

## TOWN OF GREAT BARRINGTON INVESTMENT POLICY

### I. The Investment of General Funds, Special Revenue Funds, Enterprise Funds, and Capital Projects Funds.

#### A. Scope

This section of the policy applies only to short term operating funds such as general funds, special revenue funds, enterprise funds, and capital project funds. Section two will deal with trust funds, bond proceeds, and any other funds with special circumstances such as stabilization funds. A separate Contributory Retirement Board, either local or county, is responsible for the investment of the pension funds.

#### B. Objectives

Massachusetts General Laws, Chapter 44, section 55B requires the municipal treasurer to invest all public funds except those required to be kept uninvested for purposes of immediate distribution. Modern banking systems enable the public treasurer to maintain even these funds in interest bearing form until the date a disbursement order clears through the banking system.

The state law further requires that invested funds are to be placed at the highest possible rate of interest reasonably available, taking account of safety, liquidity and yield. Therefore, these guidelines are intended to further the objective of securing the highest return that is consistent with safety of principal while meeting the daily cash requirements for the operation of the entity's business.

- **Safety** of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. These risks shall be mitigated by the diversification and prudent selection of investment instruments, and choice of depository. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.
- **Liquidity** is the next most important objective. The overall portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the treasurer shall carry out investment activities in a manner that provides for meeting unusual cash demands without the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.

- **Yield** is the third and last objective. Investments shall be undertaken so as to achieve a fair market average rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

### C. Investment Instruments

**Note:** Public investments in Massachusetts are not protected through provisions in State Law. Therefore, they are largely uncollateralized. Many banking institutions are willing to put up collateral, albeit at a cost to the entity of a lower interest rate. The Treasurer negotiates for the highest rates possible, consistent with safety principles.

The Treasurer may invest in the following instruments:

1. Massachusetts State pooled fund: **Unlimited amounts** (pool is liquid).

The Massachusetts Municipal Depository Trust (MMDT), an investment pool for state, local, county and other independent governmental authorities, is under the auspices of the State Treasurer and currently managed by Fidelity Investments. It invests in Bankers Acceptances, Commercial Paper of high quality, Bank Certificates of Deposit, Repurchase agreements (Repos), and U.S. Treasury Obligations. It has Federal Deposit Insurance (FDIC) pass-through insurance on the CD's and takes delivery on the Repos and Treasuries. Under Government Accounting Standards Board Regulation (GASB III), it is not considered an uncollateralized product.

2. U.S. Treasuries that will be held to maturity: **Unlimited amounts** (**Up to one year maturity from date of purchase**)
3. U.S. Agency obligations that will be held to maturity. **Unlimited amounts** (**Up to one year maturity from date of purchase**)
4. Bank accounts or Certificates of Deposit, hitherto termed CD's. (**Up to one Year**) which are fully collateralized through a third party agreement: **Unlimited amounts.**
5. Bank accounts and CD's (Up to one year) fully insured by FDIC and in some cases also Depository Insurance Fund of Massachusetts (DIFM): FDIC current coverage. All Bank accounts and CD's in one banking institution in the aggregate to receive the FDIC limit of Insurance coverage. Depository Insurance Fund of Massachusetts covers all deposits in full, whatever the amount.
6. Unsecured bank deposits of any kind such as other checking, savings, money market, or CD accounts at Banks that do not fit the above categories. These investments are subject to the following limitations: These investments will be limited to no more than 5% of an institution's assets and nor more than 10% of a municipality's CASH. Their credit worthiness will be tracked by Veribanc, Sheshunoff or other bank credit worthiness reporting systems. They will be diversified as much as possible. CD's will be purchased for no more than three months and will be reviewed frequently.

#### **D. Diversification**

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities as well as concentration in a specific institution. With the exception of US Treasury obligations or investments fully collateralized by US Treasuries or agencies, and State pools (MMDT), no more than 10% of the Town's investments shall be invested in a single financial institution.

#### **E. Authorization**

The Treasurer has authority to invest municipality funds, subject to statutes of the Commonwealth cited above.

#### **F. Ethics**

The Municipal Treasurer (and any Assistant Treasurers) shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair ability to make impartial investment decisions. Said individuals shall disclose to the Town Manager any material financial interest in financial institutions that do business with the town. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the Town's investments.

#### **G. Relationship with Financial Institutions**

Financial institutions should be selected first and foremost with regard to safety. Municipalities should subscribe to and use one or more of the recognized bank ratings services, such as Veribanc or Sheshunoff. Brokers should be recognized, reputable dealers.

The Treasurer shall require any brokerage houses and broker/dealers, wishing to do business with the municipality, to supply the following information to the Treasurer:

- **Audited financial statements**
- **Proof of National Association of Security Dealers certification**
- **A statement that the dealer has read the municipality's investment policy and will comply with it**
- **Proof of credit worthiness (minimum standards: at least five years in operation and a minimum capital of 10 million dollars)**

## **H. Reporting Requirements**

On a regular basis (quarterly), a report containing the following information will be prepared by the Treasurer and distributed to the Board of Selectmen, Town Manager and Finance Committee. The quarterly report will include the following information, as a minimum requirement:

- A listing of the individual accounts and individual securities held at the end of the reporting period.
- A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the 'Diversification' section of this Investment Policy.
- A summary of the income earned on a monthly basis and year to date basis shall be reported.
- The municipal treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the Town's cash position.
- The report should demonstrate the degree of compliance with the tenets set forth in the Investment Policy.

## **II. Investment of Trust Funds and Bond Proceeds and Major Capital Expenditures**

This section of the policy applies only to funds that could be invested long term, i.e. trust funds, stabilization funds and bond proceeds. For issues subject to arbitrage rebate, an arbitrage tracking system such as those available at banks and Mass Municipal Depository Trust (MMDT) will be used to track expenditures of an interest earned on borrowed funds. Alternative tracking systems should be approved by and used under the advice of Bond Counsel.

### **A. BAN and Bond Proceeds**

Tax free debt may be issued by cities, towns, and districts, which means that they are able to borrow at rates well below market rates. At the same time, the federal government has issued regulations to prevent them from issuing debt with the goal of investing the borrowed funds at a higher rate of interest than that at which the money was borrowed, or committing arbitrage. If the federal regulations are not followed, there are fines and penalties, and the tax free status of the debt could be jeopardized. The following arbitrage regulations will be followed with the advice of the financial coordinator and financial advisor and Town Manager.

Unless debt is issued as a 'small issuer', that is, an entity issuing less than \$5 million of tax exempt debt in a calendar year, the proceeds shall be used within certain prescribed time frames, or may be subject to fines and penalties as described above.

**Following, are the general rules and time frames for spending borrowed funds in order to avoid having to pay a rebate to the Federal government on investment income earned on the borrowed funds. All funds should be used according to the following schedules or sooner. The Treasurer will obtain from the Financial Coordinator and the Town's Financial Advisor the appropriate cash flow schedule for all projects and major capital expenditures on a regular basis.**

**1. Construction Debt**

First six month:	10%
First year:	45%
Eighteen months:	75%
Two Years:	100%

**2. Capital Expenditures Debt other than Construction Projects**

First six months:	15%
First year:	60%
Eighteen months:	100%

**3. All other Municipal Purpose Debt**

First six months:	100%
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**B. TRUST FUNDS**

Trust Funds may be co-mingled and invested in any instruments allowed by the Legal List issued by the Banking Commissioner each July. Each trust fund must be accounted for separately.

The Policy shall automatically comply with new state laws/regulations as issued.

**C. Stabilization Funds**

The Stabilization Fund shall not exceed ten percent of the equalized valuation of the town, and any interest shall be added to and become a part of the fund. The treasurer may invest the proceeds in the following:

- National Banks
- Savings Banks
- Cooperative banks or trust companies organized under Massachusetts laws
- Securities legal for savings banks (i.e. those on the Legal List described above)
- Federal Savings and Loan Associations situated in the Commonwealth
- Massachusetts Municipal Depository Trust

APPROVED AND ACCEPTED AS THE TOWN OF GREAT BARRINGTON  
INVESTMENT POLICY AND SHALL BE INFORCE UNTIL AMENDED BY THE  
BOARD OF SELECTMEN.

DATE: April 27, 2009

SIGNED BY:

Walter L. Wood Jr.

[Signature]

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