Status Report of Investments in CIP & Tax Stabilization Funds
Consideration of Options to Close CIP Fund
September 7, 2010

The select board has voted to open, fund and operate six new capital funds to replace the existing CIP Fund #30. No new expenditures will be made from Fund #30 and most expenses paid from Fund #30 in 2010 have been posted to one of the new capital funds. Cash and invested assets belonging to Fund #30 have not yet been disbursed to any of the new funds. This report describes the cash and assts still held in Fund #30 and provides options for the disbursement of those assets.

If inclined to do so, the board might consider keeping the bonds and securities now held in Fund #30 by transferring them to the Tax Stabilization Fund #48 in exchange for cash. This would have to be done over time and some relaxing of the investment policy for Fund #48 may be necessary. This strategy will be necessary if the select board would like to gain back some of the losses experienced in Fund #30 since 2008. The current value of the investments in Fund #30 is **$36,786** higher than the $222,610 that has been invested in securities since 1997. If the board decided to sell them off completely, converting them to cash the 13 year return would be **16.52%,** about **1.27%** per year.

It will take some time to completely transfer the securities to the Tax Stabilization Fund #48 if the board is inclined to do so as cash will have to build up in the Fund #48 before the transfers can happen. Since it will take time, price risk is a consideration. As an example, a recent history of the fund's investment balances:

Opening Balance: January 1997 $222,610

5/07	$343,112
12/08	$216,095
3/9	$171,886
7/09	$221,182
10/09	$238,261
11/09	$247,941
4/10	$263,103
7/10	$256,569
8/13/10	$255,203
9/3/10	**$259,396**

The assets of Fund #30 held at Edward Jones are **$259,396**, including $8,065 in the cash money market. Based on the pro-rationing of debt for the CIP notes and bonds that were outstanding at the end of 2009, the assets would be divided as follows: 55% highway, 30% fire, 15% recreation and 5% library.

However, Fund #30 "owes" the general fund $157,112 so the current fund balance of Fund #30 is **$102,284**. If we sold all the investments at their value of **9/7/10**, the GF would receive its $157,112 and the **$102,284** would be distributed to the other capital funds and the library based on the percentages listed above.

The other option is to "sell" the investments from Fund #30 to the Tax Stabilization Fund, allowing the town to keep the investments to take advantage of long term growth opportunities and favorable coupons on fixed income investments (above 6%). As stated earlier, price risk, especially in mutual funds is a concern, especially for the capital funds. There is an opportunity for gains as well and that should not be dismissed out of hand.

The current value of the tax stabilization fund is **$732,760**. Cash represents **$129,873** of that amount. If all of that were used to buy securities from Fund #30, investments in that fund would drop to **$121,458**. Cash owed to the general fund would drop to $**27,239** and if we sent the $8,065 to the general fund from the Fund #30 money market cash owed to Gen Fund would be **$19,174**.

If the transfer of **$129,873** were to take place between the two funds all at once, the Fund #48 portfolio would be in conflict with the investment policy for that fund. It allows 50% of the total assets of the fund to be invested in equity securities. Presently **43%** is in equities. If we completed the transfer of $126,398 all at once the percentage in equities would rise to 61%.

The board can amend the policy, but I would recommend a temporary waiver of the policy and another review at year's end. If the waiver were granted, **I would consult our investment adviser and would consider taking some or all of the following immediately:**

1. Direct all interest, dividends and capital gains from equity mutual funds to cash. Currently they are reinvested.
2. Put limit orders on prices of equity funds, both floor and ceiling prices, directing sales of a finite number of shares of funds to protect from and take advantage of price movements.
3. When cash is transferred from Fund # 48 to the general fund (which is the purpose of Fund #48), the cash for the transfer will be raised by selling shares of equity mutual funds.
4. Keep these strategies in place until equity mutual funds comprise no more than 50 percent of the portfolio or until the board directs a new strategy.

For perspective the tax Stabilization Fund was founded in 1997 at $644,000. On **September 3**, it was valued at **$732,760**. Since its inception $349,191 has been transferred to the general fund. The last time money was transferred was 2007. The amount was $31,774. The fund balance at the end of 2007 was $713,255. It dropped quickly when the economy turned down in the fall of 2008 and to a low of $472,869 in March of 2009. Its current value is **$19,626** above what it was at the end of 2007.

This rebounding of prices and the value of Fund # 48 provides ample reason for considering a transfer of cash from Fund #48 to Fund #30 in exchange for some r all of the securities currently held in Fund # 30.