

TOWN OF UXBRIDGE INVESTMENT POLICY

1. 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

The purpose of this investment policy is to set general guidelines for the investment of the Town of Uxbridge's available general funds as listed above.

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. The state law further requires that invested funds are to be placed at the highest possible rate of interest reasonably available, taking into account *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 Town'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 (the risk of loss due to the failure of the security issuer or backer) and interest rate risk (which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates). These risks shall be mitigated by the diversification and prudent selection of investment instruments, and choice of depository.
- **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. Delegation of Authority

The investment of the Town's funds shall be the responsibility of the Treasurer. The Treasurer shall make all decisions regarding the management of the investment program; however, if that decision deviates from the terms of this policy, approval shall be obtained from the Board of Selectmen. The role of the Board of Selectmen shall primarily be the adoption and periodic review of this policy, as well as reviewing quarterly investment reports issued by the Treasurer.

D. Legal Requirements and Authorization

Massachusetts General Laws Chapter 44, section 55, 55A, and 55B authorize the Treasurer to invest municipality funds. MGL Chapter 44, section 55B requires that all funds of the Town which are not required to be kept liquid for purposes of immediate distribution shall be invested at the highest possible rate of interest reasonably available, taking into account the three principles of government investment: safety, liquidity, and yield. Chapter 44, section 55 limits the investment options which are legal for municipal Treasurers to the following:

E. Investment Guidelines

Note: Currently, Massachusetts is one of only four states that have no legal requirement for collateralizing public deposits. Until adoption of collateralization legislation, the Treasurer will provide as much security as possible for the Town of Uxbridge's bank investments through the prudent selection process described in this section.

- **Diversification** – The Town of Uxbridge will diversify its investments by maturity, security type, as well as 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 and the State Treasurer's investment pools (MMDT) no more than 25% of the Town's total investment portfolio will be invested in a single security type referenced in next section or with a single financial institution.
- **Selection of banks for Investments** – It is the responsibility of the Treasurer to assess the financial condition/credit worthiness of the banks that the Town of Uxbridge invests with. Their credit worthiness will be tracked by the review of bank rating guides such as Veribank, Sheshunoff, or other bank credit worthiness reporting systems. Primary emphasis will be placed on a bank's capital adequacy, loan quality and profitability before determining suitability for the Town's investments. MGL Chapter 44, section 55 specifies that a municipality may not at any one time have on deposit in a bank or trust company an amount exceeding 60% of the capital and surplus of that institution and that a total of all the municipality's accounts must not exceed 60% of the bank's net equity. For purposes of this policy, the Town of Uxbridge will not have on deposits amounts exceeding 10% of capital and surplus and 10% of net equity. In addition, it is the Town's policy that at no time shall any single bank or bank holding company hold in excess of 25% of the Treasurer's cash balance for more than three consecutive days.
- **Investment Size and Collateralization** – The amount of available funds the Town of Uxbridge has in its possession at any one time makes it impractical to invest in banks and maintain the advantage of FDIC insurance and also given the fact that Massachusetts does not have any legal requirement for collateralizing public deposits. For this reason, the Treasurer may purchase in blocks of \$250,000 or larger in order to take advantage of higher interest rates (see Note above).

F. Investment Instruments

- **Massachusetts State Treasurer's Investment Pool**—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 has been managed by Fidelity Investments since its inception. This offers the Town of Uxbridge to earn higher yields through a professionally managed fund. It is recognized that these pools are neither fully collateralized, nor backed by the full faith and credit of the Commonwealth of Massachusetts. However, there is a high degree of safety as a result of the pool's use of: delivery vs. payment for their securities (this ensures that securities are deposited in an eligible financial institution prior to release of funds); utilization of full disclosure to ensure that investing officials are aware of significant investment and administrative policies, practices and restrictions; collateralization of all repurchase agreements at 102%; the application of FDIC pass-through insurance; and limiting investments to high quality marketable securities as defined in the enabling legislation. This degree of safety is recognized by the Government Accounting Standards Board in its qualification of state investment pools in financial statements. The Town of Uxbridge will continue to use this highly liquid, comparatively safe instrument as an integral part of its overall investment strategy.
- **U.S. Treasury and Government Agency Securities:** The Town will utilize these securities for reasons of diversification and security. Treasury securities will be purchased either at auction or through the secondary market. They can be purchased for unlimited amounts for up to one year maturity from the date of purchase. Agency securities will only be purchased through registered dealers. The definition of Agency securities will include instrumentalities, but will be limited to Discount Notes and Variable Rate Notes. Coupon Securities may be purchased on the secondary market as long as the remaining maturity is less than one year.
- **Bank Accounts or Certificates of Deposit (C.D's) (unlimited amounts / up to one year):** These may be utilized if and only if they are fully collateralized through a third party agreement pursuant to the Government Finance Officers Association Recommended Practices pertaining to third party agreements.

- **Bank Accounts and Certificates of Deposit (C.D.'s \$100,000 / up to one year):** All bank accounts and C.D.'s in one institution are considered in the aggregate to receive the \$100,000 FDIC coverage. Some banks also provide Depository Insurance Fund of Massachusetts (DIFM) coverage.
- **Investment in Massachusetts:** MGL Chapter 44, section 55A provides that a Treasurer cannot be held personally liable for loss of money due to a bank failure as long as that bank is chartered in Massachusetts or a national bank doing business in Massachusetts. This effectively precludes the use of out of state banks for any investment purposes.

G. Ethics

The Treasurer shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair the ability to make impartial investment decisions. Said individual shall disclose to the Town Manager and Board of Selectmen any material financial interest in financial institutions that do business with the Town. The Treasurer 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 Broker/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 its provisions;
- Proof of credit worthiness (minimum standards: at least five years in operation and minimum of 10 million dollars); and
- Completion of Broker/Dealer Questionnaire.

The Treasurer will periodically issue a request for proposals (RFP) or other similar assessment process for Broker/Dealers that the town may utilize. The process utilized will be consistent with GFOA recommended practices.

I. Internal Controls

The Treasurer is responsible for establishing and maintaining an internal control structure designed that the assets of the Town are protected from loss, theft, or misuse. Details of the internal control system shall be documented in an investment procedures manual and shall be reviewed and updated annually. The review/update will be presented to the Town Manager and Board of Selectmen. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls structure shall address the following points:

- Control of collusion;
- Separation of transaction authority from accounting and record keeping;
- Custodial safekeeping;
- Avoidance of physical delivery securities;
- Clear delegation of authority to subordinate staff members;
- Written confirmation of transactions for investments and wire transfers;
- Dual authorizations of wire transactions; and
- Development of a wire transfer agreement with banks.

Accordingly, the Treasurer shall have compliance reviewed through the annual independent audit.

J. Reporting Requirements

On a quarterly basis a report containing the following information will be prepared by the Treasurer and distributed to the Town Manager, Board of Selectmen, and others, as appropriate. The quarterly report will contain the following information as a minimum:

1. A listing of the individual accounts and individual securities held at the end of the reporting period.
2. A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines.
3. A summary of the income earned on a monthly basis and year to date basis shall be reported.
4. 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.
5. The report should demonstrate the degree of compliance with the tenets set forth in the Investment Policy.

2. The Investment of Bond Proceeds

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 bond issues subject to arbitrage rebate, an arbitrage tracking system such as those available at banks and MMDT will be used to track expenditures of and interest earned on borrowed funds. Alternative tracking systems should be approved and used under the advice of bond counsel.

Tax-exempt debt may be issued by municipalities, which allows them to issue debt at rates well below market rates. The federal government has issued regulations to prevent municipalities (and others) from issuing debt with the goal of investing the borrowed funds at a higher rate of interest than the rate of interest on the borrowed funds. This is called arbitrage. This can result in having to rebate interest earnings to the federal government, or even worse, could result in the bonds losing their tax-exempt status thereby jeopardizing the future marketability of the municipalities bonds.

The following are recommendations to ensure that the investment of bond proceeds complies with federal tax law provisions, such as arbitrage requirements and to minimize risks such as credit risk, market risk, and opportunity risk.

- The Treasurer, with the assistance of others, will develop good cash flow estimates to reduce market risk.
- The Treasurer will keep informed of prevailing and expected future market conditions with cash flow requirements to reduce opportunity risk.
- The municipality will have procedures in place to ensure timely coordination of its debt management and investment activities.
- The Treasurer will work with the financial advisor, bond counsel, and underwriter to determine how bond proceeds will be invested given certain expectations for the drawdown of proceeds, federal tax law requirements, or other concerns.
- The Treasurer will ensure that fees paid to brokers are reasonable
- The Treasurer will monitor investment and custody of bond proceeds
- The Treasurer will maintain adequate records to comply with arbitrage requirements.
- The Treasurer must be sure that all investment decisions conform with all legal, statutory, and regulatory requirements; requirements established by the trust indenture; and requirements that might be imposed by credit enhancement providers, including establishment of funds and procedures, designation of eligible investment instruments, purchase of investments at fair market price, and permitted yields such as those to comply with federal arbitrage requirements.
- The Treasurer will require that underwriters and financial advisors report to them on any finder's fees or fee-sharing arrangements. The Treasurer will also carefully evaluate any conflicts of interest that may arise from having underwriters or financial advisors involved in the sale of bonds also charged with the investment of bond proceeds.

- The Treasurer should seek competitive bids and, where required, a minimum of three bids. Additionally, an issuer should require that all fees associated with investments be fully disclosed to ensure that investments are being purchased at a fair market price.
- In a negotiated transaction, underwriters may offer to work for little or no management fee in exchange for the right to provide escrow securities. To ensure that the town is receiving a fair market price for investments, the Treasurer will not agree to accept a reduction in the management fee in exchange for allowing the underwriter to invest bond proceeds.
- Care will be taken to make certain that the interests of the issuer are represented if outside professionals are used to solicit and evaluate bids.

3. The Investment of Trust Funds

- Pursuant to Massachusetts General Law Chapter 41, section 45 when a town has more than 5000 residents and has not created a board of commissioners of trust funds, authority over trust funds rests with the town meeting. Where the town has not established a commissioner of trust funds only town meeting can expend trust fund monies until such time that the town does establish such board of commissioners. In the interim, the Treasurer will invest trust funds monies according to the established practices.
- The investment of trust funds (and cemetery perpetual care funds) is governed by Massachusetts General Law Chapter 44, section 54.
- Trust Funds may be invested in any instruments allowed by the Legal List issued by the Banking Commissioner each July. Trust funds may be co-mingled, but each trust fund must be accounted for separately. Unlike general fund monies which have a limit of up to one year for investments, trust funds have no such limit stated in the law.
- The Treasurer should bear in mind any disbursement requirements when making investment decisions.

4. The Investment of Stabilization Funds

The establishment and investment of Stabilization Funds is governed by Massachusetts General Law Chapter 40, section 5B. With regard to investment authority, stabilization funds may be invested in the following:

- Savings banks, co-operative banks, or trust companies organized under Massachusetts Law.
- Securities that are legal for the investment of funds of savings banks under the laws of the commonwealth or in federal savings and loan associations situated in the commonwealth.
- Chapter 40, Section 5B does not expressly allow funds monies to be deposited into the Massachusetts Municipal Depository Trust (MMDT), however, the legislation establishing the MMDT (29:38A) was drafted sufficiently broadly to permit investment of stabilization funds into the trust.
- The Treasurer should bear in mind any disbursement requirements when making investment decisions.
- The interest earned on Stabilization Funds becomes part of the fund.

Attachments

- MGL Chapter 44, section 55
- MGL Chapter 44, section 55A
- MGL Chapter 44, section 55B
- MGL Chapter 41, section 45 (establishment of trust fund commission)
- MGL Chapter 41, section 47 (distribution of funds)
- MGL Chapter 44, section 54
- MGL Chapter 40, section 5B
- MGL Chapter 29, section 38A

Policy adoption dates:

Approved: Board of Selectmen 10/24/05

Amendments _____
