

Stakeholder's Financial Summary

March 2014

The Board of Commissioners and Township Administration are pleased to present this summary of the Township's financial position, activities, and plans to the stakeholders of Radnor Township – residents; businesses, educational institutions and other organizations and their employees; township employees; and other interested parties. This publication is the result of the Board of Commissioners following through on the Citizen's Audit Review & Financial Advisory Committee's ("CARFAC") goal of improved communication on the Township's finances.

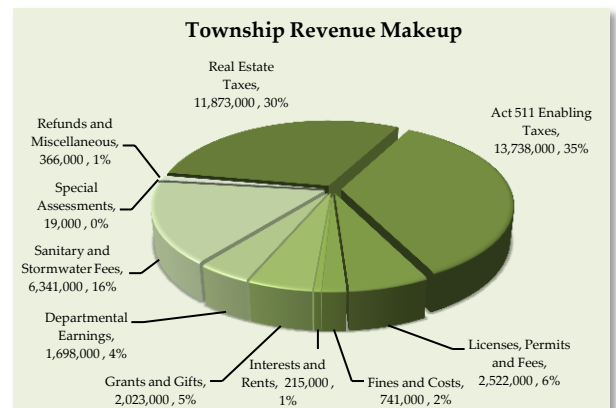
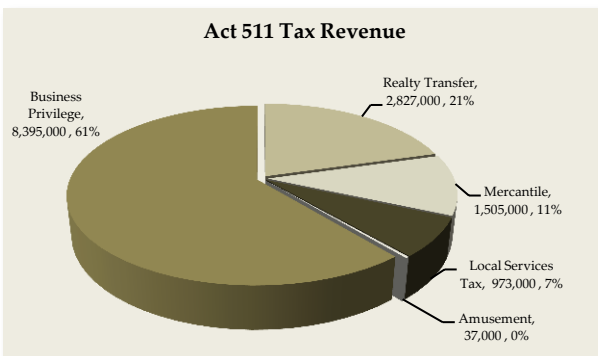

Overview

Radnor Township encompasses 13.83 square miles in the northwestern corner of Delaware County, Pennsylvania. The Township has a population of 31,531, and consists of all or portions of the Bryn Mawr, Garrett Hill, Newtown Square, Radnor, Rosemont, St. David's, Villanova, and Wayne neighborhoods. The Township is a legal entity separate from the Radnor Township School District, which serves the same geographic area. Township services include police protection, public works (including trash collection, streets, sewers and storm water), government administration, community development (including building and codes enforcement), parks and recreation and financial support to the library, fire companies, and other community organizations.

The Township budgets for its activities through an annual budgeting process and a five-year capital plan. The fiscal year is from January 1 to December 31. The Township follows governmental accounting and reporting standards, under which separate funds are maintained, including the General Fund, the Sewer Fund, and the Park Improvement and Open Space Fund. The Township also has fiduciary responsibility for separate funds for employee pension benefits. The Township issues an annual financial report which is audited by an independent accounting firm.

Revenues

Anticipated revenues of \$39.5 million for 2014 (excludes interfund transfers) come approximately one-third each from real estate taxes, Act 511 taxes, and from fees, fines and other charges for services (permitting, departmental earnings). Act 511 taxes include a business privilege and mercantile tax on gross receipts, as well as a local services tax and realty transfer tax. Fees include the sewer rent fee, which is a separate charge for those connected to the township sanitary sewer system, and the Stormwater fee, which is a separate charge for all properties in Radnor based on impervious area. Charges for services include permitting revenue from local development projects and departmental earnings including recreational programming, parking, and police extra duty revenue. Radnor Township does *not* impose an earned income tax, which is similar to most other local governments on the Main Line, but different from most local governments statewide. Radnor Township also does not impose a trash collection fee. Several adjacent townships impose trash collection fees of several hundred dollars per year, or in some cases, do not provide trash collection service at all.

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to
Township of Radnor
Pennsylvania

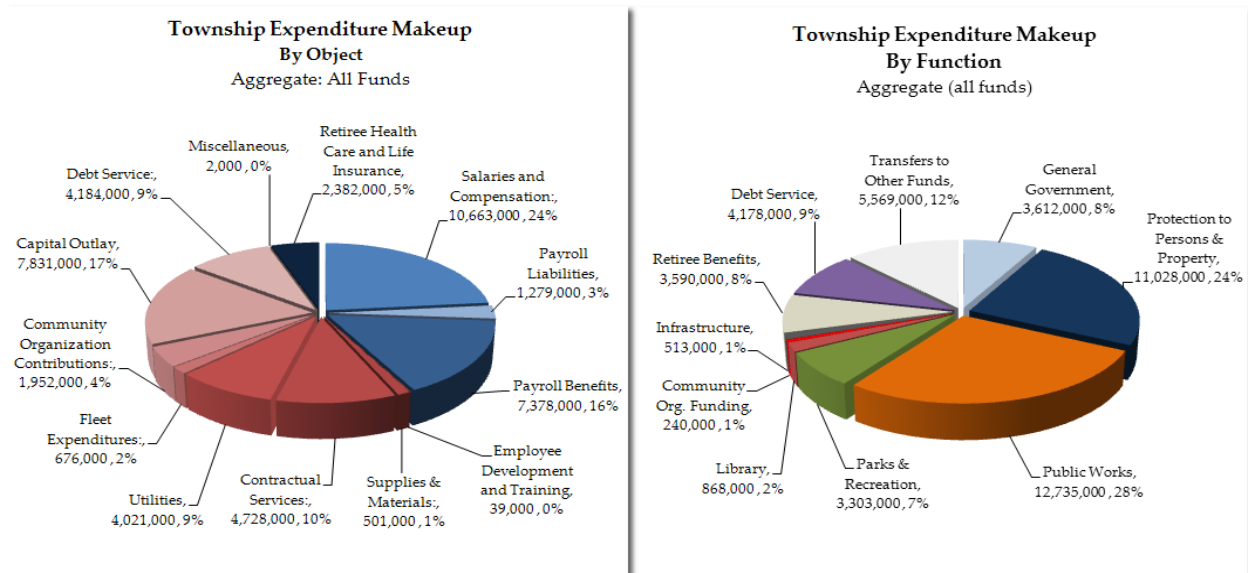
For its Comprehensive Annual Financial Report for the Fiscal Year Ended
December 31, 2012

Jeffrey P. Egan
 Executive Director/CEO

Expenditures

The charts below present two views of Township anticipated expenditures of \$45.6 million for 2014. Please note that the excess of expenditures over revenues is the result of non-recurring capital expenditures funded by a business tax settlement in 2013. Operationally, 2014 revenues are sufficient to meet expenses. The pie chart on the left shows the expenditures by object – the *type* of expenditure. As seen in the chart, the largest component of expenditures is for salaries and benefits (indicated in shades of blue), which is typical for local governments. Other large components of expenditure are for debt service and capital outlay. The \$4.0 million expenditure for utilities includes payment by the Township to the regional sewerage authority and is funded by the sewer rent fee.

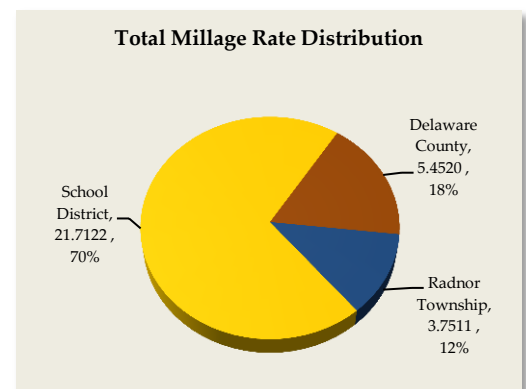
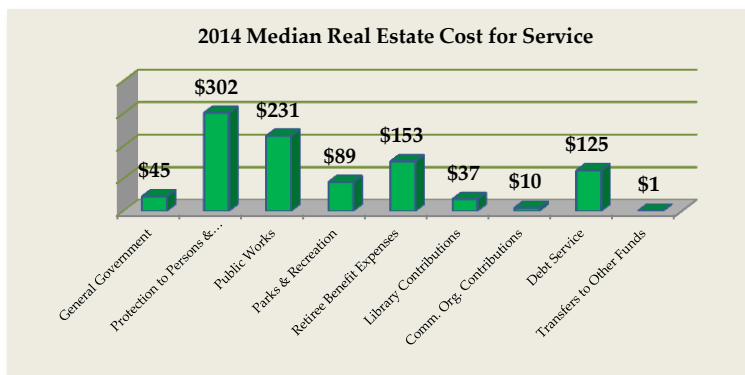
The second pie chart depicts the same expenditures by township function. As the chart shows, the largest expenditures, comprising more than half of the budget, are for Public Works and Protection to Persons and Property, which includes the Police Department, Community Development Department and fire contributions.



Real Estate Tax

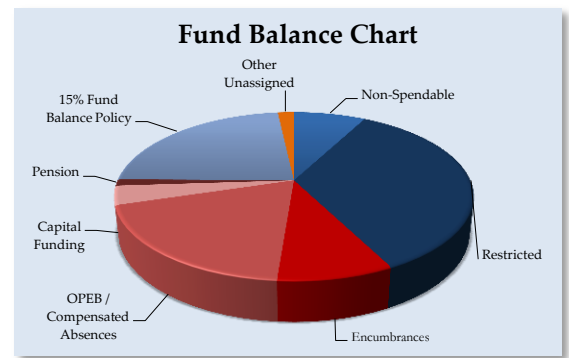
The chart below to the left looks at township expenditures from the perspective of how the township real estate tax bill of the average Radnor resident is distributed amongst the broad service categories. The median residential assessed value is \$264,710 which equates to a Radnor Township tax bill of \$993 (rounded). So for example, the portion of that tax bill that goes toward Protection of Persons and Property is \$302 per year.

Radnor Township is one of three governmental entities that tax Radnor property owners (*residents and businesses*) based on the assessed value of their property. The chart below to the right shows that Township real estate tax bill (3.7511 mills per \$1,000 of assessed value) is 12% of the total real estate tax paid when the payments to the Radnor Township School District and Delaware County are included.



Fund Balance and Debt

As of December 31, 2012, the Township's Balance Sheet showed \$17.9 Million in Assets, \$2.0 Million in Liabilities, and \$15.9 Million in Fund Balance. The Township has adopted a policy to target the General Fund's balance at 15% of expenditures. The restricted fund balances represent amounts that can only be spent for specific purposes based on local laws or limitations imposed by creditors, grantors, and contributors. Examples include all of the Township's non-General Fund activity such as sanitary sewer fund balances, debt service fund balances, capital fund balances, park and open space fund balances and others. The remaining fund balance was assigned to specific purposes, including capital expenditures and certain long term liabilities as identified on the Fund Balance Chart.



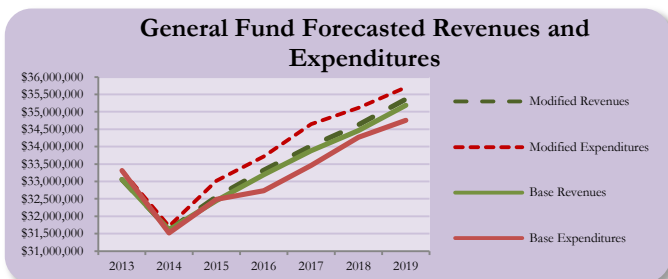
The Township has approximately \$47 Million in outstanding bonded debt, held in four separate bond issues that mature at various times through 2037. Principal and interest payments from 2014 through 2037 total \$77 Million. Over time as the bonds were issued, the proceeds were used for various purposes, including open space acquisition, capital needs, buildings, including the Township Building, library and public works garage, as well as various other infrastructure improvements. Please note that these figures do not include the bonds needed to acquire the 71 acres of open space at Ardrossan, as approved by the Board of Commissioners in December 2013. Depending on several variables, the amount of the bonds is not expected to exceed \$10 million. The Township has been taking steps to help reduce the overall debt cost. Since 2010, three of the four bond series have been refinanced, reducing the interest cost considerably on each of the bonds. Additionally, in 2013 the Township refunded its 2004 Bonds and at the same time, used the savings to terminate the Swap agreement. In doing so, the Township eliminated the risk and escalating expense associated with the agreed upon interest payment to the counter-party ("Swap") and the variable rate debt that would have been required beginning in August of 2014. The Township's current credit rating from Moody's is Aa1. This represents the second highest rating, just below Aaa.

Long-Term Liabilities: Pensions and Other Post-Employment Benefits ("OPEB")

In addition to future bond payments, the Township has other substantial long term liabilities for payment of future employee benefits including pensions and retiree healthcare. The Township maintains separate pension funds for police and for civilian employees. As of December 31, 2012, these two funds held \$38 Million in assets. However, these assets represented only 67% for police and 57% for civilian of the actuarially determined amount needed to fund future benefits, or stated another way, the plans should have \$22 Million more in assets today. This shortfall is being amortized, with current annual payments of almost \$3.1 Million. OPEB includes healthcare benefits provided to retired unionized police and civilian employees. The Township is contractually obligated to pay this benefit, but has only begun to reserve funds for future liabilities. Current annual expenditures for this benefit are \$2.2M and are projected to rise to \$5 Million over the next 20 years. To help manage OPEB liabilities going forward, the Township has achieved four significant cost containment agreements/ policies: (1) Successfully negotiated eliminated or reduced benefits for new civilian and police hires, (2) eliminated OPEB from all future non-union personnel, (3) began allocating General Fund balances in excess of the target level of 15% of annual expenditures, (4) and adopted a long-term OPEB Funding plan which aims to incrementally increase set-aside funding over the next 10 years in an effort to build reserve assets needed to pay for future benefits.

Financial Forecast

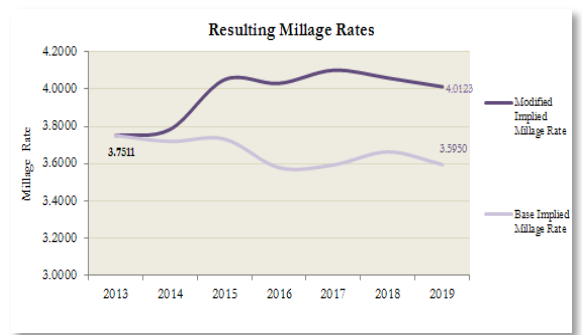
The Township's budget now includes a five year forecast of revenues and expenditures for the General Fund. The forecast provides additional insight into setting the real estate tax rate and fees by evaluating year to year changes in light of future projections. The forecast includes "base" revenues and expenditures, which assume normal inflationary growth on today's programming costs. Then, the forecast allows the Township to modify revenues and/or expenses based on



new information or programming, and then compare the results. For each model, the resulting implied real estate tax is computed. It is important to note that the real estate tax is the only tax where the Township has the authority to change the rate. Consequently, the only way for the Township to generate additional revenue without adjusting taxes is through economic development (expanding tax base) and/or through fees that directly offset the cost of a particular program.

Financial Forecast (Continued)

Forecasted base operations show that revenues appear to be sufficient to cover expenses over the next five years. That is why the forecasted millage rate for Base Implied Millage Rate is relatively unchanged. Alternatively, the Modified Expenditures on the preceding Forecast Revenues and Expenditures chart shows that expenditures are forecasted to outpace revenue levels. The modified forecast includes today's programming, plus the net revenue from the Ardrossan development minus funding for the newly adopted OPEB funding plan and the cost of the Ardrossan open space purchase. Consequently, as shown on the Resulting Millage Rates chart, the forecast anticipates that future real estate tax increases will be needed to meet projected modified programming needs.



Over the past two years, the Act 511 taxes have surpassed the real estate taxes as the primary revenue source. This has two profound effects on the Township's forecast: First, assuming expenses are generally fixed, as Act 511 tax revenue increases, the amount of real estate taxes needed to balance the budget decreases. In other words, an expanding business tax base will equate to lower real estate tax rates over time. Second, the township now relies more heavily on revenues that are more volatile than real estate taxes. Case in point: From 2008 to 2009, the Act 511 taxes dropped by over \$2.2 Million. Again, a larger business tax base helps mitigate the risk of the total revenue dropping dramatically, but real estate taxes will always be more stable and reliable over time.

Major Initiatives: Transparency and Fiscal Improvements

Since 2010, many initiatives have been undertaken and continue to improve financial processes, accountability, and transparency and to address the longer term financial liabilities of the Township, as highlighted below:

<p>CARFAC</p> <p>Members: Mark Blair, Chair Michael Antonoplos Jim Bowes* Karl Bupp Edward Caine Laurent Chardonnet Joseph Ellis Leigh Gourmand Jerry Linden</p>	<p>In 2011, the Board of Commissioners created the Citizens' Audit Review and Financial Advisory Committee ("CARFAC"). CARFAC provides an additional layer of oversight so as to enhance the Township's effort to promote transparency in financial accountability and to ensure the appropriate and proper expenditure of taxpayer dollars. CARFAC consists of nine (9) volunteer members whose responsibilities include reviewing and making recommendations for improvements in the Township's audit process, fiscal planning, budgeting, business processes and educating the public on these initiatives.</p> <p>* Jim Bowes passed away on November 20, 2013, but not before providing CARFAC and the Township with thoughtful, accurate, and fair positions toward <i>all</i> discussions and projects worked on by the group. Jim's unwavering stance on the need for public education regarding the unfunded liabilities was the primary reason that project was priority #1 in 2012. Jim's contributions are still tangible today and moving forward as he was the primary champion of the newly adopted OPEB funding plan.</p>
<p>Financial Reporting and Transparency</p>	<p>The Township has vastly increased the level of financial information available. This report is a product of the increased reporting focus. The budget contains much more detail, including narrative explanation and analysis. Monthly financial reports are produced and posted to the Township web site.</p>
<p>Five Year Forecast and Capital Plan</p>	<p>A five year forecasting model, described earlier, has been created and will be updated annually as part of the budget process.</p>
<p>Audit</p>	<p>The Township has improved the timeliness of the audit, and produced a Comprehensive Annual Financial Report (CAFR) which achieved the Government Financial Officers' Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting. More importantly, working with CARFAC, audit findings have been reduced from thirty-four in 2008 to two in 2012, with all Material and Significant findings eliminated.</p>
<p>Long Term Liabilities</p>	<p>Analysis of pension and OPEB costs and projections has been completed to provide better information for decision making and financial planning. A formal OPEB funding plan has been adopted. The Township has refunded bonds, when callable, to take advantage of lower interest rates. An interest rate swap agreement made in 2004 was terminated in 2013.</p>
<p>Financial Operations</p>	<p>Internal controls and procedures have been reviewed and strengthened, and policy and procedures manuals have been adopted. Collection of Act 511 business taxes has been improved to simplify reporting for taxpayers and streamline auditability.</p>