



## Town of Littleton Investment Policy

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### **Purpose**

This investment policy is intended to provide guidelines for the management and investment of all Town funds under the control of the Town Treasurer and Assistant Treasurer.

### **Scope**

Section I of the policy statement applies only to the short term operating funds such as general funds, special revenue funds, enterprise funds, bond proceeds and capital project funds. Section II will apply to funds with special circumstances such as stabilization and light department non-operating funds such as the depreciation, stabilization and pension funds. Trust funds, in the custody of the Treasurer, under the direction of the Board of Commissioners of Trust Funds will be invested according the Statement of Trust Fund Policy adopted by the Board of Commissioners. GASB 45 funds, when established by the Town, will be handled in a separate policy more closely tied to the current Trust Fund Investment Policy. The Middlesex County Retirement Board is responsible for the investment of Town pension funds. The Treasurer shall serve on the Middlesex County Retirement Board's Advisory Council.

### **Authorization**

The Treasurer has the authority to invest all municipal funds subject to the statutes of the Massachusetts General Law Chapter 44 Section 55, 55A & 55B.

All bank and investment brokerage accounts, with the exception of student activity accounts, shall be maintained in the name of the "Town of Littleton" and shall list the Town Treasurer as the primary signatory and the Assistant Treasurer as a secondary signatory. These two signatories shall be the only officers authorized to withdraw funds from any such account.

### **Objectives**

Massachusetts General Laws, Chapter 44, section 55B requires the Treasurer to invest all public funds at the highest possible rate of interest reasonably available, taking into account acceptable levels of safety, liquidity and yield while meeting the daily cash requirements for the operation of the Town's business.

- *Safety* – The safety of public funds must be the main objective in the investment program. Investments shall be made in a manner that seeks to preserve principal 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 depository institution. Interest rate risk is the risk that the value of an investment will fall, resulting in a potential loss or display significant volatility due to changes in market or external interest rates. The diversification of funds, the choice of depository institution and the prudent selection of investment instruments are tools available to the Treasurer to mitigate these risks.

- *Liquidity* – The overall investment of funds shall remain sufficiently liquid to meet all operating requirements that may reasonably be anticipated. Since all possible cash demands cannot be fully anticipated, the Treasurer shall attempt to carry out investment activities in a manner that provides for meeting unusual or unexpected cash demands without requiring the liquidation of investments that may result in forfeiture of accrued interest or loss of principal.
- *Yield* – Investments shall be made to achieve a fair average market rate of return taking into account the safety and liquidity constraints mentioned above as well as any legal requirements imposed by Massachusetts General Laws or Town By-Laws.

## **Risk**

The Treasurer will adhere to the following risk guidelines for all investments of Town funds:

***Custodial Credit Risk*** - The custodial credit risk for deposits is the risk that, in the event of a failure of a depository institution, the Town would not be able to recover deposits or the securities used to collateralize the deposits from the institution or a third party. For investments, the risk occurs if the Town is unable to recover the value of an investment or collateral in possession of a third party.

The Treasurer will review each financial institution conducting business with the Town on a quarterly basis (*see Diversification section of policy*).

All securities not held directly by the Town will be held in the Town's name and tax identification number by a third-party custodian approved by the Treasurer. The Treasurer will receive monthly safekeeping reports from the custodian as well as safekeeping receipts detailing each transaction from the account.

***Interest Rate Risk*** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Short-term investments for funds covered in Section I are by statute limited to one year or less in maturity with all securities held to maturity.

Longer term investments, other than trust funds under the direction of the Commissioners of Trust Funds, will be made for periods not longer than seven years, maintaining an average maturity no greater than three years for the portfolio.

***Credit Risk*** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Short-term investments for funds covered in Section I are by statute limited to US Treasury or Agency securities which carry "AAA" ratings.

Longer term investments in fixed income securities, other than trust funds under the direction of the Commissioners of Trust Funds, will be made principally for capital preservation and income potential. Corporate debt must be rated "A" or better by either S&P or Moody's rating services. If a security falls below the "A" rating, the security will be monitored by the Treasurer and advisor, if

applicable. The security will be noted as an exception to policy if held in the portfolio. The Treasurer and/or advisor may sell the security if a further decline in value is expected.

***Concentration of Credit Risk*** - Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer.

The Town will minimize any concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Specific investment amounts and/or issuer limitations are addressed in the *Investment Instrument* sections of this policy.

***Foreign Currency Risk*** - Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment or deposit.

The Town will not invest in any instrument exposed to foreign currency risk.

## **Ethics**

The Treasurer and 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 their ability to make impartial investment decisions. The Treasurer and Assistant Treasurer shall disclose, at least annually, to the Town Clerk any material personal depository relationship in financial institutions that do business with the Town as well as any material personal financial investment positions or loans with these same institutions. *(See Exhibit A)*

## **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 Massachusetts General Laws Chapter 44 Section 55A which refers to the liability of the Treasurer for losses due to bankruptcy.

## **Reporting Requirements**

On a semi-annual basis (as of September 30<sup>th</sup> and March 31<sup>st</sup> of each fiscal year), the Treasurer shall issue a report to the Finance Director and the Finance Committee containing the following information *(see Exhibit B)*:

- A listing of Total Funds (both Sections One & Two of this policy statement) on deposit by financial institution or advisor showing percentage of total deposits in each institution, type of insurance coverage or collateral and approximate value of uninsured or uncollateralized funds held by the Town.
- A listing of Total Funds (both Sections One & Two of this policy statement) on deposit by financial institution or advisor by type of deposits or investment showing percentage of total deposits in each institution.
- Summary of interest income, realized and unrealized gains and losses earned on investments on a fiscal year-to-date basis.
- Detail listing of any exceptions to policy stating reason for exception and anticipated date of correction, if applicable.

### **Policy Review**

This policy will be reviewed annually by the Treasurer. Any changes to this policy must be approved by vote of the Board of Selectmen.

## **Section I – Operating Funds**

### **Scope**

This section of the Investment Policy applies to short term operating funds such as general funds, special revenue funds, enterprise funds, bond proceeds and capital project funds.

### **Investment Instruments**

The Treasurer may invest in the following instruments:

- Massachusetts State Pooled Funds *Unlimited amount*
  - 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. MMDT seeks to obtain the highest possible level of current income consistent with the preservation of capital and liquidity by investing in a diversified portfolio of high quality money market instruments with an average dollar-weighted portfolio maturity of 90 days or less. MMDT investments are not guaranteed by the State, FDIC or any other governmental agency.
- US Treasury Obligations *Unlimited amount*
  - Treasury obligations must be held to maturity. The maturity date of these securities must be no greater than one year from the date of purchase.
- US Agency Obligations *Unlimited amount*

- Agency obligations must be held to maturity. The maturity date of these securities must be no greater than one year from the date of purchase.
- Bank accounts or Certificate of Deposit accounts (CD's) with a final maturity no greater than one year from the date of purchase may be made for unlimited amounts if the deposit is fully collateralized by a third party agreement or securities owned by a depository institution that have been segregated from the day-to-day assets of the institution in order to provide collateralization.
- Bank accounts, Certificate of Deposit accounts (CD's) and/or brokered CD's with a final maturity no greater than one year from the date of purchase up to the FDIC coverage limits. All account balances in a single depository institution are considered in the aggregate to determine FDIC coverage limits.
- Bank accounts or Certificate of Deposit accounts (CD's) with a final maturity no greater than one year from the date of purchase may be made for unlimited amounts if the depository institution is a member of the Depository Insurance Fund (DIF) or the Share Insurance Fund (SIF). These funds insure all deposits held at a member Massachusetts state chartered savings bank or co-operative bank respectively.
- Money Market Mutual Funds that are registered with the Securities & Exchange Commission that have received the highest possible rating from at least one nationally recognized statistical rating organization and as referenced in Massachusetts General Laws Chapter 44 Section 55.
- Uninsured or unsecured bank accounts or Certificate of Deposit accounts (CD's) with a final maturity no greater than one year from the date of purchase are allowed to be held by the Town subject to the following limitations:
  - The aggregate uninsured portion of deposits held at any one institution cannot exceed 5% of the institutions total deposits reflected on the bank's last filed FDIC Call Report.
  - No more than 35% of the Town's funds may be held in uninsured accounts. This percentage may be increased for no more than 30 days during times of heavy collections or in anticipation of large payments to be made by the Town such as debt service, pension expense or other expenses determined by the Treasurer as necessitating special cash handling.

### **Diversification**

The diversification of funds between financial institutions is another important tool available to the Treasurer to ensure the safety of funds on deposit. Given the above limitations regarding investment types and dollar limits as well as insurance coverage requirements, the need to place further limitations on the funds placed in one financial institution is not necessary provided the following:

- All financial institutions with which the Town conducts business will be reviewed by the Treasurer on a quarterly basis utilizing the Veribanc ratings report. In addition, the Treasurer will review the

Call Reports and/or the Uniform Bank Performance Report of any institution receiving a “Yellow” classification or receiving less than three stars on the previous quarter’s Veribanc report, noting trends in capital ratios, net income, operating expenses, loan losses and loan delinquencies, or any other determining factors which may have resulted in the lower rating (*see Exhibit C*). The Treasurer will meet with representatives of the institution, as necessary, to further enforce the financial review.

- The Treasurer will, after conducting this review, determine the proper deposit levels to maintain at such institutions or implement an “exit” plan, if necessary, for the eventual removal of Town funds from the institution.

As a sound practice, however, the Treasurer will attempt to maintain no more than 25% of the Town’s *total funds* in one financial institution or 35% with a single advisor.

Also, in accordance with Chapter 44, Section 55 of Massachusetts General Laws, the Treasurer will not at any one time have on deposit in a bank or trust company or banking company an amount exceeding 60% of the capital and surplus of such bank or trust company or banking company unless satisfactory security is given for such excess.

## **Section II – Trust & Other Special Funds**

### **Scope**

This section of the Investment Policy applies to funds with special circumstances such as stabilization, 32B funds and the depreciation, stabilization and pension funds of the light department.

The above funds may be established as a pooled investment portfolio. The accounting of each fund will be maintained separately to ensure that each fund receives their proportionate share of interest, realized and unrealized gains or losses.

### **Investment Instruments**

Massachusetts General Laws 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 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. Massachusetts General Law Chapter 167 Section 15A and Section

15B describes the list of legal investments for savings banks which dictates the allowable investments for municipalities.

The Treasurer may invest in the following instruments:

- Massachusetts State Pooled Funds *Unlimited amount*
  - 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. MMDT seeks to obtain the highest possible level of current income consistent with the preservation of capital and liquidity by investing in a diversified portfolio of high quality money market instruments with an average dollar-weighted portfolio maturity of 90 days or less. MMDT investments are not guaranteed by the State, FDIC or any other governmental agency.
- U. S. Treasuries that maybe sold prior to maturity: Unlimited amounts (With maturity limits as stated in the interest rate risk section of this policy)
- U.S. Agency obligations that maybe sold prior to maturity. Unlimited amounts (With maturity limits as stated in the interest rate risk section of this policy)
- Bank accounts or Certificate of Deposit accounts (CD's) with no limit to the length of maturity from the date of purchase may be made for unlimited amounts if the depository institution is a member of the Depository Insurance Fund (DIF) or the Share Insurance Fund (SIF). These funds insure all deposits held at a member Massachusetts state chartered savings bank or co-operative bank respectively.
- Bank accounts, Certificate of Deposit accounts (CD's) and/or brokered CD's with length of maturity limits from the date of purchase, as stated in the interest rate risk section of this policy, up to the FDIC coverage limits. All account balances in a single depository institution are considered in the aggregate to determine FDIC coverage limits.
- Bank accounts or Certificate of Deposit accounts (CD's) with length of maturity limits from the date of purchase, as stated in the interest rate risk section of this policy, may be made for unlimited amounts if the deposit is fully collateralized by a third party agreement or securities owned by a depository institution that have been segregated from the day-to-day assets of the institution in order to provide collateralization.
- Uninsured or unsecured bank accounts or Certificate of Deposit accounts (CD's) with a final maturity no greater than two years from the date of purchase are allowed to be held by the Town subject to the following limitations:
  - The aggregate uninsured portion of deposits held at any one institution cannot exceed 5% of the institutions total deposits reflected on the bank's last filed FDIC Call Report.
  - No more than 35% of the Town's funds may be held in uninsured accounts.

- The credit worthiness of the depository will be tracked by Treasurer utilizing the Veribac rating report. *(see Diversification section)*
- 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.



## Treasurer & Assistant Treasurer Annual Disclosure to Town Clerk

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This annual report to the Town Clerk is intended to disclose any personal investments or lending relationships with financial institutions doing business with the Town of Littleton. For this purpose, significant relationships are defined as stock holdings with a market value greater than \$100,000 or lending or deposit relationships greater than \$250,000.

Employee Name: \_\_\_\_\_

I currently hold an equity interest in the following institutions doing business with the Town with a total market value greater than \$100,000.

\_\_\_\_\_  
\_\_\_\_\_

I currently have a lending relationship with the following institutions doing business with the Town with an outstanding balance greater than \$250,000.

\_\_\_\_\_  
\_\_\_\_\_

I currently have a deposit relationship with the following institutions doing business with the Town with a total balance greater than \$250,000.

\_\_\_\_\_  
\_\_\_\_\_

Signed: \_\_\_\_\_

Dated: \_\_\_\_\_



Town of Littleton  
Treasurer's Cash Report  
As of September 23, 2009

<u>Bank</u>	<u>Total Balance</u>	<u>% Total</u>	<u>Coverage</u>	<u>Approx Coverage</u>	<u>Approx Uninsured</u>
				<i>(Either \$ or %)</i>	
Barthlomew	10,219,870.12	29.29%	Treas, Agcy & CD's	100%	-
Black Rock-PNC	1,509,211.29	4.33%	Legal List		N/A
BofA	162,769.12	0.47%	FDIC	250,000	-
Cambridge	142,096.82	0.41%	FDIC/DIF/coll	100%	-
Century	(191,171.69)	-0.55%	FDIC	250,000	-
Citizens Bank	1,569,104.86	4.50%	FDIC / coll	1,250,000	319,104.86
Eastern Bank	820,464.96	2.35%	FDIC / coll	100%	-
Enterprise Bank	516,553.74	1.48%	FDIC	250,000	266,553.74
Fidelity Bank	3,347,307.47	9.59%	FDIC/SIF	100%	-
Avidia Bank	7,048.70	0.02%	FDIC/DIF	100%	-
Lowell	1,406,822.49	4.03%	FDIC/DIF	100%	-
MELLON Middlesex Savings	75,388.92 5,541,152.37	0.22% 15.88%	FDIC FDIC/DIF	250,000 100%	- -
MMDT North Middlesex	3,411,585.59 -	9.78% 0.00%	Mass Pool Inv FDIC/DIF	100%	N/A -
Northern Bank	5,827,790.92	16.70%	FDIC / coll	100%	-
Rollstone Bank	511,261.23	1.47%	FDIC	250,000	261,261.23
UNIBANK	11,510.11	0.03%	FDIC/DIF	100%	-
	<b>34,888,767.02</b>	<b>100.00%</b>		<b>2.43%</b>	<b>846,919.83</b>

\* Policy – No more than 10% of the Town's funds may be held in uninsured or uncollateralized accounts.

Town of Littleton  
Treasurer's Cash Report

As of September 23, 2009

<i>Institution</i>	<i>Operating Accounts</i>	<i>Bank Money Market Accounts</i>	<i>State Auth Pools</i>	<i>Money Market Mutual Funds</i>	<i>Bank CD's</i>	<i>US Treasuries &amp; Agencies</i>	<i>Trust Funds</i>	<i>Special Funds (Stabilization, Light Dept, 32B etc)</i>	<i>Totals</i>	<i>% of Total</i>
<i>Eastern Bank</i>	284,965.33	535,499.63	-	-	-	-	-	-	820,464.96	2.35%
<i>Middlesex Svgs</i>	-	281,429.27	-	-	3,210,940.96	-	-	2,048,782.14	5,541,152.37	15.88%
<i>Cambridge Svgs</i>	142,096.82	-	-	-	-	-	-	-	142,096.82	0.41%
<i>Century Bank</i>	(422,777.98)	-	-	-	-	-	-	231,606.29	(191,171.69)	-0.55%
<i>Bank of America</i>	162,769.12	-	-	-	-	-	-	-	162,769.12	0.47%
<i>Citizens Bank</i>	161,353.66	407,751.20	-	-	-	-	-	1,000,000.00	1,569,104.86	4.50%
<i>Enterprise Bank</i>	-	-	-	-	-	-	-	516,553.74	516,553.74	1.48%
<i>Fidelity Co-Op</i>	-	988,551.74	-	-	-	-	-	2,358,755.73	3,347,307.47	9.59%
<i>Avidia Bank</i>	-	7,048.70	-	-	-	-	-	-	7,048.70	0.02%
<i>Lowell Five</i>	-	1,406,822.49	-	-	-	-	-	-	1,406,822.49	4.03%
<i>BNY Mellon</i>	75,388.92	-	-	-	-	-	-	-	75,388.92	0.22%
<i>MMDT</i>	-	-	1,946,158.59	-	-	-	-	1,465,427.00	3,411,585.59	9.78%
<i>Northern Bank</i>	18,826.27	5,293,487.76	-	-	-	-	-	515,476.89	5,827,790.92	16.70%
<i>Rollstone Bank</i>	500.00	-	-	-	-	-	-	510,761.23	511,261.23	1.47%
<i>UniBank</i>	11,510.11	-	-	-	-	-	-	-	11,510.11	0.03%
<i>Black Rock-PNC</i>	-	-	-	-	-	-	-	1,509,211.29	1,509,211.29	4.33%
<i>Bartholomew</i>	-	671,144.77	-	-	-	-	3,061,878.85	6,486,846.50	10,219,870.12	29.29%
<b>Totals</b>	<b>434,632.25</b>	<b>9,591,735.56</b>	<b>1,946,158.59</b>	<b>-</b>	<b>3,210,940.96</b>	<b>-</b>	<b>3,061,878.85</b>	<b>16,643,420.81</b>	<b>34,888,767.02</b>	<b>100.00%</b>
<i>% of Total</i>	1.25%	27.49%	5.58%	0.00%	9.20%	0.00%	8.78%	47.70%	100.00%	

<u>Interest Breakdown</u>	<u>FY Totals</u>	<u>Usage</u>
<u>General Fund &amp; Stabilization</u>		
GF Operating Accts	10,950.36	Checking & MMDA's
GF Term & Dedicated	42,072.95	CD's & BAN proceeds
GF Net Portfolio Earnings	10,116.68	General Fund, Stabilization & 32B fund
GF Unrealized G/L	28,898.05	General Fund, Stabilization & 32B fund
<i>Total GF</i>	<i>92,038.04</i>	
<u>Light Department</u>		
Light Dept Interest	28,681.91	LELD Stabilization & Pension funds
LD Net Portfolio	10,573.51	LELD Depreciation fund
LD Unrealized G/L	30,728.75	LELD Depreciation fund
<i>Total LD</i>	<i>69,984.17</i>	
<u>Trust Funds</u>		
Unrealized G/L	284,481.73	
Net Portfolio Earnings	15,062.13	
<i>Total Trust Funds</i>	<i>299,543.86</i>	
<i>Total Investment Income</i>	<i>461,566.07</i>	

**Exceptions to Policy**

Securities currently rated below "A" rating:

<u>Fund</u>	<u>Issue</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Rating</u>
Trust Fund	XYZ Bond	12/31/2010	150,000.00	135,000.00	BBB+

**Deposit Limits / Uninsured Deposits Exceptions**

None

FI Name \_\_\_\_\_

Veribanc Rating \_\_\_\_\_ Period Ending \_\_\_\_\_

Category	YTD 3/31	YTD 6/30	YTD 9/30	YTD 12/31
Tier 1 Capital (Pg 11a)				
Tier 1 Capital to Risk-Weighted Assets(Pg 11a)				
Leverage Ratio (Tier 1 to Ave Assets)(Pg 11a)				
Net Income for period (Dollars)(Pg2)				
Net Income % Average Assets (pg1)				
Non-accrual & OREO loans (pg 8)				

Comments:

Recommendation:

The Uniform Bank Performance Report compiles both a dollar representation and a ratio representation of a bank on a year-to-date basis each quarter. From the following FDIC web site <http://www2.fdic.gov/ubpr/UbprReport/SearchEngine/Default.asp> enter the FDIC certificate number or name to search for the institution. Run the report on the last 5 periods. Enter the information in the appropriate column.