

**Report of the Treasurer
To The 2013 Annual Town Meeting**



April 2013

Town of Arlington, MA



Report of the Treasurer to 2013 Town Meeting

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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, Personal Property, Excise 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 that Town Meeting makes regarding fiscal issues such as budgets, capital expenditures, debt or collective bargaining, as well as organizational restructuring, have 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, 2013.



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Cash Flow

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

- Meet its 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 1999 to 2012 has ranged from a low of \$8.685M to a high of \$18.470M. In the FY 2013, the end of month balance has ranged from a low of \$6.1M to a high of \$13.4M. 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 \$9,396,735 is due on July 1, 2013 to the Town's pension fund. In addition, bond payments of \$10,303,239 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 2005 through FY 2013. 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 increases are due more to a larger amount in the base than an increase in the interest rate. In local receipts, recent increases to Real Estate and net Cash Flow are primarily driven by the 2011 Override. While individual elements, such as Medicare, fines, permits and hotel/meal taxes may fluctuate wildly from year to year, but do not impact the net amount.



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Investments

Up To 1 Year

The revenue from the Real Estate tax, Motor Vehicle Excise, and other local receipts are needed to fund the Town's payroll and other obligations before any decision can be made regarding the amount of, type and length of 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 FY13 is that short-term interest rates, the rates that the Treasurer commonly invests in, will remain at historically low rates. For FY14, it is expected that the short-term interest rates will be between .18% and .45%. The current short-term interest rates as provided by MMDT are at .18%. This will continue the very low rate of return that the Town has received since FY08. As shown in Exhibit 2, the projected interest income for FY12 is \$70,247 for the General Fund, which is approximately 10% more than the FY12 amount.



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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 Massachusetts Municipal Depository Trust (MMDT). The MMDT provides their municipal clients access to competitive money-market rates and is designed for maximum liquidity.

The Town's Stabilization Funds are the following:

Tip Fee Stabilization — 100% MMDT
Municipal Building Trust Fund — 100% MMDT
Long-Term Stabilization Fund — 100% MMDT
Article 75 Override Fund — 100% MMDT

STABILIZATION FUND BALANCES

Municipal Building Trust Fund	\$816,378
Long Term Stabilization Fund	\$2,667,615
Tip-Fee Stabilization Fund	\$164,225
Article 75 Override Fund	\$7,886,972
Total	\$11,371,129

These balances are projected amounts through June 30, 2013.

As shown in Exhibit 3, the Town's Stabilization Funds are currently invested in MMDT. The current rate is .18%. MMDT's interest rate is at historic lows and the Town of Arlington will generate the similar low return that has been achieved from FY 2009 thru 2012. The low interest rates are expected to continue throughout FY 2013.



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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/Dollars for Scholars, 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 approximately 104 sub-accounts within the portfolio. The Trust Fund Portfolio is currently 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 for the current reporting year, from January 1, 2012 through December 31, 2012, is 12.04%. The Trust Fund portfolio is comprised only of the Town's charitable trusts and does not contain any of the Town's operating or stabilization accounts.



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Town Debt

The current debt limit for the Town of Arlington is \$320,396,722. 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, 2013 is \$87,919,208. 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 \$59,564,350 of which \$22,959,475 is exempt from the limitations of Proposition 2 ½.

Within the \$59,564,350 there is \$26,805,150 of debt that is outside the debt limit. The \$26,805,150 is made up primarily of the debt exclusion for the rebuilding of the elementary schools and the recent issuance of the Stratton and Thompson Schools' bonds. The Town has \$2,426,329 bond anticipation notes outstanding, originally issued November 2012, at a net interest rate of 0.28%, which represent the Town's remaining local share of the Thompson school project.

The Town of Arlington borrows money via two different financial instruments: General Obligation Bonds and Bond Anticipation 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. As an example, all remaining BANs for the Symmes-site project were permanently financed in August 2011.

The Town recently issued \$12,692,000 General Obligation Municipal Purpose Loan Bonds in 2012, dated November 15, 2012, at a true interest cost of 2.08%. Simultaneously, the Town issued \$2,205,000 General Obligation Refunding Bonds at a true interest cost of 1.28%. The Treasurer annually performs a review of existing bonds to determine whether refinancing would save the Town money. The Treasurer was able to determine that refinancing bonds originally issued August 15, 2003 would provide a savings of \$253,075.



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Closing

Prior to the close of this fiscal year, the Treasurer, will be presenting a memorandum to the Town Manager, IT Director and Capital Planning Committee to recommend starting an analysis to determine what the Treasurer's Integrated Collection System (ICS) and Cash Management System might be replaced with.

This analysis will need to perform a number of important tasks. The first is to determine what the Town and School's departments require to perform a fully integrated financial application. The second, would be a thorough and objective analysis to determine the current costs of supporting ICS, which processes the Town's tax payments and other revenue received, and the MUNIS financial application that the Comptroller utilizes to handle general ledger entries, payroll, and accounts-payable. The third, related to the second task, would be an analysis that reviews the various financial application alternatives to both ICS and MUNIS. This third task must include the costs related to the purchase and installation of whatever application is chosen to replace any one or more of our current financial applications. A true cost benefit analysis will enable all relevant parties to agree to a selection of an appropriate financial application that is fully integrated, and is capable of solving many of the issues raised recently, regarding the Town's financial operations.

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Exhibit 1

Cash Flow 1999-2012

<u>End of FY</u>	<u>Amount</u>
1999	\$12,314,220
2000	\$13,845,318
2001	\$13,750,512
2002	\$13,030,037
2003	\$12,421,544
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

FY 2012

Amount

July	\$12,745,845
August	\$3,321,513
September	\$3,940,874
October	\$14,077,009
November	\$19,732,217
December	\$2,035,344
January	\$18,354,864
February	\$14,137,523
March	\$14,225,945
April	\$27,795,270
May	\$24,946,629
June	\$18,470,763
EOY	\$18,470,943

FY 2013

Amount

July	\$17,192,063
August	\$8,058,968
September	\$6,190,483
October	\$16,382,738
November	\$12,221,962
December	\$9,998,669
January	\$22,107,668
February	\$19,407,955
March	\$13,414,778
April	TBD
May	TBD
June	TBD
EOY	TBD



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Exhibit 2

	FY2005 6/30/2005 \$13.4M	FY 2006 6/30/2006 \$12.4M	FY 2007 6/30/2007 \$12.5M	FY 2008 6/30/2008 \$13.1M	FY2009	FY2010	FY2011* 6/30/2011 \$11.4M	FY 2012* \$18.47M	FY 2013 TBD
Net Cash Flow									
Interest Income - Genl Fund	\$555,964	\$1,015,232	\$1,479,598	\$1,030,217	\$422,842	\$97,176	\$55,430	\$67,150	\$70,247 estimate
Other Local Receipts	\$3,189,219	\$3,107,553	\$3,479,548	\$3,950,788	\$3,933,805	\$3,846,063	\$4,067,104	\$5,374,236	\$4,581,071 estimate
Real Estate	\$65,719,969	\$68,850,490	\$76,778,350	\$78,983,969	\$80,892,934	\$83,107,358	\$85,826,180	\$95,077,262	\$97,880,811 estimate
Excise	\$4,196,714	\$4,110,106	\$4,021,993	\$3,951,799	\$3,775,637	\$3,510,272	\$3,848,126	\$3,936,037	\$4,155,706 estimate
Parking	\$495,123	\$601,364	\$553,376	\$476,685	\$596,037	\$573,361	\$560,086	\$599,404	\$594,036 estimate



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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*	\$816,378	\$2,667,615	\$7,886,972	\$164,225
	Invested 100% in MMDT	Invested 100% in MMDT	Invested 100% in MMDT	Invested 100% in MMDT

* = Balances for 6/30/13 are based on current rates

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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%	2001	-4.83%
1994	0.74%	2002	-8.24%
1995	26.28%	2003	20.65%
1996	14.97%	2004	9.85%
1997	20.05%	2005	5.29%
1998	17.58%	2006	11.83%
1999	13.58%	2007	0.55%
2000	-1.75%	2008	-14%
		2009	7.15%
		2010	12.57%
		2011	1.79%
		2012	12.04%