

# **Town of Chilmark - Investment Policy**

## **The Investment of General Funds, Special Revenue Funds, and Capital Projects Funds**

Massachusetts General Laws, Chapter 44, Section 55B, requires town treasurers to invest all public funds except those required to be kept uninvested for purposes of immediate distribution. The current banking system enables a 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 the town's business.

**Safety** of principal is the foremost objective of the investment program. Investment shall be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. 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. The diversification and prudent selection of investment instruments and choice of depository shall mitigate these risks.

**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, Chilmark's investment activities shall be carried out in a manner that provides for meeting unusual cash demands without the liquidation of investments that could result in forfeiture of accrued interest earnings, or loss of principal.

**Yield** is the third priority of the Investment Policy. 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.

## **Part II Investment Instruments**

### **The Massachusetts Municipal Depository Trust – Massachusetts State pooled fund**

The MMDT is an investment pool for state, local, county and other independent government authorities 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, 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 Repurchase Agreements and Treasuries. Under the Government Accounting Standards Board Regulations (GASB III), it is not considered an uncollateralized product.

**U.S. Treasuries**

U.S. Treasuries that will be held to maturity: (Up to one year maturity from date of purchase).

**U.S. Agency obligations**

U.S. agency obligations that will be held to maturity. (Up to one year maturity from date of purchase).

**Certificates of Deposit**

C.D.'s, Bank account Certificates of Deposit, which are fully collateralized through a third party agreement: (Up to one year)

**Bank accounts**

Only bank accounts that are fully insured by F.D.I.C. and preferably also by the Depository Insurance Fund of Massachusetts (D.I.F.) shall be considered. All bank accounts and C.D.'s in one institution are considered in the aggregate to receive up to \$100,000 of insurance coverage for FDIC only banks and 100% of funds shall be considered insured for DIF banks.

**Part III                      Diversification**

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. Diversification shall prohibit 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 30% of the Town's investment shall be invested in a single financial institution.

**Part IV                      Authorization**

The Treasurer's authority to invest town funds is subject to the statutes of the Commonwealth of Massachusetts.

**Part V                      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. The Treasurer shall disclose to the Executive Security and Board of Selectmen as well as to the town's auditing firm 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 investment.

**Part VI                      Relationship with Financial Institutions**

Financial institutions shall be selected first and foremost with regard to safety. The Treasurer shall consider the reporting of recognized bank rating services, such as Veribanc and Sheshunoff in selecting financial institutions in which to invest town funds. The

Treasurer shall require any brokerage houses wishing to do business with the town to supply the following information:

- Audited financial statement
- Proof of National Association of Security Dealers certification
- A statement that the dealer has read the town investment policy and will comply with it
- Proof of credit worthiness; the minimum standard being at least five years in operation and a minimum of ten million dollars invested.

## **Part VI            Reporting Requirements**

On a regular basis (quarterly, semi-annually, or annually), a report containing the following information will be prepared by the Treasurer and distributed to the Executive Secretary, Board of Selectmen, Town Accountant and Finance Committee. The report will include a minimum of the following information:

- 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 Investment of Trust Funds and Bond Proceeds**

This section applies only to funds that can 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 the MMDT, will be used to track expenditures of and interest earned on borrowed funds. Alternative tracking systems shall be approved by and used under the advice of Bond Counsel.

### **Arbitrage Regulations**

Towns may issue tax-free debt. The implication of this is that the town is able to borrow at rates below the market. At the same time, the federal government has issued regulations to prevent towns 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. The federal regulation must be followed or there are fines and penalties, or worse, the tax-free status of the debt could be jeopardized. The town will adhere to arbitrage regulations.

### **Trust Funds**

Trust Funds may be co-mingled and invested in any instrument allowed by the Legal List issued by the Massachusetts Banking Commissioner each July. The treasurer will account for each trust fund separately.

### **Stabilization Funds**

Any interest accrued to the Stabilization Fund shall become part of the fund. The Treasurer shall invest Stabilization Funds in the following institutions only:

- 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