

Letter of Transmittal

November 15, 2017

To: New Hanover Township Board of Supervisors

Introduction

I am pleased to submit the proposed 2018 Budget for your consideration. The budget document consists of three sections:

Letter of Transmittal

The Letter of Transmittal is an overview of the budget in commentary form, generally referred to as the Budget Message. It is prepared to provide the Board of Supervisors, administrative staff, and Township residents with a narrative review of significant trends and factors affecting the proposed budget and highlight areas of importance in the financial section. It also contains a summary of program and service delivery, cash position, and revenue and expense projections.

Operating, Capital, Enterprise and Trust Funds Budgets

The proposed 2018 Budget consists of 13 funds detailing the projected revenues and proposed expenditures for the coming year in line item format. A three-year history of actual (audited) revenues and expenditures and year-end estimates for the current year indicate trends, and beginning and ending fund balances show cash position. A separate summary for the General Fund by revenue and expense category provides a snapshot of the Township's largest operating budget, and a summary of the 13 funds provides a broad financial picture of the organization.

Supporting Data (Budget Schedules)

The Supporting Data (Budget Schedules) offer an additional level of detail for specific line items in each operating budget. This information provides the Board of Supervisors and administrative staff with a detailed understanding of specific budget appropriations. Where supporting data is available, an alphabetical index provides easy reference to the supporting details. This information assists in further understanding the cost of Township services and provides more meaning to the budget projections, particularly when considering cost-cutting alternatives or forecasting revenues.

The proposed budget results from an analysis of trends in revenues and expenditures from prior years, a detailed review of individual line item projections, an evaluation of programs and services, and current economic conditions. Allocating resources in the most efficient manner is also important in maintaining accustomed service levels and providing needed capital improvements.

This budget design provides information at various levels of detail as described above to promote an understanding and evaluation of Township services from a financial perspective.

The Budget Format

The budget is prepared in a line item format using the Pennsylvania Chart of Accounts for local governments published by the State Department of Community and Economic Development (DCED). This format provides uniformity of account numbers and titles across department budgets and operating funds. Uniformity in the budget format and consistency in posting revenues and expenditures to the line item accounts allows the Administration and Department Directors to monitor variations in budget appropriations during each fiscal year and from year to year. It simplifies review of monthly financial statements and translates to improved accuracy in accounting and budgeting.

The proposed budget continues the practice of separating operating and capital funds. The Budget includes separate operating funds for general government (General Fund), fire and rescue services (Fire Protection Fund), open space preservation (Open Space Fund), parks and recreation services (Recreation Fund) and state highway aid allocations (Liquid Fuels Fund).

Detailing these services in separate funds allows the costs for these government functions to be easily identifiable, providing the Board of Supervisors and Township residents with a clear picture of how the Township allocates resources for its program of service delivery.

The proposed budget further expands the number of capital funds with the creation of a Capital Reserve Fund and Recreation Capital Fund. Separating capital appropriations from operating revenues and expenditures eliminates variations in government operating appropriations from year to year caused by one-time capital expenses.

- Capital appropriations for general purposes are now budgeted in the Capital Reserve Fund. Interfund transfers from the General Fund and other revenue dedicated for capital projects provide funding for proposed capital purchases or improvements.
- Capital appropriations for road equipment purchases are budgeted in the Road Equipment Capital Fund. Funding for these appropriations is funded through a dedicated millage.
- Capital appropriations for parks and recreation purposes are now budgeted in the Recreation Capital Fund. Funding for these appropriations can be from a variety of sources including interfund transfers, grants, and impact fees.
- Capital appropriations for transportation improvements are budgeted in the Transportation Impact Fund. Funding for these appropriations occurs primarily through impact fees and grants.

In the General Fund, the *Result from Operations* (page 3) represents the difference between annual revenues and expenditures before interfund transfers for capital appropriations or appropriations to other operating budgets.

This budget format has standardized the accounting function and simplified the budget preparation process. I believe the budget format provides sufficient detail for readers to understand revenues and expenditure appropriations from year to year and the broad overview of Township government financial operations necessary for contemplative analysis.

Budget Highlights

Following are highlights of the proposed 2018 Budget:

The proposed budget maintains current tax rates.

There is no proposed real estate tax increase for the 2018 fiscal year. This will be the 13th year in a row that taxes have been maintained at current rates; the General Fund millage has not been increased for more than 20 years.

At the current tax levy of 1.6800 mills, real estate taxes for a home assessed at the median value of \$166,765 will pay \$280 per year or \$23 per month for Township services.

The proposed budget includes new hires.

The General Fund includes converting two current part-time positions (Police Officer and Zoning Clerk) into full-time positions and increasing the number of weeks worked (20 to 26) for a seasonal employee in the Public Works Department. The Recreation Fund includes additional hours (20 to 24) for the part-time employee in the Parks and Recreation Department. The Sewer Operating Fund transitions a part-time position into a full-time position (Wastewater Treatment Operator).

All proposed positions are intended to provide stability in our service model for residents in the long-term and are detailed further in the subsections of this transmittal.

The proposed budget maintains municipal services at current levels.

Operating appropriations in the proposed 2018 Budget will allow the Township to continue its stabilization as a municipality while increasing our standard of service expected by our residents.

The appropriations support accustomed levels of police, maintenance of public roads and rights-of-way, recreation services and programs, park maintenance, and sanitary sewer implementation. Appropriations also include debt payments on outstanding bank notes and funding for certain infrastructure improvements and capital equipment purchases.

Capital appropriations maintain/streamline infrastructure and equipment.

The Management Team developed a new 10-year capital improvement plan that serves as a guide when programming capital appropriations. The plan is included under Schedule H of the budget document and forms the basis for proposed capital appropriations in the 2018 budget.

Proposed capital appropriations under the Capital Reserve Fund include new financial accounting software; carpeting for the Administration Building; a phone system upgrade; tasers and a contracted radio update for the Police Department; architect design fees for a new building for either/both the Administration or Police Department; and a replacement vehicles for the Police Department.

Proposed capital appropriations under the Recreation Capital Fund include wayfinding signage for our park system and repaving costs for Swamp Creek Park. The Road Equipment Capital Fund includes a replacement vehicle for the Public Works Department.

The Sewer Capital Fund includes proposed capital appropriations for fencing for the plant; a garage expansion project; a dewatering pit; a pump station generator; building heaters; VFD and valve replacements; and a replacement vehicle.

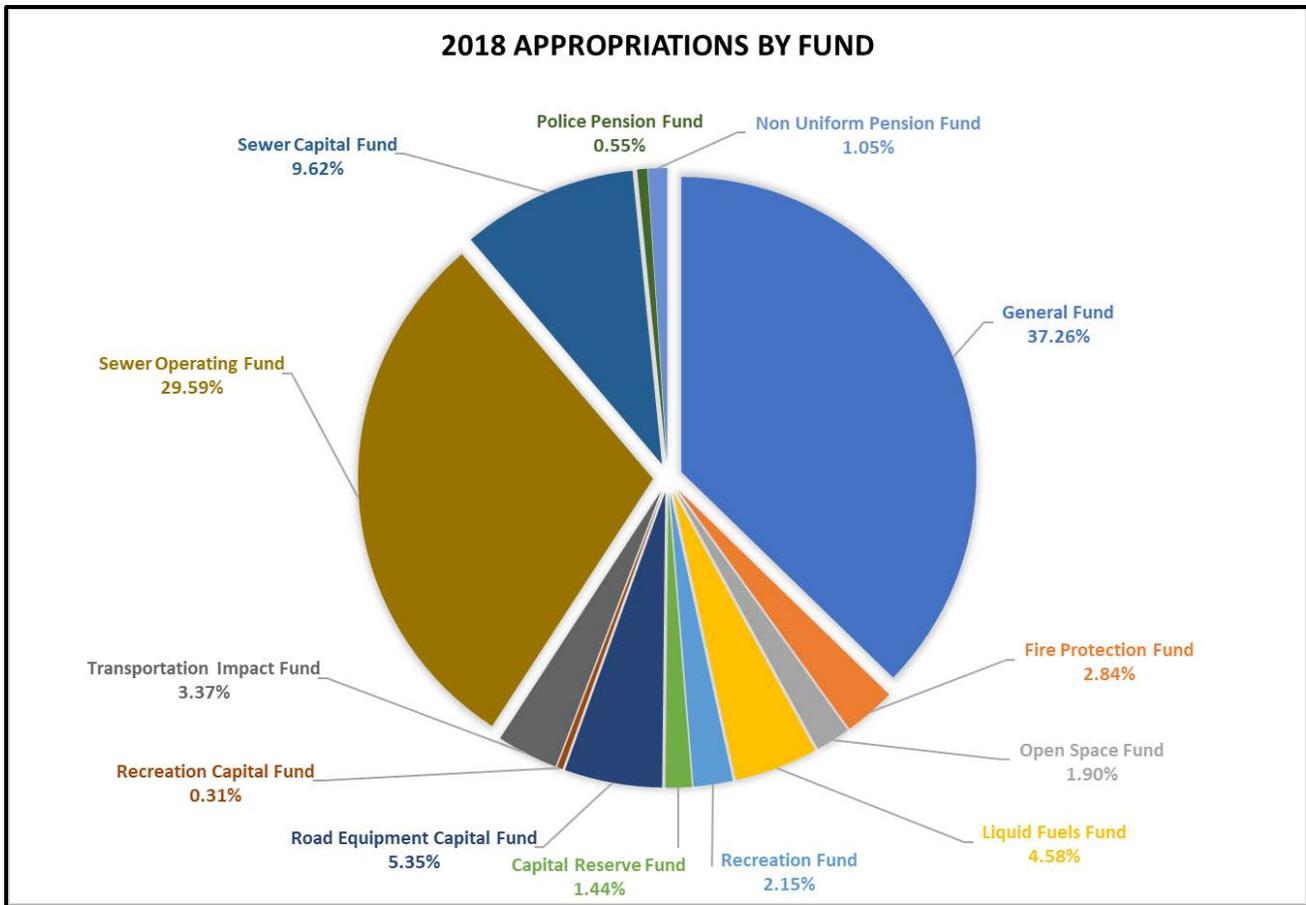
The budget also includes appropriations through other funds (General Fund, Liquid Fuels Fund and Transportation Impact Fund) to help maintain infrastructure and equipment.

- The General Fund and Liquid Fuels Fund combine to resurface or treat up to 12 miles of Township roads and rebuild storm sewer inlets and pipes.
- The General Fund includes appropriations for updated computer equipment for the Board of Supervisors; technology for the meeting and conference room; converting GIS software for the Code Enforcement and Zoning Department from a premise-based environment to the cloud; and an update to the Township's Act 209 plan.
- The Transportation Impact Fund includes appropriations for traffic engineering and design services for improvements at the intersection of North Charlotte Street and Moyer Road and at the intersection of Big Road and Layfield Road. Also included is an estimated cost to implement last year's preliminary design at Route 663 and Swamp Pike.

Budget Overview

There are 13 Funds in the proposed budget (5 Operating Funds, 4 Capital Funds, 2 Enterprise Funds, and 2 Trust Funds). These funds are essentially pots where revenues and expenses pass through for designated services. Each Fund shows beginning fund balances, projected revenues, proposed expenditures and ending fund balances for the new fiscal year, and highlights the cost for those separate and distinct government functions.

The General Fund is the largest Operating Fund and accounts for many common local government services, including police protection; planning and zoning; general administration; finances; legal and engineering services; tax collection services; and public works services and maintenance. Appropriations from the General Fund are available for any legal expenditure; however, tax levies for special purposes such as the fire and rescues services, recreation services, and open space preservation are available only for that purpose.

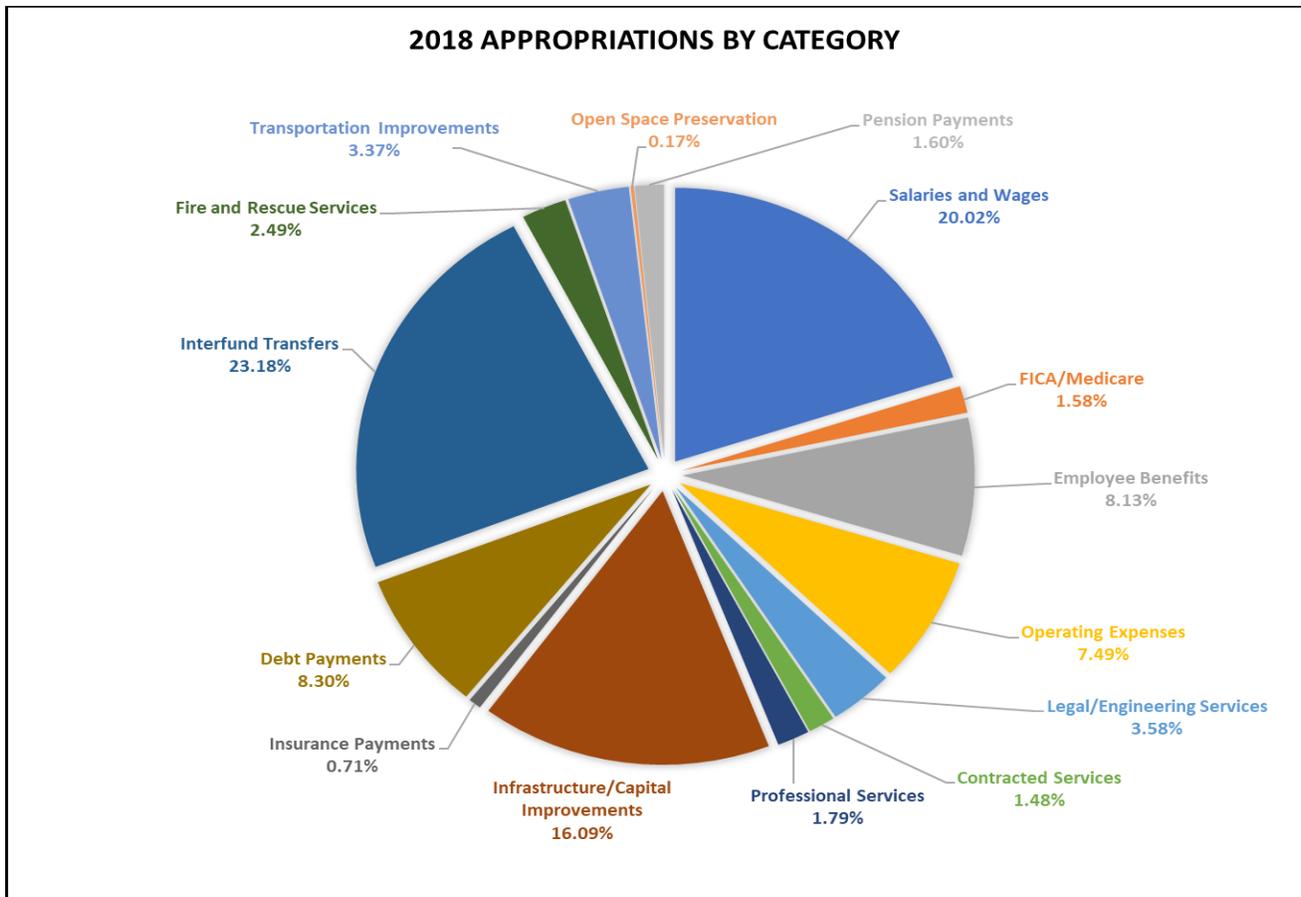


Total appropriations for all funds is approximately \$12 million in the 2018 proposed budget.

General Fund appropriations total \$4.47 million. Appropriations in other operating budgets include the Fire Protection Fund (\$340,000), Open Space Fund (\$228,000), Liquid Fuel Fund (\$550,000), Recreation Fund (\$227,000) and Sewer Operating Fund (\$3.55 million). Combined capital appropriations total \$2.41 million and pension funds total \$192,000.

The General Fund, in combination with the Recreation Fund and Sewer Operating Fund, account for all personnel, fringe benefit, insurance, routine maintenance and operational expenditures. Personnel costs remain the largest single expense in the operating budgets representing 41% of total appropriations in the Operating Funds. Operating expenses, legal and engineering services, contracted and professional services, and insurance account for an additional 21% of budgeted expenditures. These percentages usually combine to be the highest expenses in local governments as public service agencies and demonstrate that significant cost cutting can only occur with staff reductions that directly affect service delivery.

The following chart shows how total appropriations are expensed for all funds by category:



Following is a narrative summary of the financial position of each fund including a discussion about projected revenues and proposed expenditures for 2018:

General Fund

Revenues

The General Fund is the operating budget for general municipal purposes and includes appropriations for general government operations such as administration and finance, legal, engineering and other professional services, police protection, code enforcement and zoning, planning administration, technology, highway facilities and fleet maintenance. There are also appropriations to support the work of appointed boards and commissions.

Tax collection experience, prior year collection history, contract guarantees, state shared revenue, and economic trends are the basis for current and future revenue projections.

The primary revenue sources for the General Fund are real estate taxes, Act 511 taxes (earned income, per capita, local services, and transfer taxes), business licenses, permit fees, grants, state-shared entitlements, and charges for service.

The Township levies a 1% earned income tax and revenue generated from residents is shared equally with the Boyertown School District. Earned income taxes will generate over \$2 million in 2018, representing 47% of total revenues in the General Fund. Real estate taxes are projected to come in close to \$750,000, representing 17% of total revenue in the General Fund.

Transfer taxes are a tax on real estate sales within the Township. The tax rate is 2% of the sale price. County government receives 1 percent of the tax proceeds, and the Boyertown School District and Township share the remaining 1% equally. Transfer tax receipts have steadily increased throughout the past several years as the economy is strong and development continues in the Township. Current projections indicate transfer tax receipts in 2018 will reach approximately \$408,000, but this may be higher given increased development activity.

An estimated 319 properties will transfer ownership in 2018, which is conservatively projected to be the around the same number as 2016 and 2017. Six and a half percent (6.5%) of the existing parcel stock (300 properties) typically transfers each year. Construction activity enhances transfer tax revenue and new construction will increase assessed value and real estate tax revenue and minimizes the need for future real estate tax increases.

Earned income taxes, transfer taxes, and permit fees have the most significant fiscal impact on General Fund revenue from year to year.

Other significant sources of revenue in the General Fund include permit fees, cable television franchise fees, and pension system aid. Interest earnings are strong due to volume of fund balance reserve, but strong gains have virtually disappeared as market rates on short-term instruments remain at or below 1%.

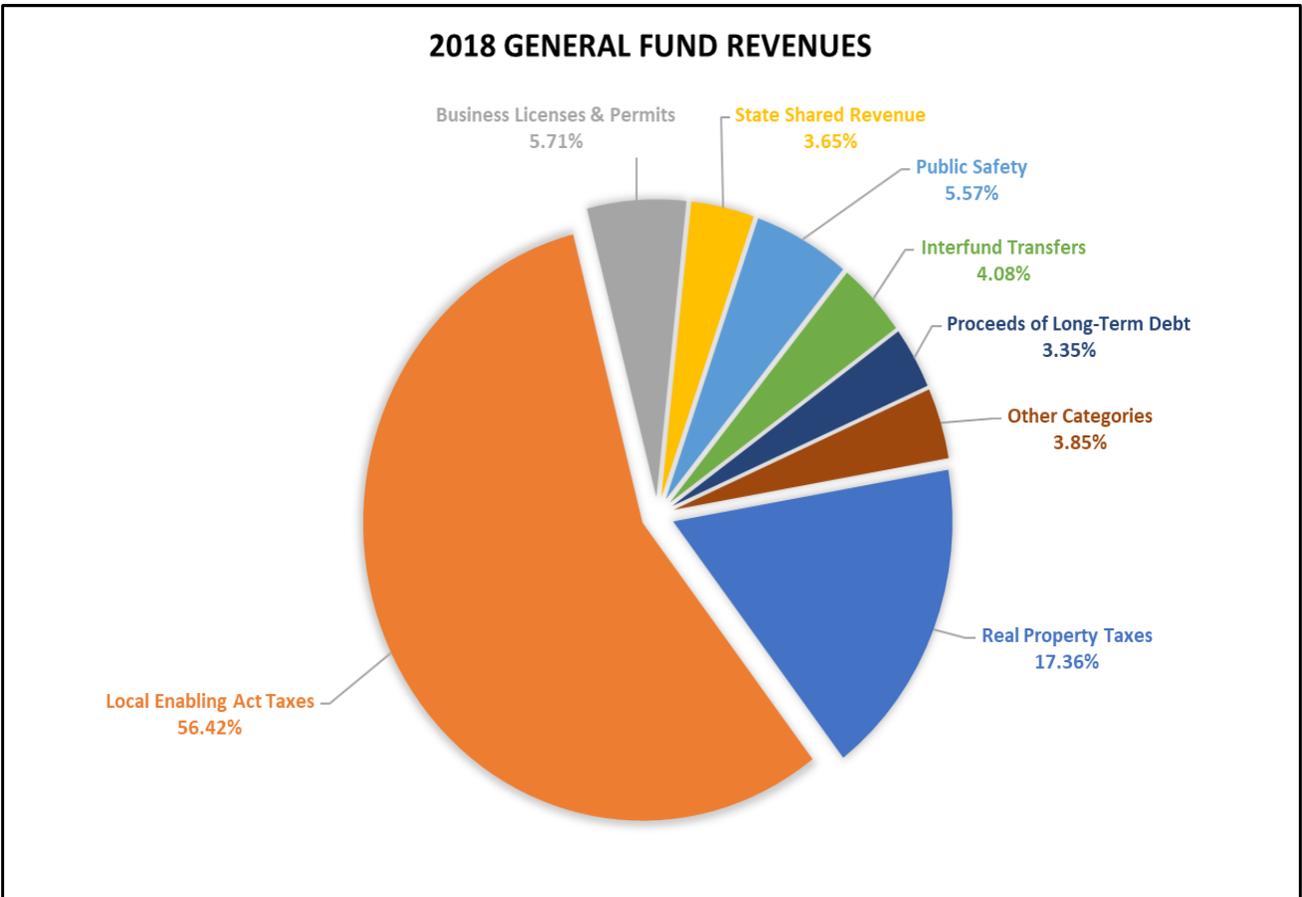
Revenue from permit fees has decreased each year since 2014 but will rebound in 2018 as approved developments continue to develop new residential units. Permit fee revenue in 2018 will exceed \$241,000. The Township has averaged about 85 permits for new homes since 2011 and projects to have 90 permits in 2018, producing \$195,000 of the \$241,000 total. As development decreases, this revenue source will also decrease but will be offset by the increase in real estate tax revenue.

The Township will receive \$151,000 in state aid for its employee pension plans, representing 69% of the minimum required plan contributions. Both pension plans are well-funded, and in conjunction with 2017's investment gains, we will see future benefits in the reduction of our minimum municipal obligation. Cable television franchise fees have remained steady in the past few years with the 2018 projection at \$240,000.

Total estimated General Fund revenue in 2017 is \$4.05 million or \$280,000 over budget. The additional revenue came from mostly real estate taxes and earned income taxes.

Projected revenue in the proposed 2018 Budget totals \$4.3 million and represents an increase of \$525,000 over the 2017 Budget. Projected revenue increases include earned income taxes at 2% over 2017 projections (\$232,000), real estate taxes (\$15,000), building permits (\$43,000), an interfund transfer from the Road Equipment Capital Fund for road improvements (\$175,000) and an additional payment from the Sewer Capital Fund to pay off debt (\$76,000). It should be noted that the per capita tax may be eliminated in 2018, which generated approximately \$37,500 in revenue, and is not budgeted to be collected.

The following chart shows the sources of General Fund revenue used for the operation of Township government:



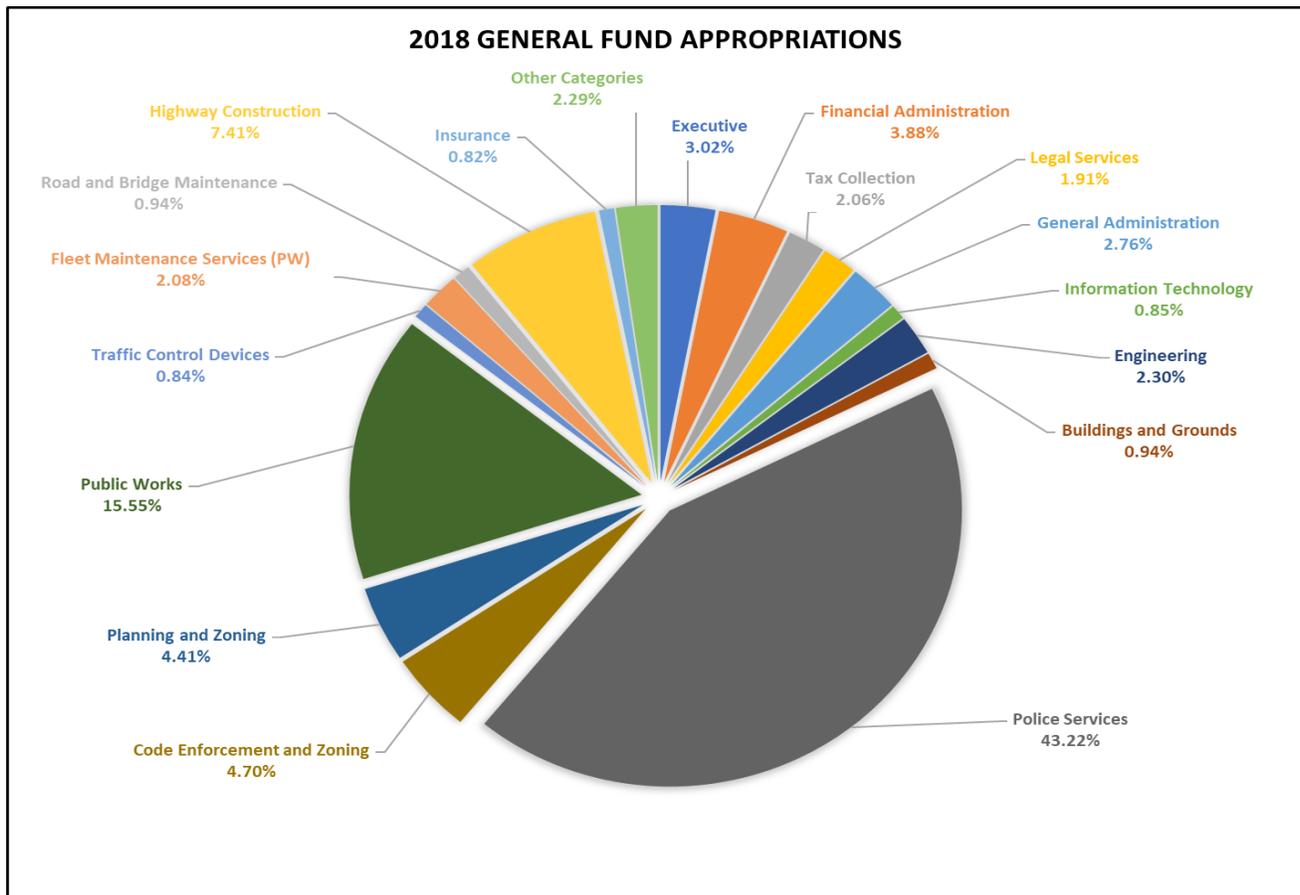
Expenses

Estimated General Fund expenditures in 2017 total \$4.1 million, or \$105,000 under budget. Total expenditures included the transfer of \$35,000 to support the Recreation Fund. The General Fund is projected to begin the year (Fund Balance Forward) with approximately \$2.65 million.

Proposed General Fund appropriations in 2018 total \$4.18 million without interfund transfers. This represents a minimal .31% increase over the 2017 budget or \$12,000 or a 2.91% increase over the 2017 budget estimate or \$118,000. This increase is attributed to wages (uniformed employees are receiving a 3.25% increase, non-uniformed employees a 3% increase) and benefits (healthcare costs increased 10.5%), the conversion of part-time positions into full-time positions, and one-time projects (Act 209 update, technology upgrades).

Appropriations also include expenses that may not be realized (\$150,000 for Special Legal Services – Gibraltar Rock) and \$310,000 for road improvement projects (\$175,000 transferred in from the Road Equipment Fund). There are also appropriations for interfund transfers in support of the New Hanover Volunteer Fire and Rescue Company (\$35,000 for worker’s compensation) and the Capital Reserve Fund (\$250,000 to support up to five years of capital improvements based on the Capital Improvement Plan).

The following chart shows proposed General Fund appropriations by category:



Fire Protection Fund

The Fire Protection Fund is the primary revenue source for the operating and capital needs of the New Hanover Volunteer Fire and Rescue Company, a component government unit. The Township levies a .310-mill real estate tax dedicated to fire protection services that generates approximately \$215,000. The maximum allowable tax levy is three mills. The Fire Company also receives about \$80,000 annually from state-shared revenue. The Fire Company places a minimum of 30% of total revenue received into a capital improvement fund for apparatus purchases.

The Fire Company responds from two stations strategically located in different areas of the Township to provide the most effective response to emergency calls. The company has 54 active members that train each week and volunteer their time to support the community. Seventy-five percent (75%) of the fire personnel have attained the nationally recognized Firefighter I Pro Board certification as well as state rescue practices which exceeds 200 hours of formal firefighter training. Additionally, all of the personnel have attained the federally-mandated Hazardous Materials Operations training.

Open Space Fund

The Township levies a .15% earned income tax that will generate approximately \$590,000 in 2018. The earned income tax was first conceived in 2006 through resolution to “provide for the conservation of open space to control growth and development” and then later passed through referendum to “finance the purchase of open space and development rights.”

Appropriations for 2018 includes paying down debt (\$207,000) associated with the purchase of the Wassmer Tract in 2011 and preservation of the Davis Farm for \$20,850. With these appropriations, the Fund is projected to have about \$1.3 million in fund balance at the end of the year.

The Township currently has 1,322 acres of permanently preserved farm land and 572 acres of agricultural security area land, which defers taxes for undeveloped agricultural land.

Liquid Fuels Fund

The Liquid Fuels Fund accounts for the Township share of liquid fuels tax dollars provided by the Commonwealth of Pennsylvania for maintenance of local roadways. The Commonwealth generates funds through a tax on motor fuels. Municipalities receive approximately 12 percent of the total collected by the Commonwealth, and PennDOT uses the remaining funds to maintain state-owned roadways.

A formula using population and qualifying road mileage determines the Township share. The Administration forwards information on any newly dedicated roads to PennDOT and the additional mileage increases the grant amount. New roads must meet specific design criteria to qualify for funding.

The Township received just over \$395,000 in 2017, an increase of \$13,118 from the prior year. The grant amount will increase steadily over the next couple of years under the provisions of Act 89, which increased the tax on motor fuels to fund road and bridge repairs across the Commonwealth. The 2018 grant amount will increase to \$407,000.

The Township also receives generally \$64,000 each year through a road turnback program, which transfers the ownership of functionally-local state-owned roads, which serve a local traffic purpose, from state government to local government.

The Commonwealth restricts expenditures from the Fund to road maintenance costs such as snow plowing, road striping, guiderail installation, street light electricity and the purchase of de-icing salt and paving materials. The Commonwealth audits the fund annually to ensure compliance with state regulations.

The Township has at least 80 miles of road to maintain in its system, and the rule of thumb is a road should last at least 20 years, so the Township should be fully repairing at least 4 miles of road annually. However, the Township needed to catch up on road maintenance for the past several years and will continue this practice in 2018.

The Township purchases paving materials through the Fund for its annual road-paving program and has been leveraging the General Fund for a few years now to catch up on needed road maintenance. The Public Works Department paved 12.78 miles of road, oil and chipped 3.97 miles of road and fog sealed 1.07 miles of road - 17.82 miles total – in 2017.

The 2018 Road Maintenance Program includes up to 12.09 miles of milling and resurfacing. Schedule K provides full detail on planned roads. The Township has five main roads that need complete base repairs, thus a huge portion of this year's appropriation is earmarked for one project. We project to complete at least 10 miles of road, but depending on bid results may add additional miles. The estimated cost of this work is \$685,000 (\$375,000 from the Liquid Fuels Fund and \$310,000 from the General Fund (\$175,000 of the amount through a transfer from the Road Equipment Capital Fund encumbered for roads).

Other appropriations in 2018 include de-icing salt (\$50,000), materials for road maintenance (\$100,000), and two pipe replacement projects on Church Road (\$25,000). Total projected revenue in 2018 is \$472,000 and appropriations are \$550,000.

Recreation Fund

The Recreation Fund is the operating budget for recreation programs and services. The Fund has three main sections: Recreation Administration, Participant Recreation and Parks Maintenance. A .160 mill tax generates \$113,000 for parks and recreation services. The tax rate has remained the same since 2006.

Recreation Administration accounts for general costs associated with the overall management of the department and includes the Parks and Recreation Director's salary and fringe benefits. Recreation Administration costs are budgeted at \$76,500 in 2018, up from \$59,000 in the current year.

Participant Recreation includes the cost for summer camp operations, instructor fees, ticket purchases, and other program related expenses. Program fees and charges fund the cost of participant recreation services. Participant recreation services are budgeted at \$69,000 in 2018. This part of the Fund was lumped into "Parks Maintenance" in 2017 and now is separated, allowing the Township to understand trends long-term. The cost for these services is consistent from year to year and varies based on program participation. More than 2,750 individuals participated in nearly 50 recreation programs this year.

Parks Maintenance costs are budgeted at \$24,000 in 2018, a decrease of \$52,000 over the current year, but this is due to creating proper accounting, and includes the cost of a part-time parks maintenance employee. The employee's hours are proposed to increase from 20 to 24 hours per week throughout the year, and now is under the supervision of the Public Works Director to allow for efficiency in both departments. The Townships maintains 302 acres of parkland and open space, numerous buildings and other recreation amenities.

Current year revenues in the Recreation Fund will be \$16,000 under budget due to a decrease in building rentals and swimming pool applications. However, current year expenditures will be \$73,000 under budget.

Total projected revenue in 2018 is \$213,000 and appropriations are \$258,000. The gap between revenues and expenses is the budgeted cost for the Parks and Recreation Director's health insurance premium and liability in combination with the Fund not receiving a transfer from the General Fund. The Fund will dip into fund balance reserves for a few years before a decision will need to be made whether we restructure millage or increase millage for this Fund.

Capital Reserve Fund

The Capital Reserve Fund is a recommended new fund that would account for general capital equipment purchases and infrastructure improvement projects. Examples of capital expenditures include roadway and drainage facility improvements, equipment acquisition, property acquisition and facilities construction and repair. We are currently co-mingling our capital, recreation and road equipment expenses into the Road Equipment Capital Fund and will be better served by separating revenues and expenses further.

A ten (10) year Capital Improvement Plan (Schedule H) was created this year to support the Fund and identifies capital needs on a long-term basis; the Management Team updates the plan annually. With the recommended transfer from the General Fund, the Fund will be supported through 2022 based on current and projected needs.

Revenues in the Capital Reserve Fund can stem from a variety of sources including grants, loans, developer contributions and interfund transfers. Revenues this year include interfund transfers of \$250,000 from the General Fund and \$201,000 from the Road Equipment Capital Fund (\$182,000 unencumbered and \$19,000 encumbered for a police vehicle).

Appropriations in the 2018 capital budget include upgraded financial accounting software, architect design fees, an upgrade to our phone system, new carpeting for the administration building, a contracted payment for radio updates and tasers for the Police Department, along with a replacement vehicle.

There is \$451,000 in projected revenue and \$165,000 in capital appropriations in 2018.

Road Equipment Capital Fund

The Road Equipment Capital Fund accounts for expenditures to replace Public Works Department vehicles and heavy equipment. A dedicated tax levy of .160 mills generates \$113,000 in revenue. The maximum allowable levy is two mills. The tax rate has remained the same since 2001.

Appropriations in 2018 include the replacement of a 2011 JCB Backhoe at \$144,000. The revenue from selling the equipment – projected to net \$50,000 – will go back into the Fund. The Capital Improvement Plan guides this Fund, and we project the Fund will be able to sustain itself throughout the next 10 years without an increase in millage.

Total revenue in 2018 projects at \$168,000 and total appropriations are \$642,000 – accounting for interfund transfers to end the co-mingling of funds.

Recreation Capital Reserve Fund

The Recreation Capital Fund is a recommended new fund that would provide financial resources to maintain and improve recreation facilities and infrastructure. Revenues in the Fund can stem from a variety of sources including grants, loans, developer contributions (fee in lieu of multi-use paths, recreation infrastructure and recreation land) and interfund transfers. Revenues this year include interfund transfers of \$118,000 from the Road Equipment Capital Fund.

Appropriations for 2018 include wayfinding signage for our park system (\$7,000) and resurfacing Swamp Creek's walking trail (\$30,000) for an estimated cost of \$31,000. Total projected revenue in 2016 is \$118,000 and appropriations are \$31,000.

Transportation Impact Fund

The Transportation Impact Fund was established in 2005 under enabling legislation to fund transportation improvements based on development in the Township. Revenue stems from fees collected from development in designated transportation service areas. Projected beginning fund balance to begin 2018 is \$1.95 million – a good portion of this earning interest in certificate of deposits. We have a three-year window to use development fees as they are earned or risk releasing those fees back to the developer.

2018 revenues depend on development, but we know we will receive at least \$19,000 and an additional \$10,000 in interest. In addition, we will begin identifying grants that can leverage our funds to stretch the number of improvements we can perform long-term.

Appropriations for 2018 include funding the improvements at Route 663 and Swamp Pike (we paid for preliminary design work in 2017) and traffic engineering and design services for improvements at the intersection of North Charlotte Street and Moyer Road and at the intersection of Big Road and Layfield Road.

Total projected revenue in 2018 is \$29,500 and appropriations are \$404,500.

Sewer Operating Fund

The Sewer Operating Fund is an enterprise fund, a government-owned fund that sells services to residents in the Township, and functions under a lease agreement between the Township and the New Hanover Township Authority to handle the day to day operations of the plan. The Municipal Board has the right to set sewer rates, but the Board of Supervisors has the right to pass the Authority's budget. The Township Manager is responsible for overseeing employees in the Authority.

Projected Sewer Operating Fund revenues stem from sewer rentals (EDU Rental Billings) that project to bring in \$1.85 million in 2018. 2017 estimates show \$1.85 million in total revenue; 2018 projects \$1.95 million in total revenue, primarily due to current development.

Estimated Sewer Operating Fund expenditures in 2017 total \$1.76 million, or \$190,000 under budget. Total expenditures included the transfer of \$260,000 to support the Sewer Capital Fund. The Sewer Operating Fund is projected to begin the year (Fund Balance Forward) with approximately \$2.06 million.

Proposed Sewer Operating Fund appropriations in 2018 total \$1.55 million without interfund transfers. This represents an 8% decrease over the 2017 budget or -\$137,000 or a 3.5% increase over the 2017 budget estimate or \$54,000. This increase is attributed to converting a part-time employee into a full-time employee and a 3% increase in wages for employees. There are also appropriations for interfund transfers to support the Sewer Capital Fund (\$2 million) to support capital improvements and debt payments through 2020.

Sewer Capital Fund

The Sewer Capital Fund accounts for general capital equipment purchases and infrastructure improvement projects. A ten (10) year Capital Improvement Plan (Schedule H) was created this year to support the Fund and identifies capital needs on a long-term basis; the Management Team updates the plan annually. With the recommended transfer from the Sewer Operating Fund, the Fund will be supported through 2020 based on current and projected needs.

Revenues in the Capital Reserve Fund results from sewer connections and fees outlined in our lease agreement, which in 2018 will bring in approximately \$158,000 and \$2 million from the Sewer Operating Fund through an interfund transfer.

Appropriations in the 2018 capital budget include payments of debt and purchasing fencing for the plant, a garage expansion project, a dewatering pit, a pump station generator, building heaters, VFD and valve replacements, and a replacement vehicle.

There is \$2.16 million in projected revenue and \$1.15 million in capital appropriations in 2018.

Pension Funds

The Police and Municipal Employees Pension Funds are trust funds that provide monthly defined-benefit pensions to retired employees. An ordinance adopted by the Board of Supervisors governs the administration of each pension plan, and two Pension Plan Advisory Committees review investment performance and recommend investment strategies. The Committees meet quarterly with the Township Investment Advisor to review investment performance.

The Pension funds consist of a mixed bond and equities portfolio with asset allocations according to an Investment Policy Statement adopted by the Board of Supervisors. The Township Actuary calculates annual required contributions for each plan (Minimum Municipal Obligation) to fund future retirement benefits.

The plans will have combined assets of approximately \$7.06 million at the end of 2017 and \$7.31 million at the end of 2018.

The required Township contribution to maintain the actuarial soundness of the plans in 2018 is approximately \$219,000. The contribution requirement decreased from the prior year by \$15,000; however, we project to spend around \$23,000 on defined contribution payments - 5% of participant wages. The total accounts for \$242,000 of minimum payments. The Township expects to receive \$183,500 in state aid to offset this amount. The Commonwealth levies a 2% tax on foreign casualty insurance premiums (insurance policies written by out-of-state insurance companies) to assist municipalities with pension plan funding.

Our last valuation of the plans was completed in January 1, 2015. At that time, the Police Pension Plan had an 83.6% funding ratio; the Non-Uniformed Employee's Pension Plan had a funding ratio of 109.2%. The ratio represents the difference between plan assets and plan liabilities. The combined ratio is 96.7%, and this number determines our distressed level under Act 44. Since we are above 90%, we are consider not distressed. Our next valuation will be completed early next year and will be based on assets as of January 1, 2015.

Future Trends and Outlook

The Board of Supervisors in previous years were presented budgets without vision and detail, thus becoming reliant on a loose understanding that the municipality had enough money to support itself. Although true for our community, this budget radically changes that concept and significantly helps how we plan and ultimately spend taxpayer money. We now have our road map that those involved in the process can understand while allowing residents to have a certain peace of mind in knowing the budget is a transparent. The next step is creating a collective vision to guide future expenditures.

Overall, Township finances are extremely stable. We haven't raised taxes overall in 13 years and will likely not need to raise them for several more years, which puts us in a unique – and welcomed – position for a municipality in Montgomery County. For example, the Government Finance Officers Association (GFOA) recommends a municipality to have between 8 and 12 percent in fund balance reserve. Our General Fund at the end of 2018 will have approximately 60% in fund balance reserves even with a \$250,000 transfer to the Capital Reserve Fund.

Financial stability will continue over the next several years as current development is built out and new development is considered. Regardless of additional development, real estate taxes will continue to grow along with earned income tax, adding to a positive fund balance long-term and helping to negate eventual decreases in permit revenue. Also, with dedicated funding for capital appropriations and a 10-year capital improvement plan to identify future capital needs, the Township is positioned to strategically plan future budgets and adjust appropriations to match available resources.

Balancing the needs of a municipal organization and maintaining low tax rates is always a goal but usually a significant challenge as investments in infrastructure and the growth of a municipality occur throughout time. Even though we have solid financial footing, Township employees are always looking for ways to reduce cost and spend resources efficiently. They are professional, courteous, and responsive public servants. Departments coordinate and cooperate in programs and services. Morale is high and there is a clear recognition that our single mission is to serve the public.

We believe Township residents are pleased with our service delivery and with this proposed budget will understand the Township wisely allocates its financial resources for their health, safety, and welfare. The proposed 2018 Budget maintains and streamlines municipal services to continue our trend toward greater efficiency and provides the necessary resources to help the Township achieve its goals and priorities established by the Board of Supervisors. In my opinion, it represents an accurate estimate in dollar terms of the Township's commitment to deliver quality municipal services to the community.

I am pleased to present the proposed 2018 Budget for your consideration.

Respectfully submitted,


Jamie L. Gwynn
Township Manager