

Report of the Town Treasurer to Town Meeting



2015 Annual Town Meeting

Town of Arlington, MA

April 2015



Report of the Town Treasurer to Town Meeting

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Report of the Town Treasurer to Town Meeting

Overview

This 2015 Treasurer's Report to Town Meeting will describe the Town of Arlington's current cash flow, investments, and debt for Fiscal Year 2014 and, where appropriate, Fiscal Year 2015. 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 billing and collection; the processing of account receivables for all 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 that the Annual Town Meeting renders 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 manages 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 trust 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 begins July 1, 2015.



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Cash Flow

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

- Meet payroll obligations;
- Pay the many vendors who provide regular or occasional services **and/or products** to the Town,
- 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 2005 – 2014 has ranged from a low of \$5.142MM to a high of \$25.1MM. In the current Fiscal Year, the end of month balance has ranged from a low of \$5.142 MM to a high of \$25.1MM. 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 \$10,508,369 is due on July 1, 2015 to the Town's pension fund. In addition, bond payments of \$10,449,883.68 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 2008 through FY 2015. 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 **decrease** during the remainder of 2015 and into the first part of 2016, 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, DIF, or 100% fully collateralized. This insures no loss of principle.



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Investments

Up To 1 year

Revenue from 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 2015 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 not rise significantly. For FY15, it is expected that the short-term interest rates will be between .21% and .45%. The current short-term interest rates as provided by MMDT are at 0.21%.

As shown in **Exhibit 2**, the projected interest income for FY2015 is \$69,660 for Stabilization Funds and the General Fund.

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Investments

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 invested in the financial instruments:

- Municipal Building Trust Fund – 100% MMDT,
- Long-Term Stabilization Fund – 100% MMDT,
- Article 75 Override Fund – Certificates of Deposit and/or Money Market Accounts.

STABILIZATION FUND BALANCES

Municipal Building Trust Fund	\$752,076.00
Long Term Stabilization Fund	\$2,877,873.00
Article 75 Override Fund	\$17,980,305.00
Total:	\$21,610,254.00

These balances are as of **March 31, 2015**.

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 Stability Fund has been placed in investments such as CD's and Money Market accounts that are 100% fully insured by DIF, FDIC, or are fully collateralized.

As shown in **Exhibit 3**, the Article 75 Override Fund 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 MMDT rate is 0.21%. 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.



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Investments

Greater Than 5 Years

The Town's Trust Funds are comprised 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. These 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 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 Board of Trust Fund Commissioners, Library Board of Trustees, and Cemetery Commission on a regular basis. Boston Advisors performs the role of Investment Advisor, Investment Manager and Custodian via Fidelity Investments.

Each August the Treasurer's Office presents a recommendation of what the trust fund(s) commissioners can prudently spend in the next fiscal year. This recommendation is based upon fund investment performance, short and long term economic outlook, and consideration of perpetuity of the funds. The Board of Trust Fund Commissioners, Library Board of Trustees, and Cemetery Commission have sole authority of accepting or rejecting the recommendation. The trust fund commissions generally follow the Treasurer's recommendation, but have the authority to spend higher amounts, if they so choose.

As shown in **Exhibit 4**, the rate of return for the Trust fund portfolio from January 1, 2014 through December 31, 2014 was 9.26%. The Trust fund portfolio is comprised only of the Town's charitable trusts and does not contain any of the Town's stabilization accounts.



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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 \$395,654,255. 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 January 31, 2015 is \$79,887,040. 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 \$62,447,256 of which \$29,357,800 is exempt from the limitations of Proposition 2 ½.

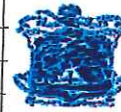


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Closing

During FY 2013 the Treasurer's office conducted an analysis of the current status of long standing real estate tax delinquencies and determined that a more systematic and focused effort was required to rectify these accounts. As a result of that analysis, the Treasurer's office instituted a policy whereby foreclosure proceedings would be initiated if the following occurred: that the delinquent taxes had reached a level of \$20,000 or more, or that there had been no payments for three consecutive fiscal years. As seen in **Exhibit 5** the Treasurer's office has returned to the General Fund \$300,651 from FY 2013 through FY 2015.

Additionally, the Treasurer and the Town Manager, with the support of the Capital Planning Committee, requested the Finance Committee to approve a Reserve Fund transfer that would allow the Town to retain the services of an IT Consultant, who would guide the Town in preparing an RFP to replace the Treasurer's collection and receivables application package. A working group comprised of the Treasurer, the IT Director, and the Town Manager and their staffs, has begun the process of determining a suitable replacement of the Treasurer's receivables, collection, and cash management application software. It is hoped that an RFP can be issued by the end of 2015, at the latest, and the actual installation can begin in 2016. The estimated completion date is between June and September of 2017.



Report of the Treasurer to Town Meeting

Exhibit 1

Cash Flow 2005-2014

<u>End of FY</u>	<u>Amount</u>
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
2014	\$ 21,576,754

	<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>FY 2015</u>
	<u>Amount</u>		<u>Amount</u>
July	\$ 18,264,597	July	\$ 24,449,790
August	\$ 9,449,153	August	\$ 18,086,335
September	\$ 5,982,706	September	\$ 8,409,326
October	\$ 17,897,155	October	\$ 19,466,586
November	\$ 13,071,525	November	\$ 15,142,281
December	\$ 2,801,783	December	\$ 5,142,699
January	\$ 14,876,350	January	\$ 16,446,160
February	\$ 11,463,348	February	\$ 12,388,274
March	\$ 14,947,281	March	\$ 9,408,783
April	\$ 24,538,219	April	TBD
May	\$ 25,100,685	May	TBD
June	\$ 21,947,040	June	TBD
EOY	\$ 21,576,754	EOY	TBD

Report of the Treasurer to Town Meeting FY2015



Exhibit 2

Income By Category

	FY 2008 6/30/2008	FY2009 6/30/2009	FY2010 6/30/2010	FY2011* 6/30/2011	FY 2012 6/30/12	FY 2013 6/30/13	FY 2014 6/30/14	FY 2015 6/30/15
Net Cash Flow	\$13.1MM	\$9.54MM	\$8.685MM	\$11.4MM	\$18.47MM	\$21.04MM	\$21.57MM	TBD
Interest Income -General Fund	\$1,030,217	\$422,842	\$97,176	\$55,430	\$67,150	\$82,943	\$86,769	\$88,850 Estimate
Other Local Receipts	\$3,950,788	\$3,933,805	\$3,846,063	\$4,067,104	\$5,374,236	\$4,581,071	\$4,408,265	\$4,871,000 Estimate
Real Estate	\$78,983,969	\$80,892,934	\$83,107,358	\$85,826,180	\$95,077,262	\$97,880,811	\$101,039,058	\$104,560,424
Excise	\$3,951,799	\$3,775,637	\$3,510,272	\$3,848,126	\$3,936,037	\$4,064,452	\$4,563,387	\$4,562,964 Estimate
Parking	\$476,685	\$596,037	\$573,361	\$560,086	\$599,404	\$605,031	\$625,691	\$659,937 Estimate



**Report of the Treasurer to Town Meeting
FY 2015**

Exhibit 3

Town of Arlington Stabilization Funds

	Municipal Building Trust Fund	Long Term Stabilization Fund	Art 75 Stabilization Fund	Tip Fee Stabilization Fund
Balance 7/1/05	\$2,648,550	\$402,255	\$0	\$1,708,297
Balance 7/1/06	\$1,215,207	\$2,492,583	\$0	\$4,207,248
Balance 7/1/07	\$1,335,483	\$2,579,023	\$0	\$3,723,911
Balance 7/1/08	\$1,203,926	\$2,585,531	\$0	\$3,187,031
Balance 4/30/09	\$953,341	\$2,501,592	\$0	\$2,555,376
Balance 12/30/09	\$1,022,094	\$2,541,593	\$0	\$1,884,366
Balance 03/31/10	\$1,023,194	\$2,544,100	\$0	\$1,887,060
Balance 4/30/11	\$945,331	\$2,554,407	\$0	\$1,011,688
Balance 3/31/12	\$834,812	\$2,559,946	\$2,560,651	\$563,369
Balance 6/30/13	\$816,559	\$2,668,206	\$7,888,722	\$164,261
Balance 3/31/14	\$797,112	\$2,772,516	\$13,680,680	\$0
Balance 3/31/15	\$752,076	\$2,877,873	\$17,980,305	\$0
	Invested 100% in MMDT	Invested 100% in MMDT	Invested 100% in MMDT, CD's & Money Market Accounts	

Report of the Treasurer to Town Meeting FY 2014



Exhibit 4

Town of Arlington Trust Fund Portfolio Performance			
<u>Year</u>	<u>Rate of Return</u>	<u>Year</u>	<u>Rate of Return</u>
1993	7.75%	2004	9.85%
1994	0.74%	2005	5.29%
1995	26.28%	2006	11.83%
1996	14.97%	2007	0.55%
1997	20.05%	2008	-14.00%
1998	17.58%	2009	7.15%
1999	13.58%	2010	12.57%
2000	-1.75%	2011	1.79%
2001	-4.83%	2012	12.04%
2002	-8.24%	2013	19.57%
2003	20.65%	2014	9.26%



Report of the Treasurer to Town Meeting

FY 2015

Exhibit 5

Town of Arlington

Foreclosure Redemption Revenue

<u>Fiscal Year</u>	<u>Revenue</u>
2015	\$ 277,090.00
2014	\$ 103,042.00
2013	\$ 28,926.00
Total	\$ 409,058.00