

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



**2016 Annual Town Meeting**

**Town of Arlington, MA**

**April 2016**



# Report of the Town Treasurer to Town Meeting

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# Report of the Town Treasurer to Town Meeting

## Overview

This 2016 Treasurer's Report to Town Meeting will describe the Town of Arlington's current cash flow/position, revenue and income, investments, and debt for Fiscal Year 2015 and, where appropriate, Fiscal Year 2016. 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, Parking Permits and Violations, and Water & Sewer utility 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, have a strong impact on Town finances. Based on those decisions, the Treasurer's Office will manage cash flows, 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.



## Report of the Town Treasurer to Town Meeting

### Cash Flow / Position

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

- Meet payroll obligations;
- Pay vendors who provide 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.

As seen in **Exhibit 1**, the End of Fiscal Year Cash Flow for the Town of Arlington from 2006 – 2015 has ranged from a low of \$8.69MM to a high of \$21.58MM. In the current Fiscal Year, the end of month balance has ranged from a low of \$4.57 MM to a high of \$22.44MM. 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 \$10,659,672 is due on July 1, 2016 to the Town's pension fund. In addition, bond payments of \$10,592,305.90 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 2013 through FY 2016. 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 2016 and into the first part of 2017, dependent upon the term 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 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.



# Report of the Town Treasurer to Town Meeting

## 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 2016 is that short-term interest rates, the rates that the Treasurer commonly invests in, will continue to see modest increased rates for Massachusetts Municipal Depository Trust (MMDT) type investments, but that longer term investments will not rise significantly. For FY16, it is expected that the short-term interest rates will be between .55% and .75%. The current short-term interest rates as provided by MMDT are at 0.59%.

As shown in **Exhibit 2**, the projected interest income for FY2016 is \$65,000 for Stabilization Funds and the General Fund.



# Report of the Town Treasurer to Town Meeting

## 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 these 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

<b>Municipal Building Trust Fund</b>	\$733,896.28
<b>Long Term Stabilization Fund</b>	\$2,877,873.08
<b>Article 75 Override Fund</b>	\$20,829,197.51
<b>Total:</b>	\$24,440,966.87

These balances are as of March 31, 2016.

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 0.59%. 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 .55% to 1.05% depending upon the amount invested and the length of the investment.



# Report of the Town Treasurer to Town Meeting

## 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, 2015 through December 31, 2015 was .59%. 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 \$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, 2016 is \$86,492,712. 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 \$58,384,716 of which \$20,176,900 is outside the debt limit.





## Report of the Town Treasurer to Town Meeting

### 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 \$409,658 from FY 2013 through FY 2016.

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. Procurement for Accounts Receivable, Cash Management, and Real Estate & Personal Property Tax Collection, and Parking Violation Collection applications are proceeding as of the writing of this report. Request-For-Proposals (RFP) for Motor Vehicle Excise Tax, and Water & Sewer Utility Billing and Collection are written and issuance is pending. Implementation and installation(s) will occur and/or commence in the Summer of 2016. The estimated full-completion date for all applications is between June and September of 2017.

# Report of the Treasurer to Town Meeting

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## Exhibit 1



### Cash Flow & Cash Position

#### Cash Flow 2006-2015

<u>End of FY</u>	<u>Amount</u>
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
2015	\$ 20,555,740

#### FY 2016

	<u>Amount</u>
July	\$ 12,605,743
August	\$ 6,585,374
September	\$ 4,567,446
October	\$ 16,677,802
November	\$ 12,303,118
December	\$ 5,035,048
January	\$ 22,440,234
February	\$ 21,393,937
March	TBD
April	TBD
May	TBD
June	TBD
EOY	TBD

#### FY 2015

	<u>Amount</u>
July	\$ 24,452,502
August	\$ 18,089,967
September	\$ 8,424,521
October	\$ 19,472,240
November	\$ 15,147,936
December	\$ 5,146,545
January	\$ 16,450,276
February	\$ 12,392,713
March	\$ 11,648,586
April	\$ 24,733,903
May	\$ 23,332,045
June	\$ 20,555,740
EOY	\$ 20,555,740

#### FY 2014

	<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	\$ 24,538,219
May	\$ 25,100,685
June	\$ 21,947,040
EOY	\$ 21,576,754

#### FY 2013

	<u>Amount</u>
July	\$ 17,192,065
August	\$ 8,188,970
September	\$ 6,320,485
October	\$ 16,512,740
November	\$ 12,329,144
December	\$ 10,094,708
January	\$ 22,203,728
February	\$ 19,539,114
March	\$ 13,557,640
April	\$ 26,118,953
May	\$ 23,023,718
June	\$ 21,008,602
EOY	\$ 21,038,020

# Report of the Treasurer to Town Meeting

## Exhibit - 2

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<b><u>Income By Category</u></b>				
	<b>FY 2013 <u>6/30/13</u></b>	<b>FY 2014 <u>6/30/14</u></b>	<b>FY 2015 <u>6/30/15</u></b>	<b>FY 2016 <u>6/30/16</u></b>
<b>Net Cash Flow/Position</b>	\$21.04MM	\$21.58MM	\$20.56MM	TBD
<b>Interest Income -General Fund</b>	\$435,812	\$381,062	\$517,024	\$525,000 Estimated
<b>Other Local Receipts</b>	\$5,384,877	\$4,408,265	\$4,916,955	\$4,900,000 Estimated
<b>Real Estate</b>	\$97,319,166	\$101,147,225	\$104,637,861	\$106,970,000 Estimated
<b>Excise</b>	\$4,064,778	\$4,560,609	\$4,668,135	\$4,595,000 Estimated
<b>Parking</b>	\$562,999	\$596,694	\$583,529	\$590,000 Estimated

# Report of the Treasurer to Town Meeting

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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
<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 6/30/14</b>	\$771,605	\$2,773,759	\$16,385,484	\$0
<b>Balance 6/30/15</b>	\$752,491	\$2,879,460	\$18,000,920	\$0
<b>Balance 3/31/16</b>	\$733,896	\$2,877,873	\$20,829,198	\$0
	<b>Invested 100% in MMDT</b>	<b>Invested 100% in MMDT</b>	<b>Invested 100% in MMDT, CD's &amp; Money Market</b>	

# Report of the Treasurer to Town Meeting

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## 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>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%		<b>2014</b>	9.26%
<b>2004</b>	9.85%		<b>2015</b>	0.59%

# Report of the Treasurer to Town Meeting

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## Exhibit 5



### Foreclosure Redemption Revenue

<u>Fiscal Year</u>	<u>Amount</u>
2016	\$ 151,215.00
2015	\$ 277,090.00
2014	\$ 103,042.00
2013	\$ 28,926.00
<b>Total</b>	<b>\$ 409,058.00</b>