



TOWN & COUNTY OF NANTUCKET  
*BOARD OF SELECTMEN*

INVESTMENT POLICY

*Effective date:*  
*Adopted: 09/15/2011*  
*Revised: 09/14/2011*

*Applicability: Town, School, Enterprise, and County Departments*

**I. Purpose**

The purpose of an investment policy is to safe guard the investment of General Funds, Special Revenue Funds, Enterprise Funds, and Capital Projects Funds.

The purpose of this process is to:

1. Ensure the Town & County invests are in accordance with the applicable General Laws of Massachusetts.
2. Ensure the Town & County investment funds maximize a high rate of return with minimal risk.
3. Ensure the Town & County investments are diversified.
4. Ensure the Town & County investments are not invested in any instrument exposed to foreign currency risk.

**II. Policy**

In accordance with the General Laws of Massachusetts (MGL) Chapter 44, Section 55B requires the Treasurer to invest all public funds at the highest possible rate of interest reasonable available, taking into account acceptable levels of safety, liquidity, and yield while meeting the daily cash requirements for the operation of the Town & County.

1. 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. 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.
2. Liquidity – The overall 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.
3. 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 the General Laws of Massachusetts or Town By-Laws.

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

1. **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 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 & County on a quarterly basis. All securities not held directly by the Town & County will be held in the Town or County's name, whichever is applicable, 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.
2. **Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Short-term investments for funds covered in the Process – Operating Funds section which are by statute limited to one year or less in maturity with all securities held to maturity. Longer term investments will be made for periods not longer than seven years, maintaining an average maturity no greater than three years for the portfolio.
3. **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 the Process - Operating Funds section are by statute limited to US Treasury or Agency securities which carry "AAA" ratings. Longer term investments in fixed income securities will be made principally for capital preservation and income potential. Corporate debt must be rate "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 the policy if held in the portfolio. The Treasurer and/or advisor may sell the security if a further decline in value is expected.
4. **Concentration of Credit Risk** – Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Town & County's investment in a single issuer. The Town & County 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 Instruments section of this policy.
5. **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 & County will not invest in any instrument exposed to foreign currency risk.

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 & County as well as any material personal financial investment positions or loans with these same institutions.

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's 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 speculations but for investment considering the probable safety of their capital as well as the probably income to be derived.

In addition this section would also apply to the General Laws of Massachusetts Chapter 44 Section 55A which refers to the liability of the Treasurer for losses due to bankruptcy.

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, Town Administration / County Administration, and the Board of Selectmen / County Commissioners containing the following information:

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

### **III. Process – Operating Funds**

This section of the investment policy pertains to short term operating funds such as general funds, special revenue funds, enterprise funds, bond proceeds and capital project funds.

The Treasurer may invest in the following instruments:

1. Massachusetts State Pooled Funds - 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. The Treasurer may invest an unlimited amount.
2. US Treasury Obligations – 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. The Treasurer may invest an unlimited amount
3. US Agency Obligations – 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. The Treasurer may invest an unlimited amount
4. 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.
5. 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.
6. Bank accounts or Certificate of Deposit (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.
7. 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 the General Laws of Massachusetts (MGL) Chapter 44 Section 55.
8. Uninsured or unsecured bank accounts or Certificates 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 & County subject to the following limitations:

- i. 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.
- ii. No more than 35% of the Town & County 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 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:

1. All financial institutions with which the Town & County 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 resulting in the lower rating. The Treasurer will meet with the representatives of the institution, as necessary, to further enforce the financial review.
2. The Treasurer will, after conducting this review, determine the proper deposit levels to maintain at such institutions or implement an "exit" plan, if necessary, from the eventual removal of Town & County funds from the institution.

As a sound practice, however, the Treasurer will attempt to maintain no more than 40% of the Town & County's total funds in one financial institution or 50% with a single advisor.

Also, in accordance with Chapter 44, Section 55 of the General Laws of Massachusetts (MGL), 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 each bank or trust company or banking company unless satisfactory security is given for such excess.

#### ***IV. Process – Trust and Other Special Funds***

This section of the investment policy applies to funds with special circumstances such as stabilization, 32B funds and the depreciation.

Trust 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.

The General Laws of Massachusetts (MGL) 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 an in co-operative banks, or in shares of savings and loan associations or in share or savings depositors of federal savings and loan associations doing business in the Commonwealth.

Additionally the Town & County 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 15% of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than 1 ½ % of such funds be invested in the stock of any one bank or insurance company. The General Laws of Massachusetts (MGL)

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 trust funds in the following instruments:

1. Massachusetts State Pooled Funds - 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. The Treasurer may invest an unlimited amount.
2. US Treasuries – Us Treasuries maybe sold prior to maturity. The Treasurer may invest an unlimited amount with maturity limits as stated in the interest rate risk section of this policy.
3. US Agencies – US Agency obligations that may be sold prior to maturity. The Treasurer may invest an unlimited amount with maturity limits as stated in the interest rate risk section of this policy.
4. Bank accounts or Certificate of Deposit (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.
5. 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.
6. 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.
7. Uninsured or unsecured bank accounts or Certificates of Deposit accounts (CD's) with a final maturity no greater than on e year from the date of purchase are allowed to be held by the Town & County subject to the following limitations:
  - i. The aggregate uninsured portion of deposits held at any one institution cannot exceed %% of the institutions total deposits reflected on the bank's last filed FDIC Call Report.
  - ii. No more than 35% of the Town & County funds may be held in uninsured accounts.
  - iii. The credit worthiness of the depository will be tracked by the Treasurer utilizing Veribanc rating report.
8. Common and preferred stock, investment funds, and other items that are listed in the State of Massachusetts List of Legal Investments. Link:  
[http://www.mass.gov/?pageID=ocaterminal&L=5&L0=Home&L1=Business&L2=Banking+Industry+Services&L3=Banking+Legal+Resources&L4=Laws+%26+Regulations&sid=Eoca&b=terminalcontent&f=dob\\_leglis&csid=Eoca](http://www.mass.gov/?pageID=ocaterminal&L=5&L0=Home&L1=Business&L2=Banking+Industry+Services&L3=Banking+Legal+Resources&L4=Laws+%26+Regulations&sid=Eoca&b=terminalcontent&f=dob_leglis&csid=Eoca)

## **V. *Timeline***

The effectiveness of the policy will be reviewed each fiscal year at the beginning of the budgetary cycle and refined accordingly.