

# **Report of the Town Treasurer to Town Meeting**



**2014 Annual Town Meeting**

**Town of Arlington, MA**

**April 28, 2014**



# Report of the Town Treasurer to Town Meeting

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## Report of the Town Treasurer to Town Meeting

### Overview

This Treasurer's report will describe the Town of Arlington's current cash flow, investments, and debt for Fiscal Year 2013 and, where appropriate, Fiscal Year 2014. While the Treasurer is not directly involved in Town and School operations, the Treasurer's office is responsible for the collection of all Real Estate Tax, Personal Property Tax, Motor Vehicle Excise Tax, and Water & Sewer bills; the processing of account receivables for Town and School departments, as well as managing the cash flow and investments that provide the financial means for other departments and Trust Fund Commissions to continue their activities.

Decisions the Annual Town Meeting makes regarding fiscal issues such as budgets, capital expenditures, debt authorization, or collective bargaining, as well as organizational restructuring, has a strong impact on Town finances. Based on those decisions, the Treasurer's office will manage cash flow, deposits, investments, and debt to maximize the Town's financial resources and provide the fullest support possible to all departments and programs.

I hope that, at the end of this report, Town Meeting members, Town officials and citizens of Arlington will understand the various elements that make up the Town's financial position for the upcoming fiscal year, which starts July 1, 2014.



## Report of the Town Treasurer to Town Meeting

### Cash Flow

Cash flow is critical to any Town's operations, enabling it to:

- Meet payroll obligations;
- Pay the many vendors who provide occasional or regular services to the Town, and pay existing short and long-term debt;
- Determine the amount of funds available to be invested, the length of those investments and the estimated investment income.

In the event that cash flow becomes negative:

- Identify the amount needed to be borrowed, the length of the loan, the type of borrowing instrument and the cost of that loan.

As seen in **Exhibit 1**, the End of Fiscal Year Cash Flow for the Town of Arlington from 2004 to 2013 has ranged from a low of \$8.685M to a high of \$21,038M. In the current Fiscal Year, the end of month balance has ranged from a low of \$2.801M to a high of \$18,264M. These fluctuations demonstrate how volatile cash balances can be. The amount available at the end of any fiscal year is very important. The Town's payment of approximately \$8,663,368 is due on July 1, 2014 to the Town's pension fund. In addition, bond payments of \$9,476,661 to existing bondholders are expected to be due the first month of the fiscal year.

**Exhibit 2** shows the end of year revenues from FY 2007 through FY 2014. Items such as excise tax; building permits and parking meter revenue are a reflection of the current state of the local economy while interest income is a reflection of the national economy. Interest income is expected to increase during the remainder of 2014 and into the first part of 2015, dependent upon the length of the investment.

**Exhibit 3** shows a breakdown of the investments that are managed directly by the Treasurer. The Treasurer determined that there was a need to provide a higher degree of security for the Override Stabilization Fund while emphasizing liquidity for the others. The Article 75 Override Fund has been placed in investments such as CD's and Money Market accounts that are fully insured by FDIC and DIF.



## Report of the Town Treasurer to Town Meeting

### Investments

#### Up To 1 year

The receipts from the Real Estate Tax, Motor Vehicle Excise Tax, and other local receipts are needed to fund the Town's payroll and other obligations before any decision can be made regarding the amount, type, and length of any investment.

These tax receipts are generally invested in short-term investment vehicles such as money market funds or CD's. The critical variable here is to predict, with as much certainty as possible, how long these monies can be invested before being needed to fund ongoing operations. The Treasurer's ability to generate investment income is dictated, in large part, by the market conditions that exist at the time the funds are available for investment. The expectation for the remainder of FY 14 is that short-term interest rates, the rates that the Treasurer commonly invests in, will remain at historically low rates for MMDT type investments, but that longer term investments will rise moderately. For FY14, it is expected that the short-term interest rates will be between .12% and .45%. The current short-term interest rates as provided by MMDT are at 0.19%.

As shown in **Exhibit 2**, the projected interest income for FY14 is \$84,505 for Stabilization Funds and the General Fund.



# Report of the Town Treasurer to Town Meeting

## 1 Year to 5 Years

Stabilization funds have the following characteristics:

- They are established by Town Meeting
- They are a reserve for a specific purpose,
- The withdrawals from a particular fund can be
  - At regularly scheduled intervals
  - Or can be allowed to be withdrawn at any time when it is required to meet the stabilization fund's individual requirements
- Stabilization funds are removed by a vote of Town Meeting

The Town's Stabilization Funds are the following:

- Tip Fee Stabilization – Closed out.
- Municipal Building Trust Fund – 100% MMDT.
- Long-Term Stabilization Fund – 100% MMDT.
- Article 75 Override Fund – Certificate of Deposit or Money Market Account

### STABILIZATION FUND BALANCES

<b>Municipal Building Trust Fund</b>	\$797,112
<b>Long Term Stabilization Fund</b>	\$2,772,516
<b>Tip-Fee Stabilization Fund</b>	\$0.00
<b>Article 75 Override Fund</b>	\$13,680,680
<b>Total</b>	\$17,250,308

These balances are as of 3-31-14

A detailed analysis of the stabilization funds that are managed directly by the Treasurer has demonstrated a need to provide a higher degree of security for some of our Stabilization Funds, while emphasizing liquidity for others. The Article 75 Override Fund has been placed in investments such as CD's and Money Market accounts that are fully insured by DIF and FDIC.

As shown in **Exhibit 3**, the Article 75 Override Stabilization is invested in a combination of fully insured individual CD's and money market accounts. The Municipal Building Insurance Fund and the Long Term Stabilization Funds are invested in the highly liquid Mass Municipal Depository Trust (MMDT). The current rate is 0.19%. Interest rates for the MMDT are expected to increase slightly above last year's rate. Interest rates for the fully insured CD's and Money Market investments are expected to be in the range of .45% to 1.05% depending upon the amount invested and the length of the investment.



## Report of the Town Treasurer to Town Meeting

### Greater Than 5 Years

The Town's Trust Fund is made up of a variety of charitable trusts such as the John J. Bilafer – Arlington Citizen's Scholarship Foundation/Scholarship America, Library Trusts, Cemetery Trusts, and Poor Widow's Trusts. The Trusts are combined into one investment vehicle, a balanced portfolio of equities, fixed income and cash. There are 104 sub-accounts within the portfolio. The Trust Fund Portfolio is currently being managed by Boston Advisors with an active management approach that follows the guidelines of the Town of Arlington's Investment Policy developed by the Town Treasurer in 2007, modified in October 2009 and ratified by the Town's Trust Fund Commission, Library Trustees, and Cemetery Commission. Boston Advisors performs the role of Investment Advisor, Investment Manager and Custodian via Fidelity Investments.

As shown in **Exhibit 4**, the rate of return for the Trust fund portfolio from January 1, 2013 through December 31, 2013 was 19.57%. The Trust fund portfolio is comprised only of the Town's charitable trusts and does not contain any of the Town's stabilization accounts.



## Report of the Town Treasurer to Town Meeting

### Town Debt

The Town of Arlington borrows money via two different financial instruments: General Obligation Bonds (GOB) and Bond Anticipatory Notes (BANs). The definition of a General Obligation Bond is: a written promise to pay a specified sum of money at a specified date, called the maturity date, together with periodic interest at a specified rate. A bond requires an opinion by bond counsel on its legal aspects and tax status. BANs are bond anticipation notes that are a means of acquiring short term financing that will be repaid by the subsequent issuance of bonds.

The current debt limit for the Town of Arlington is \$376,388,780. Massachusetts General Law dictates that the debt limit of any city or town is 5% of the equalized valuation for the entire town or city.

The total gross debt for the Town of Arlington projected as of June 30<sup>th</sup>, 2014 is \$92,862,988. The gross debt includes the actual outstanding debt and debt that is authorized, but not yet incurred. The actual outstanding debt for the Town of Arlington is \$59,922,580 of which \$32,060,950 is exempt from the limitations of Proposition 2 ½.

Within the \$59,922,580 there is \$32,060,950 of debt that is outside the debt limit. Within the \$32,060,950 there is \$4,932,000 of debt that is authorized but not issued. The actual amount of debt that is outside the debt limit is \$27,128,950, which is comprised primarily for the debt exclusion for the rebuilding of the elementary schools. The Town also issued a \$450,000 BAN for design plans for the Central Fire Station. This BAN will be converted to permanent financing when the general obligation borrowing is required for the Central Fire Station.





## Report of the Town Treasurer to Town Meeting

### Closing

I would like to close the Treasurer's report discussing two very important projects.

The first is that there will be important discussions during FY 2015 regarding the rebuild of Arlington High School and Minuteman Tech. I am prepared to have myself and the Treasurer's staff research any and all financing options for these important projects. I anticipate that in addition to the standard financing options that will need to be reviewed; the Treasurer's office is prepared to perform an in-depth analysis of the tradeoff of waiting for MSBA reimbursement approval versus starting the project earlier to take advantage of lower interest rates.

The second project is the issue related to the Town's financial applications and in particular the Treasurer's ICS application.

I will continue to advocate for an objective review, led by an outside IT consultant, which will document the current capabilities of the Town's financial applications as well as their future needs. I will submit a request for funds to hire an IT consulting group to the Capital Planning Committee for their FY 2016 planning cycle. The data gathered by the IT consultants is expected to enable the Town to accomplish a number of important tasks such as: preparation of the data needed to issue a comprehensive Request for Proposal, a determination as to whether the three financial applications can be combined into one financial application, and a fairly accurate estimate of the cost.

My expectation is that the Assessors, Comptroller and Treasurer's personnel can recommend, by carefully balancing their department needs with what is best for the Town, a long-term solution that is cost effective and productive.



# Report of the Treasurer to Town Meeting

FY 2014

## Exhibit 1

### Cash Flow 2004-2013

<u>End of FY</u>	<u>Amount</u>
2004	\$12,715,291
2005	\$13,480,657
2006	\$12,362,344
2007	\$12,516,677
2008	\$13,070,276
2009	\$9,549,807
2010	\$8,685,100
2011	\$11,441,718
2012	\$18,470,763
2013	\$21,038,020

<u>FY 2012*</u>		<u>FY 2013</u>	
	<u>Amount</u>		<u>Amount</u>
July	\$12,745,845	July	\$17,192,065
August	\$3,321,513	August	\$8,188,970
September	\$3,940,874	September	\$6,320,485
October	\$14,077,009	October	\$16,512,740
November	\$19,732,217	November	\$12,329,144
December	\$2,035,344	December	\$10,094,708
January	\$18,354,864	January	\$22,203,728
February	\$14,137,523	February	\$19,539,114
March	\$14,225,945	March	\$13,557,640
April	\$27,795,270	April	\$26,118,953
May	\$24,946,629	May	\$23,023,718
June	\$18,470,763	June	\$21,008,602
EOY	\$18,470,763	EOY	\$21,038,020

<u>FY 2014</u>	
	<u>Amount</u>
July	\$18,264,597
August	\$9,449,153
September	\$5,982,706
October	\$17,897,155
November	\$13,071,525
December	\$2,801,783
January	\$14,876,350
February	\$11,463,348
March	\$14,947,281
April	TBD
May	TBD
June	TBD
EOY	TBD



# Report of the Treasurer to Town Meeting

FY 2014

## Exhibit 2

<u>Income By Category</u>									
	<u>FY 2007</u> <u>6/30/2007</u>	<u>FY 2008</u> <u>6/30/2008</u>	<u>FY2009</u> <u>6/30/2009</u>	<u>FY2010</u> <u>6/30/2010</u>	<u>FY2011*</u> <u>6/30/2011</u>	<u>FY 2012</u> <u>6/30/12</u>	<u>FY 2013</u> <u>6/30/13</u>	<u>FY 2014</u> <u>6/30/14</u>	
Net Cash Flow	\$12.5M	\$13.1M	\$9.54M	\$8.685M	\$11.4M	\$18.47M	\$21.04M	TBD	
Interest Income -General Fund	\$1,479,598	\$1,030,217	\$422,842	\$97,176	\$55,430	\$67,150	\$82,943	\$84,505 Estimate	
Other Local Receipts	\$3,479,548	\$3,950,788	\$3,933,805	\$3,846,063	\$4,067,104	\$5,374,236	\$4,581,071	\$4,408,265 Estimate	
Real Estate	\$76,778,350	\$78,983,969	\$80,892,934	\$83,107,358	\$85,826,180	\$95,077,262	\$97,880,811	\$101,039,058	
Excise	\$4,021,993	\$3,951,799	\$3,775,637	\$3,510,272	\$3,848,126	\$3,936,037	\$4,064,452	\$3,927,903 Estimate	
Parking	\$553,376	\$476,685	\$596,037	\$573,361	\$560,086	\$599,404	\$605,031	\$607,971 Estimate	



**Report of the Treasurer to Town Meeting**

FY 2014

**Exhibit 3**

**Town of Arlington Stabilization Funds**

	<b>Municipal Building Trust Fund</b>	<b>Long Term Stabilization Fund</b>	<b>Art 75 Stabilization Fund</b>	<b>Tip Fee Stabilization Fund</b>
<b>Balance 7/1/05</b>	\$2,648,550	\$402,255	\$0	\$1,708,297
<b>Balance 7/1/06</b>	\$1,215,207	\$2,492,583	\$0	\$4,207,248
<b>Balance 7/1/07</b>	\$1,335,483	\$2,579,023	\$0	\$3,723,911
<b>Balance 7/1/08</b>	\$1,203,926	\$2,585,531	\$0	\$3,187,031
<b>Balance 4/30/09</b>	\$953,341	\$2,501,592	\$0	\$2,555,376
<b>Balance 12/30/09</b>	\$1,022,094	\$2,541,593	\$0	\$1,884,366
<b>Balance 03/31/10</b>	\$1,023,194	\$2,544,100	\$0	\$1,887,060
<b>Balance 4/30/11</b>	\$945,331	\$2,554,407	\$0	\$1,011,688
<b>Balance 3/31/12</b>	\$834,812	\$2,559,946	\$2,560,651	\$563,369
<b>Balance 6/30/13</b>	\$816,559	\$2,668,206	\$7,888,722	\$164,261
<b>Balance 3/31/14</b>	\$797,112	\$2,772,516	\$13,680,680	\$0
	<b>Invested 100% in MMDT</b>	<b>Invested 100% in MMDT</b>	<b>Invested 100% in MMDT, CD's &amp; Money Market Accounts</b>	

# Report of the Treasurer to Town Meeting FY 2014



## Exhibit 4

<b>Town of Arlington Trust Fund Portfolio Performance</b>			
<b><u>Year</u></b>	<b><u>Rate of Return</u></b>	<b><u>Year</u></b>	<b><u>Rate of Return</u></b>
<b>1993</b>	7.75%	<b>2004</b>	9.85%
<b>1994</b>	0.74%	<b>2005</b>	5.29%
<b>1995</b>	26.28%	<b>2006</b>	11.83%
<b>1996</b>	14.97%	<b>2007</b>	0.55%
<b>1997</b>	20.05%	<b>2008</b>	-14.00%
<b>1998</b>	17.58%	<b>2009</b>	7.15%
<b>1999</b>	13.58%	<b>2010</b>	12.57%
<b>2000</b>	-1.75%	<b>2011</b>	1.79%
<b>2001</b>	-4.83%	<b>2012</b>	12.04%
<b>2002</b>	-8.24%	<b>2013</b>	19.57%
<b>2003</b>	20.65%		

