

Report of the Treasurer to Town Meeting



Town of Arlington, MA

May 2011

Report of the Treasurer to Town Meeting

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Report of the 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 2011 and, where appropriate, fiscal year 2012. 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 to continue their activities.

Decisions that Town Meeting makes regarding financial issues such as budgets, capital expenditures, debt, or collective bargaining 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 have a clearer picture of the critical elements that make up the Town's financial position for the upcoming fiscal year which starts July 1st, 2011.

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 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 2010 has ranged from a low of \$8.685M to a high of \$13.8M. In the current Fiscal Year, the end of month balance has ranged from a low of \$5.2M to a high of \$11.2M. 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 \$8,067,526 is due on July 1st to the Town's pension fund. In addition, bond payments of \$5.1 Million 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 2004 through FY 2011. Items such as excise tax, building permits, and parking are a reflection of the current state of the local economy. Interest income from General Fund revenue has been falling since the 4th quarter 2008 and is not expected to increase significantly during FY 12. Macro-economic factors such as unemployment, reduction in state aid, and the level of delinquent payments can have a major impact on the level of cash flow within the Town of Arlington.

The Treasurer's office is maintaining the procedures that were initiated previously, to monitor the Town's cash balances. In the event that a negative cash flow does occur it is the responsibility of the Treasurer to determine how any temporary shortfall in funds will be handled.

Investments

Up To 1 year

The receipts 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 FY 11 is that short-term interest rates, the rates that the Treasurer commonly invests in, will remain at historically low rates. For FY12, it is expected that the short-term interest rates will be between .09% and .35%. The current short-term interest rates as provided by MMDT are at .29%. 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 FY11 is \$52,732 which is just over half of the FY 10 amount.

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

STABILIZATION FUND BALANCES

Municipal Building Trust Fund	\$945,331
Long Term Stabilization Fund	\$2,554,407
Tip-Fee Stabilization Fund	\$1,011,688
Total	\$4,511,426

These balances are as of 4-30-2011.

As shown in Exhibit 3, all of the Town's Stabilization Funds are currently invested in MMDT. The current rate is 0.29%. MMDT's interest rate is at historic lows and the Town of Arlington will generate the similar low return that has been achieved in FY 2009 & 2010. The low interest rates are expected to continue throughout FY 2012.

Listed below are the projected Stabilization Fund Balances as of July 1, 2011. These are based on the Finance Committee's FY 12 budget recommendation to Town Meeting. \$20,625 will be removed from the Municipal Building Trust Fund and applied to the Insurance budget. \$450,000 will be removed from the Tip-Fee Stabilization Fund and applied to the DPW budget. The reductions in the stabilization funds are based on withdrawals occurring on July 1st, 2011.

Arlington currently has a policy of maintaining reserves at 5% of the total budget for any fiscal year. Based on the FY 2012 budget recommendation of the Finance Committee of \$114,168,476 being approved by Town Meeting, the percentage of the Town's reserves to the total Town budget will drop to 3.54% for FY 12.

Projected amounts as of July 1st, 2011

Municipal Building Trust Fund	\$924,706
Long Term Stabilization Fund	\$2,553,811
Tip-Fee Stabilization Fund	\$561,688
Total	\$4,040,801

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 102 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 for the current calendar year, from January 1, 2010 through December 31st, 2010, is 12.57%. The Trust fund portfolio is comprised only of the Town's charitable trusts and does not contain any of the Town's stabilization accounts.

Town Debt

The current debt limit for the Town of Arlington is **\$369,432,910**. 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 is **\$68,173,032**. The gross debt includes the actual outstanding debt and debt that is authorized, but not yet incurred. The actual debt for the Town of Arlington is **\$57,397,156**.

Within the **\$57,397,156** there is **\$24,992,930** of debt that is outside the debt limit. The **\$24,992,930** is made up primarily of the debt exclusion for the rebuilding of the elementary schools. The Department of Revenue has issued a statement to clarify the amount that the Town of Arlington can still borrow from the 2000 Debt exclusion vote. The original amount of the debt exclusion vote was **\$34,500,000**. The Peirce and Dallin reconstruction expenses have totaled \$21,795,893. This leaves \$12,704,107 available to be borrowed for the Thompson reconstruction.

The Town of Arlington borrows money via two different financial instruments: General Obligation Bonds 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. When a final decision is made on the medical-use portion of the Symmes project, a decision will be made as to how to convert the final portion of the Symmes BAN's to General Obligation Bonds. The remaining Symmes BAN of \$1.3M must be converted to General Obligation Bonds by April 2012

Closing

Arlington's fiscal challenges continue unabated. FY 11 has seen the Town continue to try to find any measure possible to increase revenue or reduce expenses.

As has been discussed earlier in this report, one area that will require exceptional vigilance is the monitoring of the Town's cash balances. The combination of reduced state aid, higher costs for standard purchases and services, reduced local receipts, and increased delays in the payment of real estate taxes and other fees, is expected to reduce the amount of cash available to the Town from the previous years.

Interest income for FY12 General Fund will earn the same amount or slightly lower than FY 11, because of the same low interest rates and the smaller amount available to be invested. It is unknown when the financial situation will improve sufficiently for investments to generate the level of income the Town received prior to the current economic downturn. Investment management for the Town's Trust Fund Portfolio has been aided by the addition of our Investment Advisor.

The Town's debt, both short and long-term, has been prudently incurred and is well within the Town's debt limit set by the Commonwealth. The Treasurer's management of the Town's debt, as always, will require careful analysis of interest rate projections to select the most opportune time to issue bonds. The Treasurer will continue to work with his staff to seek improvements in the areas of cash, investment and debt management. As has been the case for many years, the Treasurers office will closely coordinate these improvements with the IT department's technical support staff, where appropriate.

As the Town of Arlington enters another fiscal year that is projected to be more fiscally challenging, it is important to note that the functioning of the Treasurers multi-faceted and complex operation is contingent on a number of factors. Most importantly, the resources of the Treasurer's office be maintained at a level sufficient to collect \$100 Million + in revenues that the Town is projected to collect in Fiscal Year FY 2012. The Treasurer's operations are carefully integrated with the Assessors and IT departments. Critical time frames for completion of tasks requires that the Assessor, IT, and Treasurer operations have the necessary resources to perform their mandated responsibilities. The Treasurer's office cannot issue tax bills unless the Assessor's office has provided assessments that are 100% accurate and delivered in sufficient time, so that the Treasurer's office can verify that information and coordinate the printing and mailing of those bills with the IT and Postage departments. The IT department also provides critical support, throughout the year to the Treasurers. As the Town deals with difficult budget decisions for FY 12 it will be critical to carefully identify the needed synergies between departments to determine the least harmful budget reductions.

The Treasurer's office goals have always been to efficiently manage the cash, investment and debt operations while serving our taxpayers in the most professional manner possible. The financial challenges facing the Treasurers office and the Town of Arlington for FY12 are one in the same. Improvement in processes, creative applications, and interdepartmental cooperation must be the cornerstone of the efforts initiated to maintain the high level of service Arlington's taxpayers have come to rely on. I pledge to Arlington's citizens that the Treasurers office will strive every day to maintain that high level of service.

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Exhibit 1



Cash Flow 1999-2009

<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

	<u>FY 2009*</u>	<u>FY 2010*</u>	<u>FY 2011*</u>
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>
July	\$11,272,456	\$10,249,725	\$10,109,180
August	\$7,135,236	\$7,538,189	\$5,568,393
September	\$4,363,486	\$6,198,720	\$5,290,638
October	\$10,714,209	\$12,404,484	\$11,280,072
November	\$7,369,257	\$10,550,091	\$9,064,310
December	\$4,124,840	\$5,202,875	\$7,564,087
January	\$9,136,465	\$8,312,484	\$6,678,204
February	\$8,184,050	\$5,356,023	\$8,218,661
March	\$5,875,597	\$3,218,714	\$7,662,905
April	\$13,218,856	\$10,531,477	
May		\$14,406,419	
June		\$8,525,923	
EOY		\$8,685,100	

* End of Month

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EXHIBIT 2



Income by Category for FY 2003 to FY 2011

* FY 2010 is end of year projections

	<u>FY2003</u> 6/30/2003	<u>FY2004</u> 6/30/2004	<u>FY2005</u> 6/30/2005	<u>FY 2006</u> 6/30/2006	<u>FY 2007</u> 6/30/2007	<u>FY 2008</u> 6/30/2008	<u>FY2009</u> 6/30/2009	<u>FY2009</u> 6/30/2010	<u>FY2011*</u> 6/30/2011
Net Cash Flow	\$12.4M	\$12.7M	\$13.4M	\$12.4M	\$12.5M	\$13.1M	\$10.0M	\$9.5M	\$8.685M
Interest Income-	\$412,484	\$290,942	\$555,964	\$1,015,232	\$1,479,598	\$1,030,217	\$422,842	\$97,176	\$53,153
Genl Fund									
Other Local	\$2,980,560	\$2,939,865	\$3,189,219	\$3,107,553	\$3,479,548	\$3,950,788	\$3,933,805	\$3,846,063	\$4,067,104
Receipts									
Real Estate	\$61,246,845	\$63,740,140	\$65,719,969	\$68,850,490	\$76,778,350	\$78,983,969	\$80,892,934	\$83,107,358	\$85,826,180
Excise	\$4,064,628	\$4,074,902	\$4,196,714	\$4,110,106	\$4,021,993	\$3,951,799	\$3,775,637	\$3,510,272	\$3,848,126
Parking	\$369,194	\$501,516	\$495,123	\$601,364	\$553,376	\$476,685	\$596,037	\$573,361	\$541,983

EXHIBIT 3



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Town of Arlington Stabilization Funds

	Municipal Building Trust Fund	Long Term Stabilization Fund	Art 65 Stabilization Fund	Tip Fee Stabilization Fund
Balance 7/1/05	\$2,648,550	\$402,255	\$2,064,528	\$1,708,297
Balance 7/1/06	\$1,215,207	\$2,492,583	\$2,183,189	\$4,207,248
Balance 7/1/07	\$1,335,483	\$2,579,023	\$4,479,518	\$3,723,911
Balance 7/1/08	\$1,203,926	\$2,585,531	\$4,386,009	\$3,187,031
Balance 4/30/09	\$953,341	\$2,501,592	\$3,958,224	\$2,555,376
Balance 12/30/09	\$1,022,094	\$2,541,593	\$1,575,665	\$1,884,366
Balance 03/31/10	\$1,023,194	\$2,544,100	\$1,580,093	\$1,887,060
Balance 4/30/11	\$945,331	\$2,554,407	\$0	\$1,011,688
	Invested 100% in MMDT	Invested 100% in MMDT	Invested 100% in MMDT	Invested 100% in MMDT

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EXHIBIT4

**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%