinances for appropriateness and collectability.

**2013 Status:** The fee schedule and internal control accounting reference practices will be reviewed and amended as necessary.

**Item G-2:** The Borough shall investigate the cost effectiveness of purchasing its street lights from PECO.

**2013 Status:** The Borough Manager met with the Delaware County Council of Governments (COG) formally Crum Ridley COG and the Borough Council President to discuss the options available to them in regard to PECO. PECO is in the process of providing the cost for the Borough to take over the street lights.

**Item H-2:** The Borough shall monitor the vacant Sears property for possible revitalization and redevelopment.

**2013 Status:** The Borough was fortunate to get a grant from the Delaware Valley Regional Planning Commission to perform a feasibility study to determine the highest and best use of the vacated Sears property within the Borough. After a very thorough SWOT analysis was conducted the study concluded in February 2013 and provided the following recommendations:

Redevelopment of the former Sears property will include use-specific components (retail stores, housing, municipal, and outdoor recreational facilities) as well as infrastructure investment. It will be necessary to form a public/private partnership to help to fund the required infrastructure improvements. The Borough should seek economic development funding opportunities through the county, state, and federal governments. The study indicates that a mixed use of commercial and residential investment be incorporated to get the highest return on the investment from the site.

**Item H-3:** The Borough will plan on developing a “Housing Liaison Program,” so as to maintain good communication with the appropriate County Officials.

**2013 Status:** This item is not being actively pursued at this time; however, the Borough does recognize the need to improve the housing stock. Borough Council will plan on establishing a program to encourage better compliance with the property maintenance code.

The Borough Council did adopt its own Homestead Exemption Program to encourage home ownership within the Borough.
Item H-4: The Borough shall establish a policy and procedure to create a liaison with the Borough’s business district.

2013 Status: The current Borough Council President has been very active in providing liaison activities between the business district and the Borough Council.

Section IV- Review of the Historical Audited and Unaudited Financial Statements Prepared for the Borough of Millbourne, Delaware County

2008 Fiscal Year-End Status: The CPA Audited Financial Statement for 2008 indicates that the Borough’s Ending General Fund, Fund Balance was $383,164. The General Fund had excess revenues and other financing sources over expenditures and other financing uses of $112,000.

A positive fund balance has been experienced during each year in a four year period: 2007; 2008; 2009; 2010; there was a small deficit of ($26,000) for 2011, however; an unaudited surplus of $114,389 occurred as of year-end of 2012 based on unaudited financial statements. Based on 2013 activity through 5/31/2013 the Borough will finish the year with projected revenues over expenditures of $28,000.

2009 Audited Financial Statement Status:

For 2009 audited and adjusted final financial statements indicated a positive General Fund, Fund Balance of $391,953. Revenues exceeded expenditures by nearly $11,000. The Borough’s assets on the government-wide basis exceeded its liabilities by $736,655. This represents an increase in net assets from 2008 to 2009 of $31,331. The governmental funds reported a total of revenue in excess of expenditures of $222,861, increasing the combined fund balance to $586,868. The Borough Council and the Borough Manager believe that the financial condition within the Borough is strong. Performance exceeded budgetary expectations.

2010 Audited Financial Statement Status:

The audited financial statements for 2010 reflect a General Fund net surplus of revenues over expenditures of $92,746. This is attributed to a significant improvement in the collection of delinquent real estate taxes. The Borough also received significant unanticipated revenue from the installation of a cell phone tower. At the same time the anticipated expenditures were below budget in many categories. The electrical utility expense was significantly lower than that which was budgeted.
2011 Audited Financial Statement Status:

The 2011 Audited Financial Statements indicate that Borough’s assets on a government-wide basis exceeded its liabilities (net assets) by $897,256. This was an increase in net assets from 2010 to 2011 of $12,172. The Governmental funds reported total revenue in excess of expenditures of $28,470 increasing the combined fund balance to $737,932.

At year end, the Borough’s operating revenue on its government wide statements was $862,660 or approximately a 4 % decrease compared to the year before. This was primarily the result of a decrease in intergovernmental revenues. Operating expense in the government wide statements were $850,488 an increase of approximately by 15% over the prior year.

2012 Unaudited Financial Statement General Fund Activity Status:

The 2012 Unaudited General fund Revenue and Expenditure Report indicated that total Revenues were $821,274 and total Expenditures were $816,746 yielding a positive net balance of $4,529. The overall effect on the 2012 General Fund unaudited unassigned fund balance would increase to $460,155. Generally, the revenues and expenditures for the General Fund, State Liquid Fuel Fund, and the Sewer Fund appear to have been properly aligned with the original 2012 budget.

The City’s Police Pension Fund ratio is at 50% with an unfunded accrued liability of $394,915. The Police Department no longer has any full-time police employees so the Borough no longer receives pension support from the Pennsylvania Employees Retirement Commission. This means that the Borough will have to fund the Police Pension from General Fund resources. The Borough Council will need to properly manage and budget for this Police Pension liability.

2013 Unaudited Financial Statement Status through May 31, 2013

The first quarter activity concluding March 31, 2013 indicates a positive net balance with revenues outpacing expenditures. The most recent financial management report dated May 31, 2013 indicates that revenue exceeded expenditure year-to-date generating a surplus of $183,283 though this surplus is to be expected as most of the Borough’s revenues are received during the first half of the year. All revenues and expenditures appear to be in line with the annual budget.

The Borough’s General Fund unassigned fund balance is projected to be $463,255 as of 12/31/2013. The projection is based on expenditures remaining largely stable.
Section V- REVENUES AND EXPENSES HISTORY

This section of the report will look at the Revenues and Expenditures and General Fund (Surplus/Deficit) History for the 2007 Audited Financial Statements through 2012 Financial Records prepared by the Borough's CPA and analyzes trends throughout that same period.

General Fund Revenue, Expenditure, and Operating Positions

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<td>Revenue</td>
<td>$948,282</td>
<td>$886,683</td>
<td>$694,173</td>
<td>$761,003</td>
<td>$743,876</td>
<td>$625,370</td>
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<td>Expenditure</td>
<td>$880,438</td>
<td>$893,737</td>
<td>$685,384</td>
<td>$670,266</td>
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<td>Surplus/Deficit</td>
<td>$67,844</td>
<td>($7,054)</td>
<td>$8,789</td>
<td>$90,737</td>
<td>($28,421)</td>
<td>$114,389</td>
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The Borough of Millbourne Revenue and Expenses History indicate that the structural balance between revenues and expenditures have improved throughout the six year period. In fiscal year 2008 there was a slight deficit of ($7,054) and again in 2011 there was a recorded deficit of ($28,421) in general the Borough has strived to obtain a structural balance of revenues versus expenditures.

During this period, the overall balance between revenues and expenses has improved.
Revenue History

Real Estate Taxes: Real Estate Tax revenues represent the largest revenue source and have increased throughout the six year period with the exception of 2009 due to serious economic issues within the Borough and very poor tax collections. In 2010 a new Real Estate Tax Collector was elected and he pursued current and delinquent collections aggressively yielding much improved tax collections. It is important to note that the prior year taxes for 2010 were high because of an issue with getting tax notices out timely so you will note the largest increase occurred in 2010 and stabilized in 2011 and increased again in 2012.

Realty Transfer Taxes

In 2007 the Realty Transfer tax experienced a jump in revenue due to a large commercial real estate transfer. Realty Transfer taxes have remained relatively flat throughout the six year period; however, an increase occurred in 2010 due to the sale of two large parcels of property one in January and one in June.

Earned Income Tax/Act 511 Taxes (LST and Bus. Privilege/Mercantile)

Earned Income Taxes declined annually from 2007 to 2010. This was largely due to inconsistent EIT Tax Collection and the downturn in the economy; however, EIT revenue rebounded in 2011 and 2012 as a new EIT collector was engaged as part of the Act 32 transition to a countywide collection system. It appears that 2013 EIT collections will continue to improve. EIT revenues are also impacted by the City of Philadelphia’s Sterling Act which negates the collection of revenue from Borough residents employed in the City.
Also, recorded here are the other Act 511 taxes, Local Services Tax and Business Privilege and Mercantile Tax; these taxes have remained relatively stable during the six year period.

**Licenses and Permit Fees**

Licenses and Permit Fees revenue sources increased in 2007 because Southeast Pennsylvania Transportation Authority SEPTA constructed a new substation within the Borough limits and they paid significant licensing fees during 2007 and 2008. Since the project was completed, this revenue source has remained generally stable.
Interest Income

Since 2007 interest income has generally been flat and this trend is expected to continue since interest rates remain at an all-time low.

Intergovernmental Income

The Borough received a Community Revitalization Grant in 2007 for improvements to the Municipal Building and Garage Pad. In 2012 the Borough was fortunate to receive a grant from the Delaware Valley Regional Planning Commission for $46,000 for a feasibility study of the abandoned Sears Building. Also they received a $10,000 Go Green, Go Goat Grant from the GO Green organization. Otherwise grant income has remained relatively low.
Charges for Services/Building Permit Fees

In 2007 and 2008 SEPTA had significant building permits issued to them for the construction of the new substation. Also in 2011 the Cell Tower Permits and back permit fees were paid by the utility.
Fines and Forfeits

Fines and Forfeits for the six year period have remained reasonably stable.

![Fine/Forfeit Graph]

All Other Unclassified Revenue

In 2007 the Borough received a significant workers’ compensation Reimbursement for a having little or no claims filed for workers compensation. In 2012 the City received an insurance reimbursement of $23,000 for the replacement of a police vehicle.

EXPENDITURES

Legislative/Governing Body: Since implementation of the recovery plan amendment, spending in this area has remained constant. Spending is projected to remain flat throughout the next three years.

Executive/Manager: This line item is specific to salary and benefits relating to the manager and administrative assistant, in addition to discretionary spending specific to the administrative office. For purposes of this projection, it is anticipated that expenses of this budget organization will grow slightly.

Auditing Services: Since 2008 the audit costs have risen significantly since Borough Officials decided to hire a part-time accounting firm to prepare their monthly, quarterly, and annual financial reports. In addition, a Certified Public Accounting firm was hired to conduct the annual audit. This increase in cost is justified since the Borough needed access to accurate and more complete financial reporting.
**Tax Collection:** For purposes of this projection, little growth in expenditure levels is anticipated. The new tax collector who came on board in 2009 has greatly improved tax collections and therefore his commission would be commensurate with that increase.

**Solicitor/Legal Services:** Legal fees were somewhat unpredictable in 2007 and 2008 as the Solicitor was engaged in discussion with the Borough Council regarding a sensitive personnel issue. This issue has since been resolved and costs have returned to normal levels.

**Engineering:** Engineering costs have remained relatively stable during the six year period of review.

**Public Safety:** In 2008 a special part-time police detail was utilize to protect the SEPTA worksite since very valuable equipment and materials had to be maintained on site. This approach was believed to be the best means to protect the worksite. The fiscal impact of this detail began to decline as the SEPTA project came to completion.

Police service cost were significantly reduced in 2010, 2011, and 2012 since the only full-time employee from the police department resigned in late 2009. Since then the Department has been operating with a part-time police officers has been able to keep costs down by doing so.

**Public Works (Garbage and Highways):** Costs relating to refuse removal have remained somewhat stable through 2008. Delaware County Waste Management increased their trash tipping fee in 2009 therefore increasing the cost of disposal.

Highway operations increased in 2009 when three part-time highway workers were hired. Now the Borough is down to only one part-time highway worker.

**Debt Service:** During 2007 and 2008 the borough utilized a tax anticipation note (TAN). Fortunately, there has not been a need for a TAN since that time. The Borough has leased their police vehicles so the debt service costs are recognized in this line item.

**Other Unclassified Expenditure:** These costs have been closely monitored and controlled by the Borough Council

**Expenditure Summary:**

Millbourne Borough Council has been able to keep expenses under control primarily by reducing full-time staff to part-time status. In fact, today there are no full-time employees employed by the Borough. This has of course reduced the costs of hourly wages, health benefits, and pensions. The Borough continues to pay for the Police Pension liability for former employees which create a challenge for the coming years. As with all municipalities
in Pennsylvania pension obligations have become an important expenditure to properly manage.

Overall the Borough has been able to control costs and reduce payroll related expenses.

**Revenue, Expenditures & Fund Equity Analysis**

At the time the Borough was declared a distressed municipality, the Borough had experience structural deficits on a regular basis. With the implementation of the recovery plan recommendations, the Borough slowly began to improve its fund equity position and eliminate the structural deficits. This can be noted below by observing the General Fund unassigned fund balance and the Government-wide fund balance.

Borough Council has worked diligently to apply for grants, develop a capital improvement plan, control expenses, and improve revenue collections. The Borough was also able to codify there ordinances, develop financial management and personnel procedures, and hire a new Borough Manager in 2010 who has significant local government experience. These administrative improvements along with hiring an in-house part-time financial assistant and an accounting firm to prepare their monthly, quarterly, and annual financial records on Quick Books Accounting Software; have greatly improved the general financial management operations of the Borough and provided Council with timely and accurate financial management information.

Also, the Borough uses a Certified Public Accountant to prepare their annual audit and Financial Statement along with important GASB 34 compliance footnotes to the Financial Statements. This has allowed the Borough Council to better understand and manage their fiscal position to the extent that revenue enhancements and cost containment have yielded an improved fund balance position and strengthened their overall fiscal status.

At the end of 2012, the Borough had General Fund unassigned reserves of over $450,000. The fund balance of the reserve is more than the GFOA Best Practice recommendation of 15%. Please see the General Fund unassigned fund balance history below. As you can see the fund balance has been positive except for the dip in 2011; it improved in 2012 and it is projected that it will continue to grow 2013.

**Examination of the Fund Balance History**

<table>
<thead>
<tr>
<th>General Fund Unassigned Fund Balance History</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
</tr>
<tr>
<td>$270,218</td>
</tr>
</tbody>
</table>
Projections for the 2013 budget year appear to be running within an acceptable variance. Projections assume that revenues and will exceed expenditures resulting in a positive operating position.

Current cash flow projections indicate that revenues are running slightly above budget, while expenditures are below budget expectations. Assuming the Borough finishes the year with another surplus it is recommended that the additional surplus be transferred to a capital reserve fund. This will provide an opportunity to set aside funds for planned capital purchases that are part of the Capital Improvement Plan the Borough Manager and Borough Council have prepared.

In addition to the General Fund, the Borough operates with the State Liquid Fuels and Sewer Funds. These are included in the government-wide presentation.

<table>
<thead>
<tr>
<th>Governmentwide Fund Balance History</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007  2008  2009  2010  2011  Est.</td>
<td>$413,373 $564,007 $586,868 $709,462 $737,932 $740,000</td>
</tr>
</tbody>
</table>
The graph below illustrates a consist trend of increases in the Government-wide Fund Balance. As noted above the General Fund, fund balance has remained relatively stable with the exception of fiscal year 2011 when there was a dip in fund balance. The Sewer Fund activity has produced an increase in fund balance the entire six year period. This is largely because revenues have outpaced expenditures for this fund. The State Liquid Fuels Fund has remained stable as the Borough continues to utilize the majority of grant income from this source to improve street, storm drains, and major street projects.

**Governmentwide Fund Balance History**

![Graph showing Governmentwide Fund Balance History](image)

**SECTION VI**

**Exit Plan: Financial Management Analysis and Recommendations**

Overall, the reasonable management of unassigned Fund Balance during the past several years indicates that the Borough has managed its assets wisely. This is a significant improvement for the Borough and it indicates that the Borough Council has emphasized fiscal stability, responsibility, and proper management of financial resources. The commitment of the Borough Council, Borough Manager, and staff over the last several years to adhere to the recommendations of the recovery plan should be recognized.

The analysis of the Borough’s fiscal position reflects the financial improvements that have occurred and form the basis for the Borough to begin proceedings to exit the Act 47 Program. The analysis supports the fact that the conditions that initially led to the
Borough’s distress status no longer exist and the Borough is positioned to exit the Municipalities Financial Recovery Program.

As Coordinator, I have discussed this issue with the Borough Council President, the Borough Manager, and the Borough Solicitor and they believe that the Borough Council would fully support such action. In fact, the Borough Council has directed their solicitor to work with DCED to finalize this action.

### Projected Revenue and Expenditure 2013 - 2016

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate</td>
<td>$460,000</td>
<td>$462,000</td>
<td>$462,000</td>
<td>$464,000</td>
</tr>
<tr>
<td>RE Transfer</td>
<td>$4,500</td>
<td>$7,500</td>
<td>$7,700</td>
<td>$7,750</td>
</tr>
<tr>
<td>EIT/Act 511</td>
<td>$55,000</td>
<td>$57,000</td>
<td>$57,500</td>
<td>$59,500</td>
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<tr>
<td>License/Fee</td>
<td>$29,000</td>
<td>$30,000</td>
<td>$32,000</td>
<td>$32,500</td>
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<tr>
<td>Interest Inc</td>
<td>$8,500</td>
<td>$10,500</td>
<td>$8,500</td>
<td>$8,500</td>
</tr>
<tr>
<td>Grants</td>
<td>$26,000</td>
<td>$27,000</td>
<td>$27,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>Fine/Forfeit</td>
<td>$87,100</td>
<td>$87,100</td>
<td>$87,100</td>
<td>$87,100</td>
</tr>
<tr>
<td>Chrg Service</td>
<td>$107,000</td>
<td>$109,000</td>
<td>$109,000</td>
<td>$109,500</td>
</tr>
<tr>
<td>Other</td>
<td>$20,000</td>
<td>$20,000</td>
<td>$20,000</td>
<td>$20,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$797,100</td>
<td>$810,100</td>
<td>$810,800</td>
<td>$813,850</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gen Gov</td>
<td>$235,000</td>
<td>$240,000</td>
<td>$235,000</td>
<td>$235,000</td>
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<tr>
<td>Pub Safety</td>
<td>$378,000</td>
<td>$378,000</td>
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<td>$398,000</td>
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<tr>
<td>PW San</td>
<td>$50,000</td>
<td>$55,000</td>
<td>$50,000</td>
<td>$55,000</td>
</tr>
<tr>
<td>PW Hghs</td>
<td>$52,000</td>
<td>$53,000</td>
<td>$52,000</td>
<td>$52,000</td>
</tr>
<tr>
<td>Debt Ser</td>
<td>$15,000</td>
<td>$15,000</td>
<td>$10,000</td>
<td>$7,500</td>
</tr>
<tr>
<td>Cap</td>
<td>$15,000</td>
<td>$15,000</td>
<td>$15,000</td>
<td>$12,000</td>
</tr>
<tr>
<td>Insurance/Pns</td>
<td>$49,000</td>
<td>$52,000</td>
<td>$50,000</td>
<td>$52,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$794,000</td>
<td>$808,000</td>
<td>$807,000</td>
<td>$811,500</td>
</tr>
</tbody>
</table>
Revenue and Expenditure projections from 2013 through 2016 forecast that Revenues will continue to outpace Expenditures. It is estimated that collection of Earned Income Tax with the implementation of Act 32 will continue to improve. Also, expenditures have remained relatively flat with the exception of pension contributions and it is estimated that these trends will continue. Expenses related to capital purchases have been restricted in this estimate since the Borough will rely on asset transfers to fund capital reserve before the Borough Council will need to make budgetary decisions on capital improvement purchases. The Borough Manager believes this is a wise and prudent approach to funding future capital purchases. This could skew the true picture of the capital purchases since the expenditures could appear lower than they actually will be. Borough Council will make this determination based on a projected structural surplus that could vary based on economic activity. Since the economy is still slow to recover capital reserve activity will remain minimal until the economy rebounds significantly.

In making the recommendation to rescind the distress determination, we recognize the importance of maintaining budgetary discipline and anticipate that Borough Council will continue to pursue policies that have allowed the Borough to achieve and maintain fiscal stability. To that end, this section provides recommendations that the Borough of Millbourne should follow as part of its normal operation to maintain a strong fiscal position and to continue to provide services in the most effective manner possible.

**Administration**

1. The Borough should continue to support a strong administrative structure and maintain the office of Borough Manager to coordinate administrative and fiscal operations. In the event the position of the Borough Manager becomes vacant, the Borough should expeditiously recruit to fill the position with the best possible candidate having local government management experience.
2. Council should continue to discuss and then formalize long-range goals and objectives. Goals should be consistent with the Borough’s comprehensive plan. The Borough will need to revisit the plan on an annual basis and connect this with the Borough’s budget process.

3. On an annual basis, the Borough should review and evaluate the fee structure and investment performance of the police pension plan.

4. The Borough should continue to organize the records of the Borough and continue to dispose of those records per the ordinance adopted under the Pennsylvania Records Retention and Disposal Act.

5. The Borough should develop a form which could be utilized by the code enforcement officer or building inspector, to help the building inspector to better monitor code enforcement activity especially as it relates to property maintenance.

6. The Borough should continue to monitor the reassessment process, review appeals, and contest those that could have a materially adverse impact on the Borough.

7. The Borough should continue to pursue grant opportunities based on Borough priorities to supplement the cost of doing business and address infrastructure and capital needs.

Fiscal Management

8. The Borough should stay within the parameters set forth in the adopted budget. Any expenditures of a particular line item that exceed the budget by more than 10% must receive Borough Council approval in the form of a budget amendment.

9. The Borough Manager should incorporate a system of purchase orders, and any purchase over $100 must receive proper authorization prior to the purchase. Continue the practice of centralizing all purchasing through the Borough Manager.

10. The Borough Manager should work with the Municipal Accountant and Auditor to properly monitor and control expenses. The Borough Manager should also continue with a thorough financial review of revenues and expenses on a quarterly basis and review the report with the Borough Council.

11. Add recommendation to establish Capital Reserve Account and fund it through transfers of unassigned fund balance with further recommendation to annually add surplus. The Borough shall adopt by ordinance an occupancy fee and require that all residential units complete an application form prior to occupying the unit. Information from the application shall be shared and utilized in data bases specific to garbage fees and earned income taxes.
12. The Borough should utilize to the fullest extent possible the provision of the occupancy ordinance as a tool to register new tenants for the purpose of collecting earned income taxes.

13. The Borough should develop and adopt a formal investment policy that would evaluate options for short and long-term investments. All fund balances should be in interest earning accounts.

14. The Borough should continue to update the formal capital improvement planning process. This should include capital equipment and infrastructure improvements. The Borough should add any unbudgeted revenue received to the capital fund on an annual basis. The capital budget should be updated annually, prior to the borough’s normal budget process, and project capital needs for a three to five year period. The Borough should finance future capital purchases from capital reserves, and any anticipated purchases should be made part of the capital budget.

15. Borough Council should focus time, attention, and resources on the capital improvement planning process to identify and undertake infrastructure improvement projects that not only preserve community assets, but foster reuse and development.

**Tax Collection**

16. The Borough should continue to review all tax exempt properties and assess continuation of their exempt status. Appeals should be filed as part of this annual review on all parcels where it is felt that the exempt status is unwarranted.

17. The Borough Manager should work closely with the Borough’s tax collector to ensure and reconcile prior year unpaid property taxes are forwarded to the Delaware County Tax Claim Bureau for proper collection of delinquent taxes.

18. The Borough Manager should work closely with the Borough’s tax collector to ensure and reconcile prior year unpaid property taxes are forwarded to the Delaware County Tax Claim Bureau for proper collection of delinquent taxes.

19. The Borough should continue to monitor records, returns, and progress of the appointed tax collectors.

20. The Borough Manager should keep in close contact with the appointed collector to provide updated information related to new residents that will assist in the collection of all 511 taxes.
21. The Borough should require all collectors, with the exception of the real estate tax collector, to remit collections at a minimum of twice per month, or as appropriately defined in the Act 32 remittance schedule. All 511 taxes could be collected by the same collector saving time and money.

22. The Borough shall review rules and regulations relevant to the earned income tax ordinance and update the ordinance, if necessary.

23. The Borough shall adopt by ordinance an occupancy fee and require that all residential units complete an application form prior to occupying the unit. Information from the application shall be shared and utilized in databases specific to garbage fees and earned income taxes.

24. The Borough should utilize to the fullest extent possible the provision of the occupancy ordinance as a tool to register new tenants for the purpose of collecting earned income taxes.

25. The Borough should develop and adopt a formal investment policy that would evaluate options for short and long-term investments. All fund balances should be in interest earning accounts.

26. The Borough should continue to update the formal capital improvement planning process. This should include capital equipment and infrastructure improvements. The Borough should add any unbudgeted revenue received to the capital fund on an annual basis. The capital budget should be updated annually, prior to the borough’s normal budget process, and project capital needs for a three to five year period. The Borough should finance future capital purchases from capital reserves, and any anticipated purchases should be made part of the capital budget.

27. Borough Council should focus time, attention, and resources on the capital improvement planning process to identify and undertake infrastructure improvement projects that not only preserve community assets, but foster reuse and development.

**Public Safety**

28. The Borough should continue to operate with part-time employees and police officers.

29. The Borough should continue to participate in the county 9-1-1 regional call center.

30. The Borough should continue to afford training opportunities to all police officers.
31. The department shall appoint a police committee for revisions to the rules manual. The manual should continue to be reviewed by all personnel. The manual should include all areas discussed in the plan amendment including updated job descriptions.

Public Works

32. The Borough should maintain its current level of manpower and any additional manpower demands during peak seasons should utilize part-time employees or be done on a contracted basis.

33. Large equipment and capital improvement needs should be made part of the long-term capital budget.

34. The Borough should continue to pursue intergovernmental activity with Upper Darby Township, other surrounding municipalities, and the Delaware County COG particularly to share public works equipment and where appropriate staff.

Economic Development/Community Development

35. The Borough should prioritize a list of properties annually and identify those properties that can be demolished. The Borough will pursue County Community Development funding for this purpose.

36. The Borough Council should continue to identify community and economic development goals, priorities, and strategies. These goals should be adopted as a statement of policy by the Borough on an annual basis and used as a basis for funding requests to county, state, and federal agencies.

37. The Borough has been successful with working with Delaware Valley Regional Planning Commission on the feasibility study of the former Sears property. They should continue to implement the recommendations within the plan.

38. Council should continue to implement the five-year capital budget for infrastructure improvements and replacement of municipal equipment.

39. Concurrently with the adoption of the exit plan, the Borough should make any amendments to the capital budget for formal adoption by council.

40. The Borough should, through its capital budget priorities and through its economic development strategies, maintain close contact with the both Delaware County and DCED, and should advance projects to both agencies for funding consideration as appropriate. When it is feasible to give these efforts a higher priority, the borough should consider an intergovernmental approach.
APPENDIX A

PROPOSED FISCAL PERFORMANCE GOALS BASED ON GFOA BEST PRACTICES

I. Purpose of Fiscal Performance Goals

The operating budget policies and fiscal performance goals represent an effort to establish written policies for guiding the Borough’s financial management practices. While some of the performance goals are specific and will limit certain types of financial activity, the goal statements are not intended to restrict the Borough Council’s ability and responsibility to respond to emergency or service delivery needs above and beyond the limitations established by the fiscal performance goals.

II. Revenue Performance Policies and Goals

A. Revenue Diversification: The Borough will maintain a diversified and stable revenue system as protection from short-run fluctuations.

B. Estimates of Revenue: The Borough will estimate annual revenues on an objective and reasonable basis. The Borough will develop a method to project revenues on a multi-year basis.

C. One-Time Revenues: The Borough will use one-time or special purpose revenue for capital expenditures or for expenditures required by the revenue, and not to subsidize recurring personnel, operation and maintenance costs.

D. Review of Fees: The Borough will establish and annually re-evaluate all user charges and set fees at a level related to the cost of providing the service, or establish new fees where necessary. All annual evaluations will be turned in to the Borough manager.

E. Tax Rates: The Borough will endeavor to keep the property tax rate stable by:

   1. Expanding and diversifying the Borough tax base with development as outlined by a comprehensive land use plan.

   2. Seeking and developing additional revenue sources.

   3. Seeking legislative support for local option taxes.

F. Enterprise Funds: The enterprise funds of the Borough will maintain revenue which will support the full direct and indirect costs of the fund, including costs of operation and maintenance; depreciation; reasonable rate of return on the net asset value of the enterprise; and debt service. Also, enterprise fund revenues will not be used to subsidize unrelated general fund activities.

III. Operational Expenditures Performance Policies and Goals

G. Budgetary Balance: The Borough will adopt and maintain a balanced budget in which on-going expenditures will not be allowed to exceed reasonably estimated on-going resources and revenue.
H. **Current Expenditures:** The Borough will pay for all current operation and maintenance expenses from current revenue sources.

I. **Capital Equipment Maintenance:** The operating budget will provide for the adequate maintenance of capital assets and equipment.

J. **Full-Funding of Pension Systems:** The budget will provide for adequate (full) funding of all employee benefit programs and retirement systems.

K. **Budgetary Control:** The Borough will maintain a budgetary control system which will enable it to adhere to the adopted budget. This includes a centralized record keeping system to be adhered to by all programs and activities receiving annual appropriations. Proposed major budgeted expenditures such as new positions, equipment acquisitions, and capital improvements will have prior board approval.

L. **Monthly Reports:** The Borough will prepare and maintain a system of regular monthly financial reports comparing actual revenues and expenditures to budgeted amounts.

M. **Risk Management:** The Borough will develop and implement an effective risk management program to minimize losses and reduce costs. The Borough will ensure that adequate insurance programs are in place. This shall include unemployment and worker’s compensation costs.

N. **Privatization:** The Borough will encourage delivery of services by other public and private organizations whenever and wherever greater efficiency and effectiveness can be expected, as well as develop and internally use technology and productivity advancements that will help reduce or avoid increasing personnel costs. The intent is to control personnel costs as a proportion of the total budget; to more productively and creatively use available resources; and to avoid duplication of effort and resources.

**IV. Fund Balance**

A. A general fund balance will be maintained to provide the Borough with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing.

B. The general fund balance should not be used to support recurring operating expenditures.

C. The upper goal for the fund balance is 15%, but not less than 10% of the average actual general fund revenues for the preceding five fiscal years.

D. Funds in excess of the upper goal may be considered to supplement "pay as you go" capital outlay expenditures or prepay existing debt.
V. Capital Acquisition Policies

A. The Borough will make all capital improvements in accordance with an adopted and funded capital improvement program. The adopted capital improvement program will be based on need.

B. The Borough will develop an annual five-year plan for capital improvements including: design, development, implementation, and operating and maintenance costs.

C. All capital improvement projects approved in the annual operating budget are approved at the budgeted amounts through the completion of the project. Borough Council approves both the individual project total budget and the projected cash outlays for all capital improvement projects for the current fiscal year.

D. Staff will identify the estimated costs, potential funding sources, and project schedule for each capital project proposal before it is submitted to Borough Council for approval.

E. The Borough will use intergovernmental assistance and other outside resources whenever possible to fund capital improvements providing that these improvements are consistent with the capital improvement plan (CIP) and Borough’s priorities, and that the future operating and maintenance costs of these improvements have been included in the budget.

F. Staff will coordinate development of the capital improvement budget with the development of the operating budget. All costs for internal professional services needed to implement the CIP will be included in the operating budget for the year the CIP is to be implemented.

G. Cost tracking for components of the capital improvement program will be updated quarterly to ensure project completion against budget and established time lines.

H. Vehicle Replacement Policy: In order to provide safe, reliable transportation appropriate to the work to be performed, the following policies have been established:

1. The newest vehicles will be used for those purposes requiring the highest annual mileage.

2. Vehicles will be replaced when they are 10 years old or have accumulated 100,000 miles.

3. A vehicle may be replaced in advance of the above criteria if it can be reallocated to a low mileage use.

VI. Debt Policies

A. Debt Policy Purpose: The purpose of this policy is to establish parameters and provide guidance governing the issuance, management, continuing evaluation of, and reporting on all debt obligations issued by the Borough, and to provide for the preparation and implementation necessary to assure compliance and conformity with this policy.
B. **Repayment Provisions:** Debt will be structured to achieve the lowest possible net cost to the Borough given market conditions, the urgency of the capital project, and the nature and type of security provided. Moreover, to the extent possible, the Borough will design the repayment of its overall debt so as to recapture rapidly its credit capacity for future use.

C. **Short-Term Debt:** Use of short-term borrowing, such as bond anticipation notes and tax-exempt commercial paper, will be undertaken only if the transaction costs plus interest of the debt are less than the cost of internal financing, or available cash is insufficient to meet working capital requirements.