

Town of West Stockbridge Investment Policy

February 2024

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

A. Scope

This section applies to short term operating funds such as general funds, special revenue funds, enterprise funds, and capital project funds.

B. Objectives

Massachusetts General Laws, Chapter 44, section 55B requires the Treasurer to invest all public funds except those required to be kept uninvested for purposes of immediate distribution. 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. These guidelines are intended to further the objective of securing the highest return that is consistent with safety of principal while meeting the town's daily cash requirements.

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 objective. Investments shall be undertaken to achieve a fair market average rate of return, considering safety and liquidity constraints and all legal requirements.

C. Investment Instruments

The Treasurer may invest in the following instruments:

1. Massachusetts State pooled fund: Unlimited amounts (Pool is liquid)
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 and Certificates of Deposit (C.D.) - fully insured by F.D.I.C. and Depository Insurance Fund of Massachusetts (D.I.F.M.): **\$250,000 limit** - All bank accounts and C.D.'s in one institution is considered in the aggregate to receive the \$250,00 insurance coverage. C,D,'s will be limited to one year duration. Banks will have a Green, triple start rating from Veribanc.

D. Diversification

Diversification should be interpreted in terms of maturity and instrument type/issuer. The diversification concept prohibits both concentration of maturities and concentration in a specific institution. Except for 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/district funds, subject to the statutes of the Commonwealth and this policy cited above. They have the discretion to select the institution and instruments based on the above policies and the guidelines of Safety, Liquidity and Yield. Selection should be based on the interest rate, relationship, and proximity to town.

F. Ethics

The 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 Selectboard and Finance Committee 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 regarding Safety. The Town should subscribe to and 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
- A statement that the dealer has read the municipality's investment policy and is in compliance,
- Proof of credit worthiness - (minimum standards: at least five years in operation and a minimum capital of 10 million dollars)

H. Reporting Requirements

Annually, the Treasurer will report the following information to be submitted to the Board of Selectmen, Administrative Manager, and Finance Committee. The report will include at the least following information:

- Listing of the individual accounts and individual securities held at the end of the reporting period.
- 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.
- Summary of the income earned fiscal year to date basis.

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 will identify the degree of compliance with the requirements set forth in the Investment Policy.

II The Investment of Trust and Stabilization Funds, and Bond Proceeds

A. 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.

B. STABILIZATION FUNDS

The Stabilization Fund shall not exceed ten per cent of the equalized valuation of the city or town, and any interest shall be added to and become a part of the fund. The Treasurer should invest the funds with the same institutions and conditions described in Section I.

C. BOND PROCEEDS

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. 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 and interest earned on borrowed funds. (Alternative tracking systems can be approved by and used under the advice of Bond Counsel.)

CONSTRUCTION DEBT

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

CAPITAL EXPENDITURES DEBT OTHER THAN CONSTRUCTION PROJECTS

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

ALL OTHER MUNICIPAL PURPOSE DEBT

First six months: 100%