

Citizens Audit Review & Financial Advisory Committee (CARFAC)

October 16, 2013

7:00PM – Radnor Township Municipal Building, Finance Department

Agenda:

1. Open Space / Ardrossan Analysis Update
 2. 2014 Budget Review Highlights
 3. 2013 Action Item Updates by Working Group (see Action Item Report attached):
 - a. Operations:
 - i. Open Space / Ardrossan / Cresa Report
 - ii. Storm Water Funding
 - iii. Willows Proposal Update
 - b. Audit:
 - i. Financial Software discussion
 - c. Planning:
 - i. \$8.0 Million Distribution (Draft Attached)
 - ii. Excess Fund Balance Policy (Draft Attached)
 - iii. RATE Negotiation Update
 - iv. Five Year Plan Updates (Included in Budget)
 - v. Citizen Centric Reporting Update
 4. Old Business: Open Action Items to be addressed
 - a. Document need for Street Sweeper
 5. General Discussion
 6. Public Participation
 7. Adjourn
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NOTES:

Radnor Township
CARFAC – List of Action Items
Updated October 16, 2013

CARFAC – Committee as a Whole

- I. CARFAC Scorecard (2013):
 - a. Mercantile Tax Refunds: proactively returned **\$59,160** to nine establishments to-date
 - b. Swap: Increased Swap discount from 11.4% to 12.0%, generating **\$31,078** in savings
 - c. Swap: Eliminated future costs and risks associated with variable rate bond market and swap payments to Counter Party (conservatively estimated to have saved the Township **\$2.6 million**, documented)
 - e. 2004 Bond Refund: NPV savings of **\$2,013,920** or 14.198% of Refunded Principal
 - f. Contributed to the development of a dedicated OPEB Fund to begin the process of funding the long-term liability to be built into the 2014 budget and ongoing five year forecast
 - g. Participate in the 2012 Audit process; Met with BOC to review issues; Recommend Acceptance of the Independent Auditor’s Report and Audited Financial Statements
 - h. Participated in preliminary budget review: Made recommendations on revenue assumptions and various expense / capital reductions that assisted in the delivery of a budget with no real estate tax adjustment
 - i. CARFAC reviewed and ultimately recommended proceeding with a third party Act 511 Tax Discovery firm to give the Township another resource in administrating the compliance of the business tax laws. The Board of Commissioners approved the contract on October 14, 2013

Planning Working Group

- I. OPEB Funding Strategy
 - a. Review RATE Negotiation progress/ Items as they relate to OPEB / Pension project – **The Township’s negotiation position was distributed to the Working Group (which included proposed language changes for pension and OPEB) / The Administration had a negotiation meeting with RATE to review the position statement**
 - b. Incorporate any OPEB funding strategy into five-year plan – **The 2014 Township Manager Recommended Budget and accompanying financial forecast includes the 10 Year Phase-In OPEB funding plan.**
- II. 2014 Budget / Five Year Plan Updates
 - a. Five Year Plan to be analyzed in concert with the 2014 Budget process – **Reviewed at the September meeting / Will be reevaluated after \$8.0M settlement distribution is adopted by BOC (because it will impact future years’ MMO expenses).**
 - b. Work with Administration preparing options on the use of the \$8,000,000 settlement – **[This was delayed in order to complete the budget for the 10/14 meeting] Administration has verified the actuarial treatment of the pension contributions to be consistent with what we thought. We will review at the 10/16 meeting prior to a resolution being on the BOC’s 10/28 agenda.**
 - c. Develop Excess Fund Balance Policy – **[This was delayed in order to complete the budget for the 10/14 meeting] Admin. to develop wording based on CARFAC meeting discussion from the 9/18 and review with CARFAC on 10/16 prior to a resolution being on the BOC’s 10/28 agenda.**

Radnor Township
CARFAC – List of Action Items
Updated October 16, 2013

- III. Stakeholder Communications (a.k.a. “Citizen Centric Reporting”)
- a. Research/publish the citizen-centric reporting approach – agree on theme, frequency and format – meet with web-site developer/consider e-mail strategy
 - b. Plan is to design the initial CCR for distribution at budget time. Thereafter we plan to publish twice per year. – **This will be on the agenda for the upcoming working group meeting**

Operations Working Group

- I. 2014 Budget: Estimated revenue assumption review with Administration – **Complete: Accomplished this at the September 25 special CARFAC meeting**
- II. Analyze Willows proposals (Administration recommendation, which included CARFAC’s work, was submitted to the BOC on June 6. BOC heard the Administration’s recommendation on June 24 and on July 8th authorized administration to enter negotiations with Conroy Catering). **Administration continues to work with Conroy to develop a plan where the Township invests into the public infrastructure (roads, bridge, waterline, and parking) and require the Operator to obtain private financing for the remainder of the project. This is scheduled to be back in front of the Board in late October / early November.**
- III. Open Space / Ardrossan
 - a. Begin required Open Space Policy analysis once the Ardrossan facts are received – **Final negotiated facts are still unknown at this time.**
 - b. Review Solicitor’s written description of Orphan Court procedures. **Complete**
 - c. Review Solicitor’s opinion on 29 year lease. **Complete**
- IV. Open Space / Cresa Report
 - a. Review report and verify the Township’s cost to own property - Administration (Bob T.) to develop a matrix of all property by location, date acquired, acreage, cost, fair value, purpose, zoning and other notes. **(Initial Draft Distributed by Bob T. on May 31 and reviewed further with working group on July 3rd – Michael A. addressing several open items)**
 - b. CARFAC to meet with Elaine Schaefer and John Nagle on September 6th to discuss the Township’s broad open space objectives. - **Complete**
 - c. CARFAC to then meet with the entire Board of Commissioners in executive session (acquisition of real estate) prior to the September 23rd meeting to review open space plan.
- V. Storm Water Strategy
 - a. The Storm Water Ordinance was adopted by the BOC on October 14, 2013 with the effective date being November 13, 2013. **The Budget will be amended to include the assumptions prepared during the Stakeholder meetings and then reviewed by CARFAC prior to being introduced in a later version of the budget (late October).**

Radnor Township
CARFAC – List of Action Items
Updated October 16, 2013

Audit Working Group

- a. Financial Systems – consider framework for evaluation of software – **If the Board approves allocating a portion of the \$8 million tax settlement towards this project, a working group meeting will be convened.**

Township Administration

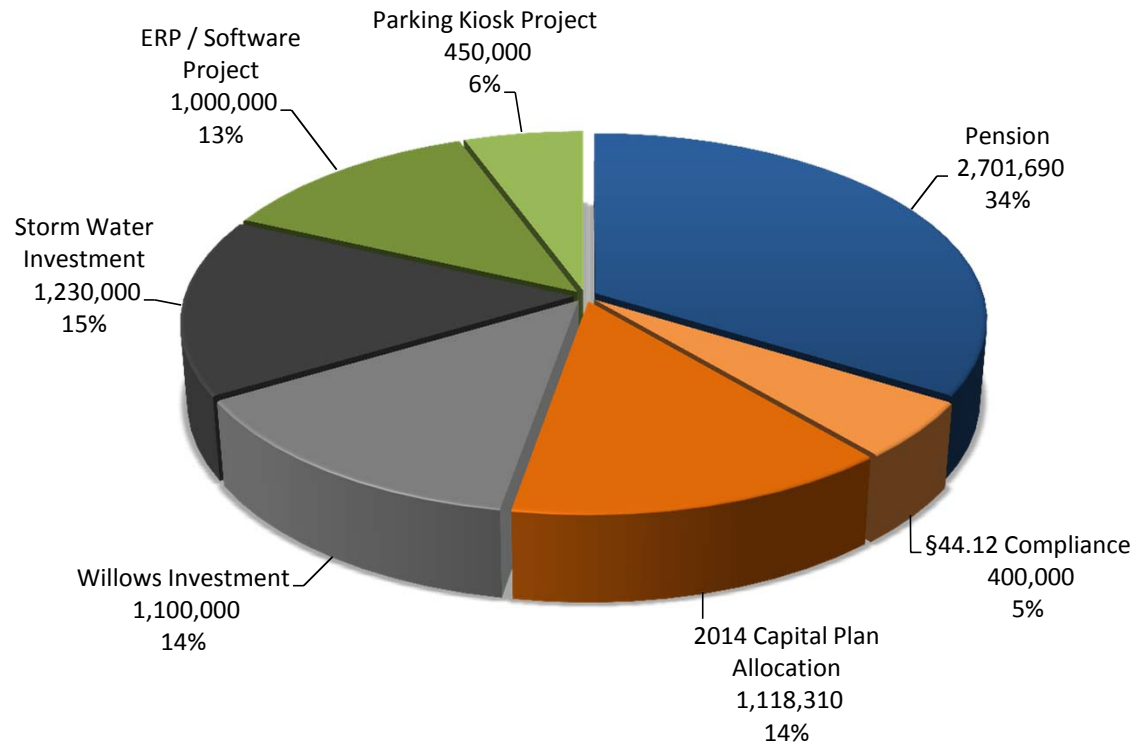
- a. Bill to ask PFM for a proposed approach to managing the OPEB trust funds [5/15 meeting] – **Working with the finance advisor on updating the engagement contract to include OPEB: This will take some time, but should be complete by the end of the year.**
- b. Reassess ADP as a vendor [4/17 meeting] – **ADP was cancelled on September 23rd**
- c. Document need for Street Sweeper (PW Director) [3/20 meeting] – **follow up detail requested by CARFAC is being worked on by the Public Works Director. This will be available by October 28th.**

Priority	Amount
Pension	2,701,690
\$44.12 Compliance	400,000
2014 Capital Plan Allocation	1,118,310
Willows Investment	1,100,000
Storm Water Investment	1,230,000
ERP / Software Project	1,000,000
Parking Kiosk Project	450,000

Additional Notes:

1. The pension allocation will immediately reduce the amount of the UAAL by the amount deposited into the pension funds, (subject to future actuary assumption risks). Additionally, the estimated future impact to the MMO would be a reduction of \$244,512 (again, subject to future actuary assumption risks) beginning with the 2016 MMO.
2. The Administration will recommend creating a special revenue fund to account for the Settlement activity to make sure that the movement of the funds is trackable and that funds dedicated to projects are used for that purpose (which

Proposed Thoughts With Regard to Distribution of \$8M BPT Tax Settlement



RESOLUTION NO. 2013-XXX

A RESOLUTION OF RADNOR TOWNSHIP, DELAWARE COUNTY, PENNSYLVANIA, ESTABLISHING A FUND BALANCE DISTRIBUTION POLICY FOR THE YEARS 2013 AND 2014

WHEREAS, the Board of Commissioners has made significant progress over the past two years towards addressing unfunded liabilities by assigning \$5,037,448 in “excess” General Fund balances from 2011 and 2012 to help fund OPEB, pension, compensated leave balances and capital; and

WHEREAS, 2013 forecasts indicate that ending fund balances in the General Fund may exceed the 15% target percentage established in the Township’s fund balance policy adopted in Resolution 2011-152; and

WHEREAS, the Board of Commissioners wishes to continue to prioritize “excess” fund balances to address these liabilities by setting aside any General Fund balances that exceed the 15% target level in calendar years 2013 and 2014 as detailed below.

NOW, THEREFORE, be it hereby **RESOLVED** that the Board of Commissioners of Radnor Township does hereby establish a General Fund excess fund balance prioritization policy for the years ending 2013 and 2014, as follows:

The Township recognizes that the primary reason for the excess fund balances in 2011, 2012 and those anticipated in 2013 is the unexpected and significant increase in the Business Privilege Tax (BPT). The Township further recognizes that this particular revenue source is subject to volatile results as evidenced by the sharp decline in 2009 of -44% and then subsequent significant recovery.; Consequently, so long as the BPT represents a growing portion of the Township’s revenue base, it is prudent for the Township to temporarily reserve General Fund balances in excess of the 15% of expenditure target level.

If the current year’s forecasted BPT revenue is less than 25% of the Township’s General Fund revenue base, any fund balance in excess of the 15% target balance shall be distributed as noted below. However, if the current year’s forecasted BPT revenues are equal to or exceed 25% of the Township’s General Fund revenue base, the Township will reserve up to an additional 10% of expenditures, and any excess fund balances above 25% of that year’s expenditures, shall be distributed as follows:

1. Capital Funding: 50%
2. Pension Liabilities (*in addition* to annual MMO): 50%

SO RESOLVED, this 28th day of October, A.D. 2013.

RADNOR TOWNSHIP

By: _____
Name: Elaine P. Schaefer
Title: President

ATTEST: _____
Name: Robert A. Zienkowski
Title: Township Manager / Secretary

EXCESS FUND BALANCE POLICY ANALYSIS

0%

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Business Tax Revenues	5,257,035	5,635,035	6,475,295	7,679,702	7,679,702
General Fund Expenditures ¹	24,762,891	26,895,898	27,267,890	29,196,807	31,740,991
BPT Revenues as a Percentage of GF Revenues	21.23%	20.95%	23.75%	26.30%	24.19%
15% Target Fund Balance Amount	3,714,434	4,034,385	4,090,184	4,379,521	4,761,149
20% Fund Balance	4,952,578	5,379,180	5,453,578	5,839,361	6,348,198
Excess Fund Balance between 15% and 20%	1,238,145	1,344,795	1,363,395	1,459,840	1,587,050
25% Fund Balance	6,190,723	6,723,975	6,816,973	7,299,202	7,935,248
Excess Fund Balance between 15% and 25%	2,476,289	2,689,590	2,726,789	2,919,681	3,174,099
Forecasted Ending General Fund Balance				\$ 7,837,585	7,108,885
Forecasted Excess Fund Balance Distribution:					
Capital				\$ 269,192	\$ 1,173,868
Pension				\$ 269,192	\$ 1,173,868

If populated, this is the amount below the 15% target balance ---->

¹ General Fund Expenditures are net of any transfers out from prior years' excess fund balance distributions

Notes / Thoughts:

1. If BPT drops by -44%, with all things being equal, the resulting ending fund balance would be \$1,031,333 BELOW the 15% target fund balance:

This is about 1/3 of the excess reserve of \$3,174,099 (amount reserved between the 15% and 25%)...

Does this demonstrate that 25% is too high?
This is a question of likelihood and how long before the revenue recovers.

1. If BPT increases by 14%, with all things being equal, the resulting ending fund balance would be \$248,794 ABOVE the 25% target and excess reserve fund balance:

This would only allow \$124,398 to be distributed to Pension and Capital...

Does this demonstrate that 25% is too high? It seems like if we have another good revenue year, more of those dollars should be distributed to the unfunded liabilities.

1. If BPT increases by 0%, with all things being equal, the result would be that the BPT revenues would only be 24.19% of GF revenues (close to the 25% cut off, but below)...

This would only allow \$2,347,736 to be distributed to Pension and Capital...

Caution: It would seem that a 0% increase is worse than a 6% increase as budgeted. However, as written, the policy would allow \$2,347,736 to be assigned to Pension and Capital instead of remaining in the General Fund (where it should probably stay if we have a *bad* revenue year).