

# Town of Marblehead Investment Policy

## **SECTION I: The Investment of General Funds, Special Revenue 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. The Town Retirement Board 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 the purpose 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 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 Town's business.

Safety of principal is the foremost objective of the investment program. Investments will 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 lessened by diversification and prudent selection of investment instruments, and choice of bank or brokerage house. 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 made so as to achieve the best rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

### **C. Investment Instruments**

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 town 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. 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.
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 amounts (up to one year maturity from date of purchase).
4. Bank accounts or Certificates of Deposit, hitherto termed C.D.'s. Unlimited amount (up to one year) which are collateralized through a third party agreement.
5. Bank accounts and C.D.'s (Up to one year) fully insured by F.D.I.C. and in some cases also Depository Insurance Fund of Massachusetts (D.I.F.): All bank accounts and C.D.'s in one institution are considered in the aggregate to receive the \$250,000 insurance coverage.
6. 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 the Town's cash. Their credit worthiness will be tracked by Veribanc, Sheshunoff, or other bank reporting systems. They will be diversified as much as possible. As a general rule, C. D.s will be purchased for no more than six months and will be reviewed frequently. These limits do not apply to fully insured deposits or deposits covered by a collateralization agreement.
7. Repurchase Agreements ("Repos"), not to exceed ninety days.
8. Certain mutual funds, under Chapter 44, Sec. 55 of MGL, as amended by Chapter 314 of the Acts of 1996.

**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.

**E. Authorization**

The Treasurer has authority to invest the Town's funds, subject to the statutes of the Commonwealth of Massachusetts and the provisions outlined under section C of this policy. The provisions of section C may be modified based on the management recommendation of the Town's Treasurer and Finance Director with the approval of the Board of Selectmen.

**F. Ethics**

The Town Treasurer shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair ability to make impartial investment decisions. Said Treasurer shall disclose to the Finance Director any material financial interest in financial institutions that do business with the town. She/he 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. The Town should use one or more of the recognized bank rating 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. Proof of credit worthiness (minimum standards: at least five years in operation and a minimum capital of 10 million dollars)

**H. Reporting Requirements**

An annual report containing the following information will be prepared by the Treasurer and given to the Finance Director. The 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.

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.

**SECTION II: The Investment of Trust Funds and Bonds Proceeds**

**A. Scope**

This section of the policy applies only to funds that could be invested long term (i.e.: trust funds and Bond Proceeds).

**B. Bond Proceeds**

Investment of Bond proceeds is governed by the same restrictions as general funds, with the additional caveat of arbitrage regulations.

**C. Trust Funds**

Trust Funds may be co-mingled and invested in any instruments allowed by Legal List issued by the Banking Commissioner. Each trust fund must be accounted for separately. Funds appropriated into the Town's OPEB Trust Fund shall be invested in the State Retiree Benefits Trust Fund.

Adopted: July 2014

