

Section	Sub-Section	Recommendation	Adopt Yes/No	Bylaw/Town Meeting/Policy	Delivery date	Owner/Manager	Resources
A. Financial Policies	A-1	Adopt a full-scope Annual Budget policy		Policy			
A. Financial Policies	A-2	Adopt a consolidated Reserves policy and set prudent target levels		Policy			
A. Financial Policies	A-3	Set a year-to-year debt funding target within the general fund budget		Policy			
A. Financial Policies	A-4	Clearly define what projects are included in the capital plan		Policy			
A. Financial Policies	A-5	Establish an ordered list for prioritizing capital projects		Policy			
B. Capital Planning Procedures	B-1	Budget for maintenance costs within department-level capital line items					
B. Capital Planning Procedures	B-2	Remove LSRHS from the town's capital plan					
B. Capital Planning Procedures	B-3	Expand the information captured on capital project submission sheets					
B. Capital Planning Procedures	B-4	Reconsider the Capital Planning bylaw		Bylaw			
C. Funding Strategies	C-1	Align the capital plan with funding schemes that do not rely on exclusions					
C. Funding Strategies	C-2	Continue to build reserves in capital-related special purpose stabilization funds					
C. Funding Strategies	C-3	Close the Melone fund and transfer its balance to the capital stabilization fund		Town Meeting			
C. Funding Strategies	C-4	Close the surplus vehicles revolving fund		Town Meeting			
D. Capital Forecast	Capital Funding Targets	Utilize a Capital Targets Tool and link to financial forecast					
D. Capital Forecast	New Growth	Dedicate 50-75% of all new growth levy amounts to capital expenditures or reserves					
D. Capital Forecast	Stabilization Fund Override	Stabilization fund override to build balance in the capital stabilization fund		Town Meeting			

Sources:

[Link to DLS Report April 2020: https://s3-us-west-2.amazonaws.com/cdn.sudbury.ma.us/wp-content/uploads/sites/260/2020/08/Sudbury_Capital_Report_DLS.pdf?version=77abcfb91cafc53f28a00d8a3f2095c](https://s3-us-west-2.amazonaws.com/cdn.sudbury.ma.us/wp-content/uploads/sites/260/2020/08/Sudbury_Capital_Report_DLS.pdf?version=77abcfb91cafc53f28a00d8a3f2095c)

[Link to DLS Capital Targets Workbook: https://sudbury.sharefile.com/share/view/sdef47ec7fcb48a38](https://sudbury.sharefile.com/share/view/sdef47ec7fcb48a38)

[Link to Community Compact Cabinet Reports: https://www.mass.gov/service-details/community-compact-cabinet-reports](https://www.mass.gov/service-details/community-compact-cabinet-reports)

[Link to S&P Report June 2020: https://www.mass.gov/service-details/community-compact-cabinet-reports](https://www.mass.gov/service-details/community-compact-cabinet-reports)

[Link to SFPCCP Jan 2019: https://sudbury.ma.us/sfpccf/sfpccf_01222019_bos_presentation/](https://sudbury.ma.us/sfpccf/sfpccf_01222019_bos_presentation/)

Sub-Section	Recommendation	Goal	12/8/2020
A-1	Adopt a full-scope Annual Budget policy		Enterprise funds policies
A-2	Adopt a consolidated Reserves policy and set prudent target levels	Establish a goal of endeavoring to realize annual free cash certifications equivalent to 3-5% of prior year general fund revenues.	
A-2	Adopt a consolidated Reserves policy and set prudent target levels	Achieve and maintain a combined target balance for all capital-related special purpose stabilization funds equal to 2% of prior year general fund revenues.	Long range target - 3%
A-2	Adopt a consolidated Reserves policy and set prudent target levels	Spell out the specific appropriate usages for each type of reserve.	
A-2	Adopt a consolidated Reserves policy and set prudent target levels	Set a retained earnings target for any enterprise fund not subsidized by the general fund.	Consolidate special reserve funds to capital stabilization fund?
A-2	Adopt a consolidated Reserves policy and set prudent target levels	Include a statement tht the select board will request an annual update from the Board of Assessors on the balance of the overlay account.	Yes
A-3	Set a year-to-year debt funding target within the general fund budget	Ensure that the new policy has provisions that state the objective to gradually and consistently pursue future debt issuances financed by within-levy dollars and set a debt service target range to be achieved and maintained.	Template sets limits but doesn't address how.
A-4	Clearly define what projects are included in the capital plan		Define capital
A-5	Establish an ordered list for prioritizing capital projects		

Sub-Section	Recommendation	Goal
B-1	Budget for maintenance costs within department-level capital line items	Not all depts have budget built in. Town Manager's capital budget as a source.
B-2	Remove LSRHS from the town's capital plan	Contracts, maintenance, 3rd party user fees, understand capital plan/asset sheet
B-3	Expand the information captured on capital project submission sheets	Yes
B-4	Reconsider the Capital Planning bylaw	CIAC

Sub-Section	Recommendation	Goal	12/8/2020
C-1	Align the capital plan with funding schemes that do not rely on exclusions		Yes
C-2	Continue to build reserves in capital-related special purpose stabilization funds		Yes
C-3	Close the Melone fund and transfer its balance to the capital stabilization fund		Town meeting vote
C-4	Close the surplus vehicles revolving fund		Yes - TM 2021, % of sale to capital stabilization fund (p. 21)
	*CPA		Not controlled/predictable by Town

Sub-Section	Recommendation	Goal
Capital Funding Targets	Utilize a Capital Targets Tool and link to financial forecast	Future?
New Growth	Dedicate 50-75% of all new growth levy amounts to capital expenditures or reserves	Informal
Stabilization Fund Override	Stabilization fund override to build balance in the capital stabilization fund	



TOWN OF

SUDBURY

COMMUNITY PRESERVATION ACT (CPA) TRUST INVESTMENT POLICY

This policy was developed specifically for Sudbury's CPA Trust Funds. This investment policy is intended to provide guidelines for the management and investment of all CPA Trust funds under the control of the Town Treasurer and Assistant Treasurer.

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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

The following policy statement applies to only Community Preservation Trust (CPA) funds.

OBJECTIVE

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. 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.

In addition to conforming to all applicable federal, state and other legal requirements, the primary objectives, in the order of priority, of investment activities shall be:

SAFETY:

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 in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

Deposits – Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town's policy for custodial risk is to rely on FDIC and DIF insurance coverage. (See glossary for definitions) This type of risk may be mitigated by maintaining deposits at banking institutions that carry both FDIC and DIF insurances.

Investments – Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Credit risk may be mitigated by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Town will do business. The financial health and overall credit worthiness of each institution is monitored on a regular basis. Rating systems and qualifications are discussed in greater detail elsewhere in this policy document.

Deposits and Investments–Foreign Currency Risk: Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or

deposit. The Town does not invest CPA trust funds in any instruments or positions that expose the Town to foreign currency risk.

Investments–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. Concentration of credit risk may be mitigated by limiting by percentage a maximum threshold for a single issuer of no more than 10% of total CPA Trust portfolio as opposed to simply using one or more qualified investment broker/dealers.

Investments–Interest Rate Risk of Securities: Interest rate risk for securities is the risk that changes in the interest rates of instruments will adversely affect the fair value on an investment. The Town’s policy for interest rate risk of all term investments for CPA trust funds is to limit investments to qualified, U.S. backed securities with a maturity of (3) three years or less from date of purchase. Also, the Town employs a laddering approach of available longer-term funds whenever possible to take advantage of positive interest rate changes in the market so long as keeping within the allowed horizon. Therefore, while holding individual instruments to maturity is typical for CPA trust funds the Treasurer maintains the flexibility and authority to sell, swap or otherwise adjust an investment portfolio at his/her discretion without further verbal or written authorization, so long as all standards of prudence and policy can be applied.

LIQUIDITY

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrently with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Unintended liquidity and cash flow problems may be further mitigated by the reporting and performance measures mentioned elsewhere in this policy document.

YIELD

The Investment portfolio shall be designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. The Treasurer maintains the flexibility and authority to sell swap or otherwise adjust an investment portfolio at his/her discretion without further verbal or written authorization, so long as all standards of prudence and policy can be applied.

STANDARDS OF CARE

PRUDENCE

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers 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 deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town.

DELEGATION OF AUTHORITY

Authority to manage the investment program is granted to the Town Treasurer derived from the following: Massachusetts General Laws, Chapter 44, section 55B and Acts of 1985, Chapter 740. Responsibility for the operation of the investment program is delegated to the Town Treasurer, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements and banking service contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Town Treasurer. The Town Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

The Town Treasurer shall notify the Town Manager immediately if there is anything that raises a concern with respect to the CPA Trust's banking and investment activities. All other communications and reporting requirements are to be discussed elsewhere in this policy document.

SAFEKEEPING AND CUSTODY

AUTHORIZED FINANCIAL DEALER AND INSTITUTION

Financial institutions should be selected first and foremost with regard to safety. The Town subscribes to and uses one or more of the recognized bank rating services, such as VERIBANC®. The Town also uses rating information obtained from Bankrate.Com and Bauer Financial.com. Further information with respect to individual banks may be obtained directly through the FDIC. Financial institutions are required to provide proof of FDIC (and DIF) insurance and must maintain suitable rating. Investment Brokers/Dealers should be widely recognized, reputable and highly rated. The investment brokers/dealers used for CPA trust funds must maintain institutional ratings with Standard & Poor's and/or Moody's. Institutions must provide proof of SIPC membership and excess SIPC insurance providing excess account protection up to 100% against claims arising due to misplacement, destruction, burglary, robbery, embezzlement, abstraction, failure to obtain or maintain possession or control of clients' securities or to maintain the special reserve bank account required by applicable rules (SEC 15c-3).

The Treasurer will review each financial institution conducting business with the Town on an annual basis, or more frequently should industry news on a specific entity or other information suggest a downgrading of credit worthiness or going concern. The Town Treasurer will inform the Town Manager of any changes in agreement status; additions or deletions to authorized banks, brokers and dealers. Active relationships are also reported in detail and balances separately confirmed by external audit on an annual basis.

All financial institutions and broker/dealers who desire to become qualified bidders for cash management services and investment transactions must supply the following as appropriate:

- depositories, custodians, and dealers are selected or qualified through competitive procedures, including requests for proposals for cash management services;
- Provide compliance certification from the Broker/Dealer and an independent auditor for capital adequacy requirements. Broker/Dealers conducting transactions with the Town are required to comply with the Federal Reserve Bank of New York's capital adequacy guidelines as a condition of doing business.
- audited financial statements;
- proof of National Association of Securities Dealers (NASD) certification;
- proof of state registration;
- completed appropriate module of Town's Triennial Request for Proposal process; and
- Certification of having read the Town's investment policy.

INTERNAL CONTROLS

The Town Accountant is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse. The internal controls' structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation costs and benefits require estimates and judgments by management.

Accordingly, the Finance Director shall establish a process for independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion;
- Separation of transaction authority from accounting and record keeping;
- Custodial Safekeeping;
- Avoidance of physical delivery securities;
- Clear delegation of authority to subordinate staff members;
- Written confirmation of telephone transactions for investments and wire transfers;
- Wire transfer agreements with lead bank or third party custodian.

DELIVERY VS. PAYMENT (DVP)

All trades where applicable will be executed by deliver vs. payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

SUITABLE AND AUTHORIZED INVESTMENTS

Consistent with the Massachusetts General Laws and generally accepted practices the following investments will be permitted by this policy.

INVESTMENT TYPES

Excerpted from General Operating Funds: (MGL, Ch. 44, sec. 55, 55A, 55B)

1. U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations with a maturity of less than one year;
2. Certificates of Deposit from trust companies, national banks, savings banks, banking companies, or cooperative banks. No more than 10% of the portfolio shall be invested in CD's in any one financial institution. CD's may be purchased directly or through broker in

secondary markets providing principal and annual income do not exceed current FDIC insurance level(s).

3. Money Market Deposit Account from a commercial bank, mutual savings bank, savings and loans, and cooperative banks;
4. State Investment Pool (MGL Ch. 29, sec 38A);
5. Corporate Investment Grade Bonds.

COLLATERALIZATION

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.

- All cash accounts will be kept at the FDIC coverage level as a maximum unless additional collateralization or insurance (i.e. DIF coverage for Massachusetts banks) is provided and the yield is advantageous;
- Unsecured bank deposits of any kind such as other checking, savings, money market, etc. are subject to the following limitations: no more than 5% of an institution's assets and no more the 10% of the Town's cash.
- all idle cash may be deposited to the State Investment Pool which has been deemed collateralized by GASB 5;

INVESTMENT RESTRICTIONS

The Town at the present time will not invest in the following types of investments:

- Derivatives, hedging, or speculative type of investments;
- Reverse Repos, Leveraging or similar investments;
- Master Trust and Custodial Bank Security Lending Programs;
- Any other investment type omitted from this policy

INVESTMENT PARAMETERS

CASH MANAGEMENT

- All regular cash disbursement requirements shall be held in the State Investment Pool or other liquid accounts. The level required set by the Town Treasurer.

- All FDIC accounts will be kept at the current coverage level as a maximum unless additional collateralization or insurance (i.e. DIF coverage for Massachusetts banks) is provided and the yield is advantageous;
- All excess cash will be transferred to approved investment instruments or the State Investment Pool whichever is more advantageous after the minimum cash requirements have been met. At least 10% of the portfolio shall be invested in cash or marketable securities which can be sold to raise cash in one business days' notice.

DIVERSIFICATION

The Investments will be diversified by security type, by financial institution, and by maturity scheduling, whenever possible.

MAXIMUM MATURITY

The Town will limit the maximum final maturity on long-term investments to (3) three years from date of purchase. Maturities should be staggered to avoid concentrations in any one maturity sector.

REPORTING

METHODS

The Town Treasurer shall prepare an investment report at least annually, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner that will allow the Town to ascertain whether the investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Town Manager, Community Preservation Committee (CPC) and Town Accountant. The report will include the following:

- A listing of individual securities held at the end of the reporting period
- Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities.
- Average weighted yield to maturity of portfolio.

Additionally, the Town Treasurer shall meet at least semi-annually with a small panel of Town staff, CPC members or other delegates selected by the CPC for the purposes of reviewing cash and investment status, prepare and/or update the CPC's 5-year financial activities forecast. The primary purpose of these meetings is to ensure open lines of communication between the Town Treasurer and CPC with regards to short and long-term cash flow requirements. The delegates will

determine whether or not the results of any meetings warrant publication of new or updated materials and distribution thereof.

PERFORMANCE STANDARDS

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should maintain a market average rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to appropriate benchmarks on a regular basis.

MARKING TO MARKET

A statement of the market value of the portfolio shall be issued at least annually. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility. The Town is required to “mark to market” all investments in the general ledger on a monthly basis. This ensures additional visibility as to price volatility that may exist.

FEEES

Fees for securities and mutual fund based investments may be charged on a managed or transaction fee basis whichever is more cost effective, as determined by the Treasurer. Fees may therefore be paid/recorded based on a pre-determined payment schedule (e.g. quarterly, annually), netted against income distributions or netted against the investment’s purchase price.

ARBITRAGE

Certification that states bond proceeds are not to be used for purposes of arbitrage. Bond issues (and any proceeds thereof) are to be used for the intended purpose; not considered surplus for investment in higher yielding, taxable securities.

EXEMPTION

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

AMENDMENTS

This policy shall be reviewed on an annual basis. Any changes must be approved by the Town Treasurer, Town Manager, Town Accountant, and Finance Director.

PERFORMANCE MONITORING

The Town Treasurer along with designated financial staff, auditor, and the Town Accountant may review the performance of the entities selected providing services through the RFP process. The review may occur off the fiscal year calendar due to information reporting and collection limitations. The results of the review will become part of the next quarterly report.

Annual Review:

- Cash accounts marked against competitors. Failure of the bank to provide competitive interest rates on comparable products and services will reflect negatively on the fee or service relationship established by a competitive proposal process. Long-term lagging of interest rates behind competitors may require an interim RFP to be executed by the Treasurer. Yield comparisons will be against competitors' product or services (i.e., checking to checking, savings to savings, money market to money market).
- Investment Yield Comparisons: Investment accounts marked against selected indices and market.
- Services Provided. Meeting contractual agreement and performance standards set by RFP.
- Annual Review of financial condition of each entity

GLOSSARY

Accrued Interest: The accumulated interest due on a bond as of the last interest payment made by the issuer.

Agency: A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee.

Amortization: The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Arbitrage: As applied to municipal debt, the investment of tax-exempt bonds or note proceeds in higher yielding, taxable securities. Section 103 of the Internal Revenue Service (IRS) Code restricts this practice and requires (beyond certain limits) that earnings be rebated (paid) to the IRS.

Average Life: The average length of time that issues of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Banker's Acceptance: A short-term non-interest bearing note sold at discount and redeemed at face value. It is secured by the goods which it finances, the bank that accepts the draft and the issuer's promise to pay. These notes trade at a rate equal to or slightly higher than certificates of deposit, depending on the market supply and demand.

Basis Point: A measure of an interest rate, i.e., 1/100 of 1 percent, or .001.

Bid: The indicated price at which a buyer is willing to purchase a security or commodity.

Book Entry Securities: A system established by the U.S. government wherein securities are transferred on the basis of computerized records maintained at the Federal Reserve, instead of actual certificates. The system was devised to facilitate the transfer of ownership and to prevent loss through destruction and theft. The vast majority of U.S. government securities are now in the form of book-entry securities.

Book Value: The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Callable Bonds: A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price: The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk: The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Management: A combination of various techniques for accelerating cash receipts, delaying cash disbursements, effectively utilizing banking services and improving investment of idle funds.

Cash sale/purchase: A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable as to maturity and yield.

Collateralization: Value of securities pledged to a specific amount or investment as supplemental security to the credit of the issuer or the broker. Collateral can be of a specific nature and priced at par or market value.

Collusion: Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

Commercial Bank: A financial institution licensed by the state and/or the federal government to receive deposits, allow demand accounts, lend money, and provide trust services and other related services. Generally banks are allowed to engage in more varied lending activities than other financial institutions. They are owned by stockholders and are operated for profit.

Commercial Paper: An unsecured promissory note issued by corporations with a fixed maturity from 2 to 270 days. Commercial paper is normally sold at a discount from face value.

Commingle: A process by which cash is mixed together so that the identity of individual items is lost. Commingle is vastly different from combine or consolidate and is generally not legal or appropriate for public funds.

Compensating Balances: A method of paying the bank for providing services. The actual bank service charges form the basis for determining the level of balances to be left with the bank. Adjustments are allowed for reserve requirements and potential interest that could have been earned by the depositor.

Confirmations: Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures.

Consolidate: A process by which cash, or any other item, is combined while maintaining the identity of each item. Consolidating several bank accounts into one account is always accomplished by a continuation of separate book balances for each fund on the government unit's ledger. Consolidation is a legal and efficient way to gain economies of scale in cash management. Also referred to as "pooling of funds".

Coupon Equivalent: A financial technique that converts the discount yield basis of certain securities into the equivalent bond yield to facilitate comparisons among all securities. Generally this technique computes the yield based on the discounted price, rather than on the face value, and covers a 365-day period, rather than the 360 days used for discount yield.

Coupon Rate: The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate".

Credit Quality: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is

lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Risk: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security. Credit Risk is the risk of loss due to the failure of the security issuer or backer.

Current Yield (Current Return): A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

CUSIP: A uniform identification method established for municipal, U.S. government securities and corporate securities by the Committee on Uniform Security Identification Procedures under the auspices of the American Bankers Association.

Custodial Safekeeping: Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.

Delegation of Authority: Senior and Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

Delivered Securities: Delivered Securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

Delivery versus Payment (DVP): a type of securities transaction in which the purchaser pays for the securities when

they are delivered either to the purchaser or his/her custodian.

Derivatives: A derivative is a financial instrument created from or whose value depends on (is derived from) the value of one or more underlying assets or indexes of asset values. The term "derivative products" refers to instruments or features such as collateralized mortgage obligations (CMOS), interest-only (IOYs) and principal-only (PO'S), forwards, futures, currency and interest rate swaps, options, floaters/inverse floaters, and caps/floors/collars.

DIF: Depositors Insurance Fund (DIF) protection. At DIF member banks, all funds in a non-interest bearing transaction account are insured over and above the FDIC insurance limits in place. Also, all other account deposits above the current FDIC limit are insured by the DIF.

Discount: Yield basis on which short-term, non-interest bearing money market securities are quoted. A rate quoted on a discount basis understates bond equivalent yield, which must be calculated when comparing the return against coupon securities.

General Operating Funds: Any available cash not designated for a special purpose interest bearing account or posted on a warrant. This would include general revenue and receipts and segregated fund balances on the Town's General Ledger whose interest earnings benefit the Town.

FDIC Insurance Coverage: The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United States (U.S.) federal government that preserves public confidence in the banking system by insuring deposits.

Interest Rate Risk:

The risk that the market value of securities in the portfolio will fall due to changes in general interest rates.

Investment Pools: In most states there are provisions for the creation and operation of a government investment pool. The purpose of the Pool is to allow political subdivisions to pool investable funds in order to achieve a potentially higher yield. There are three (3) types of pools: 1) state-run pools; 2) pools that are operated by a political subdivision where allowed by law and the political subdivision is the trustee; and 3) pools that are operated for profit by third parties. Prior to any political subdivision being involved-with any type of pool, a thorough investigation of the pool and its policies and procedures must be reviewed.

Leveraging: Includes purchasing securities on margin (by borrowing funds from a counterparty), selling securities short (by borrowing the security from a third party and selling in anticipation of higher interest rates), purchasing long-term bonds with short-term funds, and trading futures contracts without an exact offsetting cash market position.

Liquidity: Ease with which a financial instrument can be converted to cash quickly with minimal loss of principal.

Marketability: Ability to sell large blocks of money market instruments quickly and at competitive prices.

Pooling: See consolidation; also connotes combining of assets of different entities (i.e., two or more cities) for investment purposes while maintaining separate accounting trails.

Proposal: A written pledge by a bank or other service provider to supply certain

cash management services for a certain fee or compensating balance.

Prudent Person Standard: 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.

Repurchase Agreement: A repurchase agreement (repos) is the sale by a bank or dealer of a government security with the simultaneous agreement to repurchase the security on a later date. Repos are commonly used by public entities to secure money market rates of interest.

Request for Proposals: A written notification prepared by an organization requesting offers to provide certain services and to specify prices for these services. The RFPs are generally quite detailed as to the types of services needed. In the Commonwealth of Massachusetts the statutes require municipalities to use Chapter 32B and establish a triennial review process of cash management services contracts.

Retirement Fund: Established to address the long-term unfunded liability requirements of the Town's retirement benefits. Under the current policy the income from the Retirement Fund will pay for non-contributory retirement obligations, unanticipated sick-leave buy back requirements, and any unanticipated funding requirements issued by the Middlesex County Retirement System.

Reverse Repo: In a reverse repo, an investor owns securities, such as a Treasury note, U.S. government agency bond or other security, that a bank or

dealer purchases under an agreement to sell back to the investor on a specified date, at an agreed-upon interest rate.

Savings and Loan Association: A national or state chartered institution that accepts deposits and lends them out as mortgages. These associations generally are owned by the depositors, not by stockholders as in the case of banks.

Security Lending Programs: As part of their trust and custody management services, banks like other money managers offer to lend securities owned by institutional clients to brokers in exchange for collateral. The collateral, which is usually cash, is reinvested at a rate higher than the rebate rate paid to the broker. The resulting proceeds are subsequently split between the lending agent and the client. Unsound collateral reinvestment practices can result in some master trust and custodial banks incurring losses on behalf of their institutional security lending program customers. Rapidly changing interest rates, lending short and investing long, investing in speculative derivatives, and paying a fixed rebate while investing in floating rebate rate securities under adverse market conditions are examples of situations that can produce investment losses.

Security Lending Transaction: A security lending transaction is similar to a reverse repurchase transaction and subject to many of the same risks. While indemnifications offered may vary, the lending agreement may provide that broker credit risk, broker default risk, and collateral maintenance are risks undertaken by the lending agent. The degree of risk assumed by the lending agent generally is reflected in the split of proceeds. Lending agent credit risk, lending agent default risk and collateral

reinvestment risks are undertaken by the institutional client.

SIPC: Securities Investor Protection Corporation. A non-profit membership corporation established by Congress which insures securities and cash in customer accounts up to \$500,000 (up to \$100,000 on cash) in the event of brokerage bankruptcy. The SIPC is funded by all of its member securities broker/dealers. While it insures the account in the event that a brokerage runs out of funds to cover its claims, it does not insure against investment losses.

Separation of Duties: By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

Special Revenue Funds: All segregated fund balances required to be in interest bearing accounts.

Town Trust Funds: Gifts and donations accepted by the Trustees of Town Donations given to the Town through trust or in perpetuity agreements. A separate investment policy is maintained and formulated by the Trustees of Town Donations and will be complementary to the Town Investment Policy because the Town Treasurer is responsible for executing all approved investment activities.

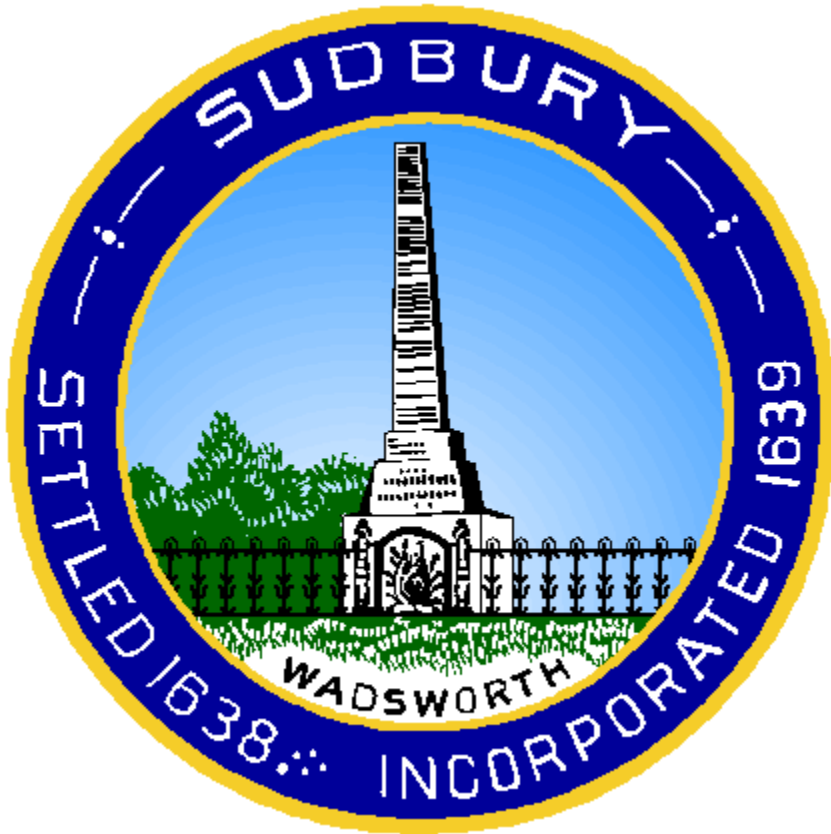
U.S. Government Agency Securities: A variety of securities issued by several U.S. agencies. Some are issued on a discount basis and some are issued with coupons. Several have the full faith and credit guarantee of the U.S. government, although others do not.

U.S. Government Treasury Securities: A non-interest bearing security issued by the U.S. Treasury to finance the national debt. Bills are issued in three-month, six-month, and one-year maturities. Notes are issued in 2, 3, 5, 10 or 30 year maturities.

Wire Transfer Agreements: This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

Yield: The rate of annual income returned on an investment, expressed as a percentage.

Town of Sudbury, Massachusetts
Draft Financial Policies Manual 12/18/2020



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Introduction

The Town of Sudbury is committed to safeguarding public funds, protecting local assets, and complying with financial standards and regulations. To that end, this manual of financial policies provides guidance for local planning and decision making. The policies as a whole are intended to outline objectives, provide formal direction, and define authority to help ensure sound fiscal stewardship and management practices. Each is a living document that should be reviewed periodically and updated as necessary.

With these policies, the Town of Sudbury, through its Board of Selectmen, Town Manager, and employees, commits to the following objectives:

- Sustaining a consistent level of service and value for residents
- Safeguarding financial integrity and minimizing risk through a system of internal controls
- Ensuring the quality and maintenance of capital assets
- Conforming to general law, uniform professional standards, and municipal best practices
- Protecting and enhancing the town's credit rating
- Promoting transparency and public disclosure

Town of Sudbury, Massachusetts
Financial Policies Manual

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FINANCIAL RESERVES

PURPOSE

To help the Town stabilize finances and maintain operations during difficult economic periods, this policy establishes prudent practices for appropriating to and expending reserve funds. With well-planned sustainability, Sudbury can use its reserves to finance emergencies and other unforeseen needs, to hold money for specific future purposes, or in limited instances, to serve as revenue sources for the annual budget. Reserve balances and policies can also positively impact the Town's credit rating and consequently its long-term cost to fund major projects.

APPLICABILITY

This policy pertains to short- and long-range budget decision making and applies to the Board of Selectmen, School Committee, and Town Manager in those duties. It also applies to the related job duties of the Finance Director, the Town Accountant, the Board of Assessors, and the Finance Committee.

POLICY

The Town of Sudbury commits to building and maintaining its reserves so as to have budgetary flexibility for unexpected events and significant disruptions in revenue-expenditure patterns and to provide a source of available funds for future capital expenditures. The Town will strive to maintain overall reserves in the level of 8-10 percent of the annual operating budget. Adherence to this policy will help the Town withstand periods of decreased revenues and control spending during periods of increased revenues. There are multiple types of reserves, including free cash, stabilization funds, retained earnings, and overlay surplus.

A. Free Cash

The Division of Local Services (DLS) defines free cash as "the remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the previous year." DLS must certify free cash before the Town can appropriate it in the new year.

By August 15th each year, the Town Accountant shall submit to DLS a year-end balance sheet, free cash checklist, and year-end reporting checklist. Once DLS certifies free cash, the Town Accountant will provide copies of the certified balance to the Board of Selectmen, Town Manager, and Finance Director.

Each spring, the Town Manager shall include the Town's free cash balance in the proposed budget submitted to the Board of Selectmen and Finance Committee for the ensuing fiscal year, along with details on the proposed uses of and/or retention level of free cash. Any proposed use of free cash for capital equipment or improvements shall be consistent with needs identified in the Town's capital improvement program.

The Town shall set a year-to-year goal of maintaining its free cash in the range of 3-5 percent of the annual budget. To achieve this, the Finance Director shall assist the Town Manager in proposing budgets with conservative revenue projections, and department heads shall carefully manage their appropriations to produce excess income and budget turn backs. Further, budget

decision makers will avoid fully depleting the Town's free cash in any year, so that the succeeding year's calculation can begin with a positive balance. Moreover, as much as practicable, the Town will limit its use of free cash to funding one-time expenditures (like capital projects or emergencies and other unanticipated expenditures) and will appropriate any excess above 5 percent of the annual budget to reserves or to offset unfunded liabilities.

B. Stabilization Funds

A stabilization fund is a reserve account allowed by state law to set aside monies to be available for future spending purposes, including emergencies or capital expenditures, although it may be appropriated for any lawful purpose. Prior to the adoption of this policy, the Town established and appropriated to a general stabilization fund and a special purpose stabilization fund for capital projects.

General Stabilization: The Town will endeavor to maintain a minimum balance of 5 percent of the current operating budget in its general stabilization fund. Withdrawals from general stabilization should only be used to mitigate emergencies or other unanticipated events that cannot be supported by current general fund appropriations. When possible, withdrawals of funds should be limited to the amount available above the 5 percent minimum reserve target level. If any necessary withdrawal drives the balance below the minimum level, the withdrawal should be limited to one-third of the general stabilization fund balance. Replenishment of the funds should be made annually at the Fall Town Meeting, or the earliest available meeting after Free Cash has been certified.

Capital Stabilization: The Town will appropriate annually to the capital stabilization fund so that over time it achieves a target balance sufficient to cover the Town's cash outlay for capital. Doing so enables the Town to pay outright for moderate-range capital expenditures and thereby preserve debt capacity for major, higher-dollar purchases or projects. This approach balances debt with pay-as-you-go practices and protects against unforeseen costs.

C. Overlay Surplus

The overlay is a reserve the Town uses to offset unrealized revenues resulting from property tax abatements and exemptions. Sudbury officials will prudently manage the overlay in accordance with the Town's Overlay policy to avoid the need to raise overlay deficits in the tax levy. At the conclusion of each fiscal year, the Board of Assessors shall submit to the Town Manager and Finance Director an update of the overlay reserve with data that includes, but is not limited to, the gross balance, potential abatement liabilities, and any transfers to surplus. If the balance exceeds the amount of potential liabilities, the Town Manager may request that the Board vote to declare those balances surplus available for use in the Town's capital improvement plan or for any other one-time expense.

FORECASTING

PURPOSE

To assess the range of choices available to budget decision makers when determining how to allocate resources, this policy establishes guidelines for evaluating revenue sources and the requirement to determine an expenditure strategy as part of the annual budget process and longer-range fiscal planning. Forecasting helps local officials understand the long-range implications of pending near-term decisions.

APPLICABILITY

This policy applies to the Town Manager as the Town's chief budget decision maker. It also applies to the job responsibilities of the Finance Director, School Superintendent, School Business Manager, Board of Selectmen, School Committee, and Finance Committee.

POLICY

A. Revenue Guidelines

The Town will continually seek to diversify its revenue to improve the equity and stability of sources. Each year and whenever appropriate, the Town will reexamine existing revenues and explore potential new sources. A balance will be sought between elastic and inelastic revenues to minimize any adverse effects caused by inflation or other economic changes. Additionally, intergovernmental revenues (e.g., local aid, grants) will be reviewed annually to determine their short- and long-term stability in order to minimize detrimental impacts.

The Town will generally avoid using one-time revenues to fund ongoing or recurring operating expenditures. These one-time revenue sources can include, but are not limited to, free cash, bond premiums, overlay surplus, sale of municipal equipment, legal settlements, insurance proceeds, and gifts. Additionally, the Town hereby establishes the following priority order when appropriating one-time revenues:

- General Stabilization Fund (maintenance of 5% of operating budget)
- Annual Capital Budget (target of 3% of operating budget)
- Capital Stabilization Fund (target of 3% of operating budget)
- OPEB Trust Fund

Economic downturns or unanticipated fiscal stresses may compel reasonable exceptions to the use of one-time revenue. In such cases, the Town Manager, in consultation with the Finance Director, can recommend its use for operational appropriations. Such use will trigger the Town Manager to develop a plan to avoid continued reliance on one-time revenues.

State laws impose further restrictions on how certain types of one-time revenues may be used. The Town will consult the following General Laws when the revenue source is:

- Sale of real estate: [M.G.L. c. 44, §63](#) and [M.G.L. c. 44, §63A](#)

- Gifts and grants: [M.G.L. c. 44, §53A](#) and [M.G.L. c. 53A½](#)
- Bond proceeds: [M.G.L. c. 44, §20](#)

This policy further entails the following expectations regarding revenues:

- The Assessing Department will maintain property assessments for the purpose of taxation at full and fair market value as prescribed by state law.
- Town departments that charge fees (Enterprise Funds and recreation programs, for example) shall annually review their fee schedules and propose adjustments when needed to ensure coverage of service costs.
- The Building Department will notify the Finance Director of any moderate-to-large developments that could impact building permit volume.
- Department heads will strive to be informed of all available grants and other aid and will carefully consider any related restrictive covenants or matching requirements (both dollar and level-of-effort) to determine the cost-benefit of pursuing them.
- Revenue estimates will be adjusted throughout the budget cycle as more information becomes available.

B. Expenditure Guidelines

Annually, the Town will determine a particular budget approach for forecasting expenditures, either maintenance (level service), level funded, or one that adjusts expenditures by specified increase or decrease percentages (either across the board or by department). A maintenance budget projects the costs needed to maintain the current staffing level and mix of services into the future. A level funded budget appropriates the same amount of money to each municipal department as in the prior year and is tantamount to a budget cut because inflation in mandated costs and other fixed expenses still must be covered.

C. Financial Forecast Guidelines

To determine the Town's operating capacity for each forthcoming fiscal year, the Finance Director will annually create and provide the Town Manager with a detailed budget forecast. The Finance Director shall also annually prepare a three-year financial projection of revenues and expenditures for all operating funds.

These forecasts shall be used as planning tools in developing the following year's operating budget as well as the five-year capital improvement plan.

To ensure the Town's revenues are balanced and capable of supporting desired levels of services, forecasts for property taxes, local receipts, and state aid shall be conservative based on historical trend analyses and shall use generally accepted forecasting techniques and appropriate data. To avoid potential revenue deficits, estimates for local receipts (e.g., inspection fees, investment income, license fees) should generally not exceed 90 percent of the prior year's actual collections without firm evidence that higher revenues are achievable.

Additionally, the forecast model should assume that:

- The Town will maintain its current level of services.
- Property taxes (absent overrides) will grow at the limits of Proposition 2½.
- New growth will be projected conservatively, considering the Town's three-year average by property class.
- The Town will annually meet or exceed the state's net school spending requirements.
- Local receipts and state aid will reflect economic cycles.
- The Town will pay the service on existing debt and adhere to its Debt Management policy.
- The Town will make its annual pension contributions and continue appropriating to its other postemployment benefits trust fund.
- The Town will build and maintain reserves in compliance with its Financial Reserves policy.

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OVERLAY

PURPOSE

To set guidelines for determining the annual overlay amount in the Town's budget and for deciding whether any overlay balance can be certified as surplus.

The allowance for abatements and exemptions, commonly referred to as the overlay, is an account whose purpose is to offset anticipated abatements and exemptions of committed real and personal property taxes. Effective December 7, 2016, the Municipal Modernization Act ([Chapter 218 of the Acts of 2016](#)) provides for a single overlay account. Previously, a community had to maintain separate overlay reserves for each fiscal year and could not use the surplus from one year to cover another year's deficit without a multistep process involving the assessors, accounting officer, and local legislative body. However, the Act allows all existing overlay balances to be transferred to a single account. Although this policy treats overlay as a single account, to continue historical information and facilitate reconciliations, the Town may elect to maintain subsidiary ledgers by levy year for overlay balances.

APPLICABILITY

This policy applies to the job duties of the Board of Assessors, Director of Assessing, Town Manager, and Finance Director.

POLICY

A. Annual Overlay

Each year, the Board of Assessors shall vote in an open meeting to authorize a contribution to the overlay account as part of the budget process and to raise it without appropriation on the Town's Tax Recap Sheet. The Principal Assessor will propose this annual overlay amount to the Board of Assessors based on the following:

- Current balance in the overlay account
- Five-year average of granted abatements and exemptions
- Potential abatement liability in cases pending before, or on appeal from, the Appellate Tax Board (ATB)
- Timing of the next certification review by the Division of Local Services (scheduled every five years under the Municipal Modernization Act) The Board of Assessors shall notify the Finance Director of the amount of overlay voted

B. Excess Overlay

Annually, the Finance Director and Director of Assessing will conduct an analysis to see if there is any excess in the overlay account by factoring the following:

- Current balance in the overlay account after reconciling with the Town Accountant's records

- Balance of the property tax receivables, which represents the total real and personal property taxes still outstanding for all levy years
- Estimated amount of potential abatements, including any cases subject to ATB hearings or other litigation

Upon determining any excess in the overlay account, the Principal Assessor shall present the analysis to the Board of Assessors for its review.

C. Overlay Surplus

If there is an excess balance in the overlay account, the Board of Assessors shall formally vote in an open meeting to certify the amount to transfer to overlay surplus and shall notify the Town Manager and Finance Director in writing of its vote. If the Town Manager makes a written request for a determination of overlay surplus, the Board of Assessors shall vote on the matter within the next 10 days and notify the Town Manager and Finance Director of the result in writing.

After being certified, Town Meeting may appropriate overlay surplus for any lawful purpose until the end of the fiscal year. However, the appropriation should be as prescribed in the Town's Forecasting policy (re: treatment of one-time revenues) and its Financial Reserves policy (re: overlay surplus). Overlay surplus not appropriated by year-end closes to the general fund's undesignated fund balance.

DEBT MANAGEMENT

PURPOSE

To provide for the appropriate issuance and responsible use of debt, this policy defines the parameters and provisions governing debt management. Policy adherence will help the Town to responsibly address capital needs, provide flexibility in current and future operating budgets, control borrowing, and maintain capital investment capacity. This policy is also intended to maintain and enhance the town's bond rating so as to achieve long-term interest savings.

APPLICABILITY

This policy applies to the Town Manager, Board of Selectmen, School Committee, and Finance Committee in their budget decision making and in the Finance Director's debt reporting. It also applies to the Finance Director's budget analysis duties. Additionally, in the role as Treasurer/Collector, the statutory responsibilities associated with debt management.

POLICY

Under the requirements of federal and state laws, the Town may periodically issue debt obligations to finance the construction, reconstruction, or acquisition of infrastructure and other assets or to refinance existing debt. The Town will issue and manage debt obligations in such a manner as to obtain the best long-term financial advantage and will limit the amount of debt to minimize the impact on taxpayers. Debt obligations, which include general obligation bonds, revenue bonds, bond anticipation notes, lease/purchase agreements, and any other debt obligations permitted to be issued under Massachusetts law, shall only be issued to construct, reconstruct, or purchase capital assets that cannot be acquired with current revenues.

A. Debt Financing

In financing with debt, the Town will:

1. Issue long-term debt only for objects or purposes authorized by state law and only when the financing sources have been clearly identified.
2. Use available funds to the greatest extent possible to reduce the amount of borrowing on all debt-financed projects.
3. Confine long-term borrowing to capital improvements and projects that cost at least \$100,000 and that have useful lifespans of at least ten years or whose lifespans will be prolonged by at least ten years.
4. Refrain from using debt to fund any recurring purpose, such as current operating and maintenance expenditures.

B. Debt Limits

The Town will adhere to these debt parameters:

1. Total debt service, including debt exclusions and any self-supporting debt, shall be limited to 10 percent of general fund revenues, with a target balance of 5-7 percent.

2. As dictated by state statute, the Town's debt limit shall be five percent of its most recent equalized valuation.

C. Structure and Term of Debt

The following shall be the Town's guidelines on debt terms and structure:

1. The Town will attempt to maintain a long-term debt schedule so that at least 50 percent of outstanding principal will be paid within ten years.
2. The term of any debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed the maximum allowed by law.
3. The Town will limit bond maturities to no more than 10 years, except for major buildings, water and water facility projects, land acquisitions, and other purposes in accordance with the useful life borrowing limit guidelines published by the Division of Local Services (DLS).
4. Any vote to authorize borrowing will include authorization to reduce the amount of the borrowing by the amount of the net premium and accrued interest.
5. The Town will work closely with its financial advisor to follow federal regulations and set time frames for spending borrowed funds to avoid committing arbitrage, paying rebates, fines and penalties to the federal government, and jeopardizing any debt issuance's tax-exempt status.

D. Bond Refunding

To achieve potential debt service savings on long-term debt through bond refunding, the Town will:

1. Issue debt with optional call dates no later than 10 years from issue.
2. Analyze potential refunding opportunities on outstanding debt as interest rates change.
3. Use any net premium and accrued interest to reduce the amount of the refunding.
4. Work with the Town's financial advisor to determine the optimal time and structure for bond refunding.

E. Protection of Bond Rating

To protect its bond rating, the Town will:

1. Maintain good communications with bond rating agencies, bond counsel, banks, financial advisors, and others involved in debt issuance and management.
2. Follow a policy of full disclosure on every financial report and bond prospectus, including data on total outstanding debt per capita, as a percentage of per capita personal income, and as a percentage of total assessed property value.
3. The Town will not rely on reserves to sustain operating deficits. Use of such reserves will be limited to helping the Town deal with short-term or emerging financial stress, but then the Town will either reduce spending to within the limits of recurring revenues, or seek approval for additional revenues from the voters of the Town.

4. The Town will not defer current costs to a future date. This includes costs such as pension costs or benefits costs. From time to time, the State offers municipalities the option of deferring payments to their pension system, or other costs, as a short-term way of balancing a fiscal year's budget. However, it is the intention of the Town of Sudbury not to rely on these options.
5. The Town will follow the policies as outlined in this policy statement.

F. Reporting

1. The Town's annual Town Report, Town Manager's Budget Request and annual town meeting warrant will give comprehensive summaries of the debt obligations of the Town.
2. The Finance Director will include an indebtedness summary as part of a report on receipts and expenditures in Sudbury's Annual Town Report.
3. The Finance Director, with the Town's financial advisor, will file the annual audit and official disclosure statement within 270 days of the end of the fiscal year.

INVESTMENTS

PURPOSE

To ensure the Town's public funds achieve the highest possible, reasonably available rates of return while following prudent standards associated with safety, liquidity, and yield, this policy establishes investment guidelines and responsibilities. It is further designed to comply with the Governmental Accounting Standards Board's recommendation that each community disclose its key policies affecting cash deposits and other long-term investments to ensure they are managed prudently and not subject to extraordinary risk.

APPLICABILITY

This policy pertains to short-term operating funds, including general funds, special revenue funds, bond proceeds, capital project funds, and to all accounts designated as long-term (e.g., trusts, stabilization fund, other postemployment benefits trust fund (OPEB), and others the Town may set aside for long-term use, including scholarship and perpetual care funds) It does not pertain to the Town's retirement fund, which is managed by the Middlesex County Retirement Board. This policy applies to the Finance Director, in the role as Treasurer, his or her designee(s), and any advisors or other professionals in their responsibilities for investing and managing Town funds.

POLICY

The Finance Director shall invest funds in a manner that meets the Town's daily operating cash flow requirements and conforms to state statutes governing public funds while also adhering to generally accepted diversification, collateralization, and the prudent investment principles regarding safety, liquidity, and yield.

See additional details in the Town of Sudbury Investment Policy document as well as the Town of Sudbury CPA Investment Policy document.

CAPITAL ASSETS

PURPOSE

To ensure Sudbury's capital assets can cost-effectively sustain the town's desired service levels into the future.

APPLICABILITY

This policy applies to the Town Manager as the Town's chief budget decision maker. It also applies to the job responsibilities of the Finance Director, School Superintendent, School Business Manager, Board of Selectmen, School Committee, and Finance Committee.

POLICY

A. Capital Improvement Plan

The Town Manager will update and adopt annually a five-year capital improvement plan ("CIP"), including the upcoming annual capital improvement budget ("CIB") and a four-year projection of capital needs and expenditures, which details the estimated cost, description and anticipated funding sources for capital projects.

1. The Town Manager shall establish criteria to determine capital asset prioritization.
2. The Town Manager shall consult with Department Heads annually regarding the composition and prioritization of the capital plan.
3. The CIP shall not include items that cost less than \$20,000 or have a useful life of less than 5 years. Items that do not meet this threshold should be included within the Town's operating budget.
4. The Town will emphasize preventive maintenance as a cost-effective approach to infrastructure maintenance. Exhausted capital goods will be replaced as necessary.

B. Risk Management

1. The Town will maintain an effective risk management program that provides adequate coverage, minimizes losses, and reduces costs.
2. The Town will annually work with the Town's insurance carrier to update all listings of Town owned assets and the value of such covered assets.

C. Reporting

1. The Town Manager will submit a capital program to the Capital Improvement Advisory Committee. The proposed program will detail each capital project, the estimated cost, description and funding.

2. The Town Manager shall submit Town Meeting articles for the CIB by January 31st.
3. The Selectmen shall report all requests for capital appropriations to the Finance Committee on or before February 5. (Bylaws Article IV Section 5).
4. The Town Manager will present the CIB for approval at the Annual Town Meeting (generally the 1st Monday in May).

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OTHER POSTEMPLOYMENT BENEFITS LIABILITY (OPEB)

PURPOSE

To provide the basis for a responsible plan for meeting the Town's obligation to provide other postemployment benefits (OPEBs) to eligible current and future retirees. This policy provides guidelines designed to ensure OPEB sustainability and achieve generational equity among those called upon to financially support OPEBs, thereby avoiding transferring costs into the future.

APPLICABILITY

This policy encompasses OPEB-related budget decisions, accounting, financial reporting, and investment.

BACKGROUND

In addition to salaries, the Town of Sudbury compensates employees in a variety of other forms. Many earn benefits over their years of service that they will not receive until after retirement. A pension is one such earned benefit. Another is a set of retirement insurance plans for health, dental, and life. These are collectively referred to as other postemployment benefits or OPEBs.

OPEBs represent a significant liability for the Town that must be properly measured, reported, and planned for financially. As part of a long-range plan to fund this obligation, the Town established an OPEB Trust Fund, which allows for long-term asset investment at higher rates of return than those realized by general operating funds.

POLICY

The Town of Sudbury is committed to funding the long-term cost of the benefits promised its employees. To do so, the Town will accumulate resources for future benefit payments in a disciplined, methodical manner during the active service life of employees. The Town will also periodically assess strategies to mitigate its OPEB liability. This involves evaluating the structure of offered benefits and their cost drivers while at the same time avoiding benefit reductions that would place undue burdens on employees or risk making the Town an uncompetitive employer.

A. Accounting and Reporting

The Finance Director will obtain actuarial analyses of the Town's OPEB liability every two years and will annually report the Town's OPEB obligations in financial statements that comply with the current guidelines of the Governmental Accounting Standards Board.

The Town Auditor shall ensure that the Town's independent audit firm reviews compliance with the provisions of this policy as part of its annual audits.

B. Mitigation

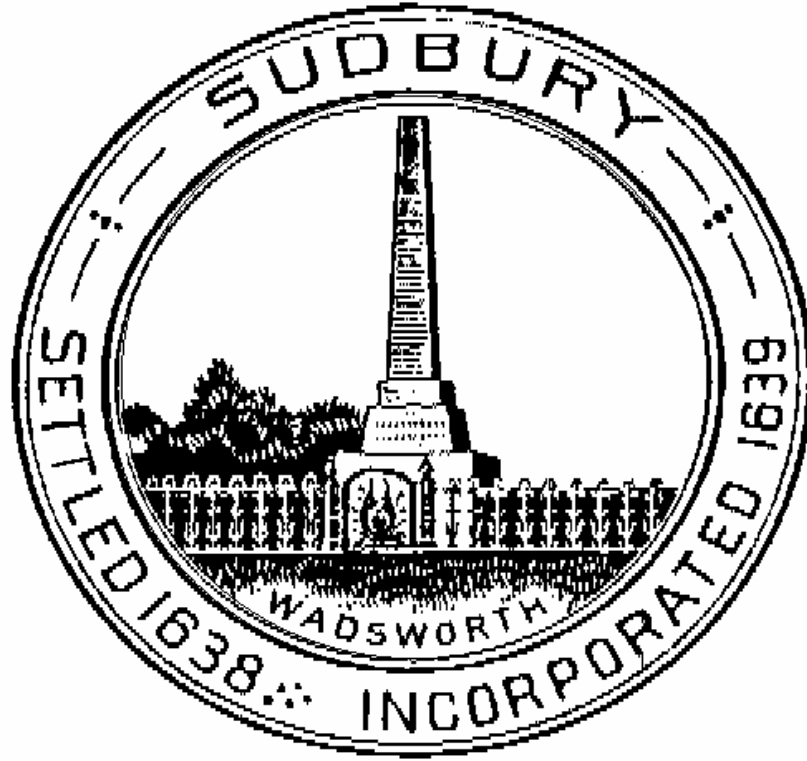
On an ongoing basis, the Town will assess healthcare cost containment measures and evaluate strategies to mitigate its OPEB liability. The Finance Director shall monitor proposed laws

affecting OPEBs and Medicare and analyze their impacts. The Human Resources Director shall regularly audit the group insurance and retiree rolls and drop any participants found to be ineligible based on work hours, active Medicare status, or other factors.

C. Funding

To address the OPEB liability, decision makers shall analyze a variety of funding strategies and subsequently implement them as appropriate with the intention of fully funding the obligation. The Town shall derive funding to invest in the OPEB trust from taxation, free cash, and any other legal form.

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Town of Sudbury Investment Policy

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I. Scope

The following is the investment policy for the Town Treasurer to use as a general guideline for the investment of the Town of Sudbury's cash assets. The policy applies to the following:

- General Operating Funds
- Special Revenue Funds
- Stabilization Fund
- Retirement Fund
- Self-Insured Trust Funds
- Town Trust Funds

II. Objective

In addition to conforming with all applicable federal, state and other legal requirements, the primary objectives, in the order of priority, of investment activities shall be:

A. *Safety:*

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 in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

1. Credit Risk

Credit risk may be mitigated by:

- Limiting investments to the safest types of securities;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Town will do business; and
- Diversifying the investment portfolio so that potential loss on individual securities will be minimized.

2. Interest Rate Risk

Interest rate risk may be mitigated by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
- By investing operating funds in shorter-term securities (90 days or less).

B. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrently with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

C. Yield

The Investment portfolio shall be designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- a declining credit security could be sold early to minimize loss of principal;
- a security swap would improve the quality, yield, or target duration in the portfolio; or
- liquidity needs of the portfolio require that the security be sold.

III. Standards of Care

A. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers 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 deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

B. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town.

C. Delegation of Authority

Authority to manage the investment program is granted to the Town Treasurer derived from the following: Massachusetts General Laws, Chapter 44, section 55B and Acts of 1985, Chapter 740. Responsibility for the operation of the investment program is delegated to the Town Treasurer, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements and banking service contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Town Treasurer. The Town Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

IV. Safekeeping and Custody

A. Authorized Financial Dealer and Institution

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by creditworthiness (minimum capital requirement \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule)

All financial institutions and broker/dealers who desire to become qualified bidders for cash management services and investment transactions must supply the following as appropriate:

- depositories, custodians, and dealers are selected or qualified through competitive procedures, including requests for proposals for cash management services;
- Provide compliance certification from the Broker/Dealer and an independent auditor for capital adequacy requirements. Broker/Dealers conducting transactions with the Town are required to comply with the Federal Reserve Bank of New York's capital adequacy guidelines as a condition of doing business.
- audited financial statements;
- proof of National Association of Securities Dealers (NASD) certification;
- proof of state registration;
- completed appropriate module of Town's Triennial Request for Proposal process; and
- certification of having read the Town's investment policy.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Town Treasurer.

B. Internal Controls

The Town Accountant is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse. The internal controls' structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation costs and benefits requires estimates and judgments by management.

Accordingly, the Finance Director shall establish a process for independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion;
- Separation of transaction authority from accounting and record keeping;
- Custodial Safekeeping;
- Avoidance of physical delivery securities;
- Clear delegation of authority to subordinate staff members;
- Written confirmation of telephone transactions for investments and wire transfers;
- Wire transfer agreements with lead bank or third party custodian.

C. Delivery vs. Payment (DVP)

All trades where applicable will be executed by deliver vs. payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

V. Suitable and Authorized Investments

Consistent with the Massachusetts General Laws and generally accepted practices the following investments will be permitted by this policy.

A. Investment Types

General Operating Funds: (MGL, Ch. 44, sec. 55, 55A, 55B)

1. U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations with a maturity of less than one year;
2. Repurchase Agreements secured by U.S. Government or Agency obligation with a maturity of less than 90 days from a trust company, national bank or banking company;
3. Certificates of Deposit with a maturity of less than two years from trust companies, national banks, savings banks, banking companies, or cooperative banks. No more than 10% of the portfolio shall be invested in CD's in any one financial institution; Bank rating for CD's??? Dollar limit for any one CD???

4. Money Market Deposit Account from a commercial bank, mutual savings bank, savings and loans, and cooperative banks; or
5. State Investment Pool (MGL Ch. 29, sec 38A).

Special Revenue Funds: (MGL, Ch. 44, sec. 55,55A, 55B)

1. U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations with a maturity of less than one year;
2. Repurchase Agreements secured by U.S. Government or Agency obligation with a maturity of less than 90 days from a trust company, national bank or banking company;
3. Certificates of Deposit with a maturity of less than one year from trust companies, national banks, savings banks, banking companies, or cooperative banks. No more than 10% of the portfolio shall be invested in CD's in any one financial institution;
4. Money Market Deposit Account from a commercial bank, mutual savings bank, savings and loans, and cooperative banks; or
5. State Investment Pool (MGL Ch. 29, sec 38A).

Stabilization Fund: (MGL, Ch. 40, sec. 5B)

1. Money Market Deposit Account from a nation bank, savings bank, cooperative bank, or trust company organized under the laws of the commonwealth, or
2. invest in such securities as are legal for the investment of funds of savings banks under the laws of the commonwealth, For example:
 - U.S. Government obligations, U.S. Government .agency obligations, and U.S. Government instrumentality obligations;
 - Certificates of Deposit. No more than 10% of the portfolio shall be invested in CD's in any one financial institution ;
 - Mutual Funds;
 - Corporate Investment Grade Bonds;
3. State Investment Pool (MGL Ch. 29, sec 38A); or
4. in federal savings and loan associations situated in the commonwealth.

Retirement Fund: (MGL, Ch. 40, sec. 5D)

The policy adopted restricts investment in exclusively US Treasuries for terms not exceeding 5 years. A combination of notes and bills will be used to ensure cash flow requirements are met and the annual yield is achieved. Principal will be tapped as required unless it exceeds more than 2 % of the total fund. An appropriation would be requested to fund or restore the retirement Fund to the current principal balance. The cash flow requirements are based on an annual rate of two retirements per year to be paid out of the annual income. The fund will also receive an annual appropriation of \$10,000 to build principal to help cover

future sick leave buy back obligations. If properly established, the investment income could become a healthy revenue source fully funding non-contributory retirement benefits and all other Town benefits an employee receives upon retirement.

Self-Insured Trust Funds: (MGL, Ch. 44, sec. 55, Ch. 40, sec. 5E, 13A, 13C and Ch. 32b sec. 3A,)

1. deposit or invest the fund in such a manner as may be legal for the town under the laws of the commonwealth without limitation to the State Investment Pool (MGL Ch. 29, sec 3 8A);
2. invest in such securities as are legal for the investment of funds of savings banks under the laws of the commonwealth; For example:
 - U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations;
 - Certificates of Deposit. No more than 10% of the portfolio shall be invested in CD's in any one financial institution;
 - Mutual Funds;
 - Corporate Investment Grade Bonds;
3. The purpose of the Self-Insured Trust Fund is to cover the costs of the insurance provided to employees. Therefore, the investment vehicles should be low risk and relatively liquid. The fund has not been established to produce growth in principal or a specific dollar amount of income earnings. Investment earnings may be used to offset unknown future costs associated with each trust.

Town Trust Funds: (Acts of 191 1, Ch. 180)

The Investment policy for the Town Trust Funds is included here by reference only. See "Investment Policy and Procedures for Town Trust Funds" for further details. All actions and procedures of the Town Treasurer and the implementation of the Town Trust Fund Policy must be compatible and not contrary to the policy set for General Operating Funds.

B. Collateralization

- All cash accounts will be kept at the \$100,000 FDIC coverage level as a maximum unless additional collateralization or insurance (i.e. DIF coverage for Massachusetts banks) is provided and the yield is advantageous;
- all idle cash may be deposited to the State Investment Pool which has been deemed collateralized by GASB 5;
- Two types of investments require collateralization: Certificates of Deposit and Repurchase Agreements

C. Repurchase Agreements

Any Repo purchased by the Town Treasurer is subject to include the following:

- special caution used in selecting parties with whom the Town will conduct repurchase transactions;
- be able to identify the parties acting as principals to the transaction;
- use Master Repurchase Agreement, or
- use Public Securities Association Repurchase agreement with added language addressing delivery, substitution, margin maintenance, margin amounts, seller representations and governing law.
- use proper collateralization practices to protect funds invested in repos:
 1. delivery of underlying securities through physical delivery or safekeeping with the Town's custodian; and
 2. Over collateralization ("haircuts") or marking-to-market practices are mandatory.

D. Mutual Funds

The Town may from time to time invest funds, as allowed, in a mutual fund consistent with the following:

- Portfolio diversification, liquidity, and professional management;
- Maturity of Fund is less than 60 days ???;
- regulated by the Securities and Exchange Commission;
- portfolio consists only of domestic securities;
- contain no derivative products;
- favorable market risk (volatility) rating from nationally recognized rating agency; and
- maintains a high Morningstar rating.

E. Investment Restrictions

The Town at the present time will not invest in the following types of investments:

- Derivatives, hedging, or speculative type of investments;
- Reverse Repos, Leveraging or similar investments;
- Master Trust and Custodial Bank Security Lending Programs;
- Any other investment type omitted from this policy

F. Designation of Depositories

The banks and trust companies authorized for the deposit of monies up to the maximum amounts are:

<u>Depository Name</u>	<u>Maximum Amount</u>
Bank of America	\$10,000,000
MMDT	\$10,000,000
Unibank	\$10,000,000
Century Bank	\$ 5,000,000
Others	\$ 5,000,000

VI. Investment Parameters

A. Cash Management

- All regular cash disbursement requirements shall be held in the State Investment Pool or other liquid accounts. The level required set by the Town Treasurer
- All FDIC accounts will be kept at the \$100,000 coverage level as a maximum unless additional collateralization or insurance (i.e. DIF coverage for Massachusetts banks) is provided and the yield is advantageous;
- All excess cash will be transferred to approved investment instruments or the State Investment Pool whichever is more advantageous after the minimum cash requirements have been met. At least 10% of the portfolio shall be invested in cash or marketable securities which can be sold to raise cash in one business day's notice.

B. Diversification

The Investments will be diversified by security type, by financial institution, and by maturity scheduling.

C. Maximum Maturity

The Town will limit the maximum final maturity on long-term investments to five years unless a specific authority is given to exceed. All General Operating Funds maximum final maturity is two years or less unless specific authority requires it to be shorter. Maturities should be staggered to avoid concentrations in any one maturity sector.

VII. Reporting

A. Methods

The Town Treasurer shall prepare an investment report at least quarterly, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow

the Town to ascertain whether the investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Town Manager, Board of Selectmen, Finance Director, and Town Accountant. The report will include the following:

- A listing of individual securities held at the end of the reporting period by fund.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities.
- Average weighted yield to maturity of portfolio on Town investments as compared to applicable benchmarks

B. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should maintain a market average rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to appropriate benchmarks on a regular basis.

C. Marking to Market

A statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility.

D. Fees

Fees for securities and mutual fund based investments may be charged on a managed or transaction fee basis whichever is more cost effective, as determined by the Treasurer. Fees may therefore be paid/recorded based on a pre-determined payment schedule (e.g. quarterly, annually), netted against income distributins or netted against the investment's purchase price.

E. Arbitrage??

VIII. Policy

A. Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

B. Amendments

This policy shall be reviewed on an annual basis. Any changes must be approved by the Town Treasurer, Town Manager, Town Accountant, and Finance Director.

C. Performance Monitoring

The Town Treasurer along with designated financial staff, auditor, and the Town Accountant may review the performance of the entities selected providing services through the RFP process. The review may occur off the fiscal year calendar due to information reporting and collection limitations. The results of the review will become part of the next quarterly report.

Annual Review:

- Cash accounts marked against competitors. Failure of the bank to provide competitive interest rates on comparable products and services will reflect negatively on the fee or service relationship established by a competitive proposal process. Long-term lagging of interest rates behind competitors may require an interim RFP to be executed by the Treasurer. Yield comparisons will be against competitors' product or services (i.e., checking to checking, savings to savings, money market to money market).
- Investment Yield Comparisons: Investment accounts marked against selected indices and market.
- Services Provided. Meeting contractual agreement and performance standards set by RFP.
- Annual Review of financial condition of each entity

Triennial Review:

- Annual Review Procedures
- Execution and Completion of RFP for Cash Management Services

IX. Glossary

Accrued Interest:

The accumulated interest due on a bond as of the last interest payment made by the issuer.

Agency:

A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee.

Amortization:

The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Average Life:

The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Banker's Acceptance:

A short-term non-interest bearing note sold at discount and redeemed at face value. It is secured by the goods which it finances, the bank that accepts the draft and the issuer's promise to pay. These notes trade at a rate equal to or slightly higher than certificates of deposit, depending on the market supply and demand.

Basis Point:

A measure of an interest rate, i.e., 1/100 of 1 percent, or .001.

Bid:

The indicated price at which a buyer is willing to purchase a security or commodity.

Book Entry Securities:

A system established by the U.S. government wherein securities are transferred on the basis of computerized records maintained at the Federal Reserve, instead of actual certificates. The system was devised to facilitate the transfer of ownership and to prevent loss through destruction and theft. The vast majority of U.S. government securities are now in the form of book-entry securities.

Book Value:

The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Callable Bonds:

A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price:

The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk:

The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Management:

A combination of various techniques for accelerating cash receipts, delaying cash disbursements, effectively utilizing banking services and improving investment of idle funds.

Cash sale/purchase:

A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

Certificate of Deposit (CD):

A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable as to maturity and yield.

Collateralization:

Value of securities pledged to a specific amount or investment as supplemental security to the credit of the issuer or the broker. Collateral can be of a specific nature and priced at par or market value.

Collusion:

Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

Commercial Bank:

A financial institution licensed by the state and/or the federal government to receive deposits, allow demand accounts, lend money, and provide trust services and other related services. Generally banks are allowed to engage in more varied lending activities than other financial institutions. They are owned by stockholders and are operated for profit.

Commercial Paper:

An unsecured promissory note issued by corporations with a fixed maturity from 2 to 270 days. Commercial paper is normally sold at a discount from face value.

Commingle:

A process by which cash is mixed together so that the identity of individual items is lost. Commingle is vastly different from combine or consolidate and is generally not legal or appropriate for public funds.

Compensating Balances:

A method of paying the bank for providing services. The actual bank service charges form the basis for determining the level of balances to be left with the bank.

Adjustments are allowed for reserve requirements and potential interest that could have been earned by the depositor.

Confirmations:

Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures.

Consolidate:

A process by which cash, or any other item, is combined while maintaining the identity of each item. Consolidating several bank accounts into one account is always accomplished by a continuation of separate book balances for each fund on the government unit's ledger. Consolidation is a legal and efficient way to gain economies of scale in cash management. Also referred to as "pooling of funds".

Coupon Equivalent:

A financial technique that converts the discount yield basis of certain securities into the equivalent bond yield to facilitate comparisons among all securities. Generally this technique computes the yield based on the discounted price, rather than on the face value, and covers a 365-day period, rather than the 360 days used for discount yield.

Coupon Rate:

The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate".

Credit Quality:

The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Risk:

The risk to an investor that an issuer will default in the payment of interest and/or principal on a security. Credit Risk is the risk of loss due to the failure of the security issuer or backer.

Current Yield (Current Return):

A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

CUSIP:

A uniform identification method established for municipal, U.S. government securities and corporate securities by the Committee on Uniform Security Identification Procedures under the auspices of the American Bankers Association.

Custodial Safekeeping:

Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.

Delegation of Authority:

Senior and Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

Delivered Securities:

Delivered Securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

Delivery versus Payment (DVP) a type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Derivatives:

A derivative is a financial instrument created from or whose value depends on (is derived from) the value of one or more underlying assets or indexes of asset values. The term "derivative products" refers to instruments or features such as collateralized mortgage obligations (CMOS), interest-only (IOYs) and principal-only (PO'S), forwards, futures, currency and interest rate swaps, options, floaters/inverse floaters, and caps/floors/collars.

Discount:

Yield basis on which short-term, non-interest bearing money market securities are quoted. A rate quoted on a discount basis understates bond equivalent yield, which must be calculated when comparing the return against coupon securities.

General Operating Funds:

Any available cash not designated for a special purpose interest bearing account or posted on a warrant. This would include general revenue and receipts and segregated fund balances on the Town's General Ledger whose interest earnings benefit the Town.

Interest Rate Risk:

The risk that the market value of securities in the portfolio will fall due to changes in general interest rates.

Investment Pools:

In most states there are provisions for the creation and operation of a government investment pool. The purpose of the Pool is to allow political subdivisions to pool investable funds in order to achieve a potentially higher yield.

There are three (3) types of pools: 1) state-run pools; 2) pools that are operated by a political subdivision where allowed by law and the political subdivision is the trustee; and 3) pools that are operated for profit by third parties. Prior to any political subdivision being involved-with any type of pool, a thorough investigation of the pool and its policies and procedures must be reviewed.

Leveraging:

Includes purchasing securities on margin (by borrowing funds from a counterparty), selling securities short (by borrowing the security from a third party and selling in anticipation of higher interest rates), purchasing long-term bonds with short-term funds, and trading futures contracts without an exact offsetting cash market position.

Liquidity:

Ease with which a financial instrument can be converted to cash quickly with minimal loss of principal.

Marketability:

Ability to sell large blocks of money market instruments quickly and at competitive prices.

Pooling:

See consolidation; also connotes combining of assets of different entities (i.e., two or more cities) for investment purposes while maintaining separate accounting trails.

Proposal:

A written pledge by a bank or other service provider to supply certain cash management services for a certain fee or compensating balance.

Prudent Person Standard:

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.

Repurchase Agreement:

A repurchase agreement (repos) is the sale by a bank or dealer of a government security with the simultaneous agreement to repurchase the security on a later date. Repos are commonly used by public entities to secure money market rates of interest.

Request for Proposals:

A written notification prepared by an organization requesting offers to provide certain services and to specify prices for these services. The RFPs are generally quite detailed as to the types of services needed. In the Commonwealth of Massachusetts the statutes require municipalities to use Chapter 32B and establish a triennial review process of cash management services contracts.

Retirement Fund:

Established to address the long-term unfunded liability requirements of the Town's retirement benefits. Under the current policy the income from the Retirement Fund will pay for non-contributory retirement obligations, unanticipated sick-leave buy back requirements, and any unanticipated funding requirements issued by the Middlesex County Retirement System.

Reverse Repo:

In a reverse repo, an investor owns securities, such as a Treasury note, U.S. government agency bond or other security, that a bank or dealer purchases under an agreement to sell back to the investor on a specified date, at an agreed-upon interest rate.

Savings and Loan Association:

A-national or state chartered institution that accepts deposits and lends them out as mortgages. These associations generally are owned by the depositors, not by stockholders as in the case of banks.

Security Lending Programs:

As part of their trust and custody management services, banks like other money managers offer to lend securities owned by institutional clients to brokers in exchange for collateral. The collateral, which is usually cash, is reinvested at a rate higher than the rebate rate paid to the broker. The resulting proceeds are subsequently split between the lending agent and the client. Unsound collateral reinvestment practices can result in some master trust and custodial banks incurring losses on behalf of their institutional security lending program customers. Rapidly changing interest rates, lending short and investing long, investing in speculative derivatives, and paying a fixed rebate while investing in floating rebate rate securities under adverse market conditions are examples of situations that can produce investment losses.

Security Lending Transaction:

A security lending transaction is similar to a reverse repurchase transaction and subject to many of the same risks. While indemnifications offered may vary, the lending agreement may provide that broker credit risk, broker default risk, and collateral maintenance are risks undertaken by the lending agent. The degree of risk assumed by the lending agent generally is reflected in the split of proceeds. Lending agent credit risk, lending agent default risk and collateral reinvestment risks are undertaken by the institutional client.

Self-Insured Trust Funds:

These funds include, Health Insurance, Retiree Supplemental Health Insurance (OME), Unemployment Compensation, Workers Compensation, and any other self-insured fund the Town may adopt in the future.

Separation of Duties:

By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

Special Revenue Funds:

All segregated fund balances required to be in interest bearing accounts.

Stabilization Fund:

MGL, C. 40, sec. 5B. Cities, Towns and districts may appropriate in any year an amount not exceeding ten (10) percent of the amount raised in the preceding fiscal year by taxation. The aggregate amount in the fund at any time shall not exceed ten (10) percent of the equalized valuation of the city or town. Any interest shall be added to and become part of the fund; The Treasurer shall be the custodian of the fund. The stabilization fund may be appropriated in a town, at annual town meeting by a two-thirds vote or at a special town meeting by a two-thirds vote. Said fund may be appropriated for any lawful purpose.

Town Trust Funds:

Gifts and donations accepted by the Trustees of Town Donations given to the Town through trust or in perpetuity agreements. A separate investment policy is maintained and formulated by the Trustees of Town Donations and will be complementary to the Town Investment Policy because the Town Treasurer is responsible for executing all approved investment activities.

U.S. Government Agency Securities:

A variety of securities issued by several U.S. agencies. Some are issued on a discount basis and some are issued with coupons. Several have the full faith and credit guarantee of the U.S. government, although others do not.

U.S. Government Treasury Securities:

A non-interest bearing security issued by the U.S. Treasury to finance the national debt. Bills are issued in three-month, six-month, and one-year maturities. Notes are issued in 2, 3, 5, 10 or 30 year maturities.

Wire Transfer Agreements:

This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

Yield:

The rate of annual income returned on an investment, expressed as a percentage.