

# **Town of Boxborough Investment Policy Statement General Fund & Trust Funds**

## **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 and bond proceeds. Section two will deal with trust funds, and any other funds with special circumstances such as stabilization funds. The Middlesex Retirement System and the Massachusetts Teachers Retirement System are 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 investment 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: There are no statutory provisions to protect public investments in Massachusetts. Therefore, they are largely uncollateralized. Many banking institutions are willing to put up collateral, such as treasuries held by a third party, 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:

- 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 Corporation (F.D.I.C.) pass-through insurance on the C.D.'s and takes delivery on the Repos and Treasuries. Under Government Accounting Standards Board Regulation (GASB III), it is not considered an uncollateralized product.
- U. S. Treasuries that will be held to maturity: **Unlimited amounts (Up to one year maturity from date of purchase)**
- U.S. Agency obligations that will be held to maturity. **Unlimited amounts (Up to one year maturity from date of purchase)**
- Bank accounts and C.D.'s (Up to one year) insured by F.D.I.C. All bank accounts and C.D.s in one institution are considered in the aggregate to receive \$250,000 insurance coverage through December 31, 2009, after which it may revert back to \$100,000. The Treasurer will ensure that daily depository accounts are held in financial institutions that provide additional insurance above the F.D.I.C limit to the full value of the town's depository account. This insurance is known as D.I.F.M. (Depository Insurance Fund of Massachusetts).
- Unsecured bank deposits of any kind such as other checking, savings, money market, or Certificates of Deposit 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 no more than 20% of a municipality's cash. Their credit worthiness will be tracked by Veribanc, or other bank credit worthiness reporting systems. They will be diversified as much as possible.

#### **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 U.S. Treasury obligations or investments fully collateralized by U.S. 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 the statutes of the Commonwealth Massachusetts General Law Chapter 44 Section 55,55A, & 55B.

#### **F. Ethics**

The Treasurer 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 Administrator 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 will be selected first and foremost with regard to safety. The Town of Boxborough subscribes to Veribanc, a bank rating agency.

When using the Veribanc rating service, the Treasurer may invest in such banks that show a green rating in a particular quarter. If in any quarter a rating changes to yellow the Treasurer will contact the appropriate banking institution and request in writing an explanation of the change in rating and the expected time table for it to be changed to green.

If for a second quarter such rating has not been corrected, the Treasurer will remove all town funds from that institution.

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 quarterly basis a report containing the following information will be prepared by the Treasurer and made available to the Town Administrator. 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 report should demonstrate the degree of compliance with the tenets set forth in the Investment Policy.

## **I. Restrictions**

Chapter 44, Section 55 sets forth the several restrictions that the Treasurer must be aware of when making investment selections.

- A Treasurer shall not at any one time have on deposit in a bank or trust company an amount exceeding 60% of the capital and surplus of such bank or trust company, or banking company, unless satisfactory security is given to it by such bank or trust company, or banking company for such excess.
- The treasurer shall not make a deposit in any bank, trust company or banking company with which she is associated as an officer or employee or has been the same for any time during the three years immediately preceding the date of any such deposit.
- All securities shall have a maturity from date of purchase of one year or less.

## **J. Legal References**

Massachusetts General Law Chapter 44, Section 55  
Massachusetts General Law Chapter 44, Section 55A  
Massachusetts General Law Chapter 44; Section 55B

## II. The Investment of Trust & Stabilization Funds

This section of the policy applies only to funds that could be invested long term, i.e. trust funds and the stabilization fund.

### A. Scope

This policy applies to all accounts that are designated as Trust Funds and Stabilization Funds. These funds include all accounts that are received as scholarships and perpetual care receipts.

All accounts will be maintained separately, each receiving their proportionate interest and any realized and unrealized gains or losses. The account will be established as a pooled investment portfolio unless otherwise stated. Any additional accounts will be maintained in this same manner.

### B. Authority

Massachusetts General Law Chapter 44, section 54 pertains to the investment of Trust Funds. All trust funds shall fall under the control of the Town Treasurer unless otherwise provided or directed by the donor.

### C. Objective

Massachusetts General Laws, Chapter 44, section 55B requires the Town Treasurer to invest all public funds except those required to be kept uninvested for purposes of immediate distribution.

This section also 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 investment 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.

### D. Investment Instruments

M.G.L. Chapter 44 section 54 states that money should be deposited into savings bank, trust companies incorporated under the laws of the commonwealth, banking companies incorporated under the laws of the commonwealth which are members of the Federal Deposit Insurance Corporation, or national banks, or invested in participation units in a combined investment fund under section thirty-eight A of chapter twenty-nine, or in a paid-up shares and accounts of and in co-operative banks, or in shares of savings and loan associations or in share or savings deposits of federal savings and loan associations doing business in the commonwealth.

Additionally the Town of Boxborough may invest such funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the commonwealth; provided, that not more than fifteen percent of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-

half percent of such funds be invested in the stock of any one bank or insurance company. See attached the Commonwealth of Massachusetts **List of Legal Investments**.

**The Treasurer may invest in the following instruments:**

- U. S. Treasuries that may be sold prior to maturity: **Unlimited amounts** (With no limit to the length of maturity from date of purchase)
- U.S. Agency obligations that may be sold prior to maturity. **Unlimited amounts** (With no limit to the length of maturity from date of purchase)
- Bank accounts or Certificates of Deposit, hitherto termed C.D.'s. **Unlimited amounts** (With no limit to the length of maturity from date of purchase), which is fully collateralized through a third party agreement
- Bank accounts and C.D.'s (With no limit to the length of maturity from date of purchase). All bank accounts and C.D.'s in one institution are considered in the aggregate to receive \$250,000 insurance coverage through December 31, 2009, after which it may revert back to \$100,000.
- **Unsecured bank deposits** of any kind such as other checking, savings, money market, or Certificates of Deposit 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 no 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. C.D.'s will be purchased for no more than three months and will be reviewed frequently.
- Common and preferred stock that are listed in the **List of Legal Investments**.
- Investment Funds that are listed in the **List of Legal Investments**.
- All other items not separately identified here that are listed in the **List of Legal Investments**.

**E. Standards of Care**

The standard of prudence to be used by the Treasurer shall be the “Prudent Person” standard and shall be applied in the context of managing an overall portfolio. The Treasurer, acting in accordance with written procedures, and this investment policy, and exercising due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided the purchases and sale of securities is carried out in accordance with the terms of this policy.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs; not for speculation but for investment considering the probable safety of their capital as well as the probable income to be derived.

In addition this section would also apply to M.G.L. Chapter 44 Section 55A which refers to the liability of the Treasurer for losses due to bankruptcy.

**F. 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 U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies.

**G. Ethics**

The Treasurer and any Assistant Treasurer 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. The Treasurer shall disclose to the Town Administrator 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.

## **H. Relationship with Financial Institutions**

Financial institutions should be selected first and foremost with regard to safety. The Town of Boxborough subscribes to Veribanc a recognized bank rating service. Brokers should be recognized, reputable dealers.

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

- Audited financial statements
- If acting as an Investment Advisor, provide yearly Form ADV
- 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 on an annual basis

## **I. Reporting Requirements**

On a quarterly basis, a report containing the following information will be prepared by the Treasurer and made available to the Town Administrator as appropriate. 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 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.

## **J. Legal References**

Massachusetts General Law Chapter 44, Section 54  
Massachusetts General Law Chapter 44, Section 55A  
Massachusetts General Law Chapter 44, Section 55B

Trust Funds may be co-mingled and invested in any instruments allowed by the Commonwealth of Massachusetts list of Legal Investments Legal issued by the Banking Commissioner each July. Each trust fund must be accounted for separately. Chapter 44 Section 54 sets forth that Treasurers may invest in instruments that are legal for savings banks. This list of investments is included in the Commonwealth of Massachusetts List of Legal Investments, Chapter 167 Section 15A.