

CITY OF NEWTON

IN BOARD OF ALDERMEN

FINANCE COMMITTEE REPORT

WEDNESDAY, NOVEMBER 13, 2013

Present: Ald. Gentile, Ciccone, Linsky, Salvucci, Rice, Blazar, and Fuller

Absent: Ald. Lappin

Also present: Ouida Young (Associate City Solicitor), Maura O'Keefe (Assistant City Solicitor), Joseph Mulvey (Information Technology Director), David Wilkinson (Comptroller), and Maureen Lemieux (Chief Financial Officer)

**REFERRED TO FINANCE AND PROGRAMS & SERVICES COMMITTEE**

#402-13      ALD. FULLER, GENTILE, RICE & LINSKY requesting a Home Rule Petition to amend Article 9 of the Charter to clarify that Neighborhood Area Councils shall maintain and control their own financial accounts and records, independent of City finances; and to further clarify that such independent financial accounts and records shall remain subject to City audit. [10/28/13 @ 10:18 AM]

**ACTION:**      **HELD 7-0**

**NOTE:**      The docket item is a result of the Financial Audit Advisory Committee discussions regarding organizations that are affiliated with the City. As the number of area councils within the City has increased, it became increasingly clear that the Charter mandates that the finances and expenses of the area councils flow through City books, which could be onerous to the area councils. The area councils would need to meet all the City's financial requirements when depositing or accessing their funds. As it stands, the area councils would be required to submit and disburse all their monies through the Treasurer's Office using the City's warrant system. The intent of this item is to make it less burdensome on the City and Area Councils by allowing the councils to have separate accounting mechanisms with scheduled reports to the City that would allow the councils to do business in a timely manner.

Associate City Solicitor Ouida Young and Assistant City Solicitor Maura O'Keefe joined the Committee to discuss the request for a Home Rule Petition. Ms. Young explained that the reality is that these entities are a part of the City. If they are going to remain part of the City, the Board of Aldermen should seek Special Legislation from the General Court to allow a municipal entity to operate outside of municipal finance constraints rather than seeking to amend the Charter. The Law Department has called the Massachusetts Department of Revenue (MDOR) to see if they have any thoughts about the proposed special legislation. The Law Department would like to hear from the MDOR on possible available options. It was noted that the MDOR might not allow any deviation from municipal finance requirements for the area councils.

The Committee reviewed how the established area councils handle their finances. The Newton Highlands Area Council uses a bank account, which was established twenty-five years ago, to deposit and disburse their funds. The bank account was first established with the City's

tax identification number but it is likely that it has since been changed to a tax identification number associated with the Newton Highlands Area Council. Susan Huffman, Treasurer of the Newton Upper Falls Neighborhood Area Council, stated that the Newton Upper Falls Neighborhood Area Council has its own tax identification number and bank account. The council would prefer to continue to have its own bank account. Ms. Huffman added that the council is willing to submit its financial reports to the City on a regular basis. Sallee Lipshutz, Waban Neighborhood Area Council asked what type of burdens would fall on the area councils. The City needs a response from the MDOR before determining what, if any, burdens would fall on the area councils.

The Committee felt that it would be appropriate to hold the item in order to get some guidance from the State before proceeding with any changes. A motion to hold was made and carried unanimously. Ald. Rice and Ald. Linsky requested that their names be added to the docket item.

#102-12      HIS HONOR THE MAYOR requesting authorization to appropriate the sum of five hundred thousand dollars (\$500,000) from cable contract receipts for the purpose of constructing Phase I of III to connect all city facilities with high-speed fiber infrastructure for continued reliance on the IT network. [04-09-12 @ 3:40 PM]

**ACTION:**      **APPROVED AS AMENDED 7-0 @ \$1.1 Million**

**NOTE:**      Information Technology Director Joe Mulvey presented the request and explained that the Mayor has requested that the authorization to appropriate be increased from \$500,000 to \$1.1 million in order to create a fully redundant fiber network without phasing the project. The letter from the Mayor requesting the amendment is attached. When the City received the responses to the Request for Proposals, the quoted costs for the project were less than anticipated. Mr. Mulvey expects that the fiber optic network to the schools will be lit by Labor Day 2014. The Committee previously discussed the fiber optic installation project on September 23, 2013. The report of that meeting is attached and provides further details on the project.

The City chose Comm-Tract to install the fiber to each City building. The City had a mandatory pre-bid meeting that included a tour of the project. Ten companies attended the pre-bid meeting but only two companies bid on the project. After reviewing the two companies that bid on the project, it was determined that Comm-Tract was the clear choice as they have more experience and are a better fit for the project.

The City will fund the project through the cable contract receipts. The appropriated monies will fund the cost of pulling the fiber to each building but not for lighting the fiber. The Administration will be requesting additional funds in the future to light the fiber. There may not be enough funds generated in cable receipts at that point to fund the lighting. Therefore, Ms. Lemieux is putting aside money from Free Cash. With that, Ald. Ciccone moved approval, which carried unanimously.

#15-13      FINANCIAL AUDIT ADVISORY COMMITTEE requesting review and acceptance of the revised City of Newton Investment Policy. [12/18/12 @ 9:31 AM]

**ACTION:**      **APPROVED 7-0**

**NOTE:**      The Committee discussed the item earlier this year and held the item at the request of the Chairman to further review the policy and consider whether to strengthen the language related to investing in banks that contribute to the Newton community. The proposed revised Investment Policy is attached along with the previous report on the item. The Chairman suggested the addition of the attached language to the revised Investment Policy Section III (D) 3. Originally, the Chairman asked that the proposed language replace the existing language; however, it makes more sense to add the proposed language to the existing language in Section III (D) 3.

Member of the Financial Audit Advisory Committee Howard Merkowitz suggested that the word “subject” be replaced with “subordinate” and that the word local be struck from the proposed language. The Committee was in unanimous agreement with the changes to the proposed language. Treasurer James Reardon and Chief Financial Officer Maureen had no objection to the addition of the proposed language.

**Proposed language with amendments:** “Additionally, the Treasurer is encouraged to consider financial institutions that have a record of financially reinvesting in the Newton community when making investment decisions; such consideration to be subordinate to the specifications and guidelines set forth within the Investment Policy pertaining to the specific investment being considered.”

Ald. Fuller moved approval of the acceptance of the revised Investment Policy with the additional language, which carried by a vote of seven in favor and none opposed. The new language is included in Page 4 of the Investment Policy, which is attached.

**Chairman’s Note:** The Chairman informed the Committee that he would be docketing an item to create an Investment Advisory Committee. The committee should be small and consist of the City’s Treasurer, the Chief Financial Officer, the Comptroller, the Chairman of the Finance Committee and three citizen representatives with investment experience. The Chairman asked the Finance Committee to think about the proposed committee.

#400-13      HIS HONOR THE MAYOR submitting the FY14- FY18 Five-Year Financial Forecast for Board of Aldermen review/acceptance. [10/22/13 @ 8:26 AM]

**ACTION:**      **APPROVED 7-0**

**NOTE:**      Chief Financial Officer Maureen Lemieux presented the FY2015 – FY2019 Financial Forecast on October 21, 2013 during a Board of Aldermen meeting. The forecast is based on creating a financially sustainable City in the present and future. The presentation highlighted the financial challenges that the City faces in the next five years, such as Other Post-Employment Benefits (OPEB), pensions, utilities’ and health insurance. The Administration is in the process of developing strategies to address OPEB and pensions. The presentation also

included strategies to develop a sustainable budget, as the City moves forward. The City is on the cusp of having expenditures and revenues in line with each other.

Ms. Lemieux reminded the Committee that the estimated revenue from the Riverside Project is not included in the forecast. It will not be included until the permitting process for the project has started. The full revenues from the Chestnut Hill Square Project have not been fully realized but the site should be fully occupied by 2015. The Committee asked for an update on the State's I-cubed program for the Chestnut Hill Square Project. Ms. Lemieux will look into it and provide the information to the Committee.

There was concern related to the fact that the forecast projections on Page 22 of the forecast show that 22% of the City's budget is expanding beyond 2.5%. Ms. Lemieux explained that Page 22 depicts the trends and hot button issues. It is designed to depict what the trending issues are but not where the City is gaining efficiencies.

Ald. Linsky moved approval of the acceptance of the FY14- FY18 Five-Year Financial Forecast, which carried unanimously.

#401-13      ALD. LENNON & LAPPIN pursuant to Sec. 2-7 of the City Charter, recommending re-appointment of David C. Wilkinson as Comptroller of Accounts; said term will be two years or until a successor is duly qualified.  
[10/28/13 @ 3:10 PM]

**ACTION:**      **APPROVED 7-0**

**NOTE:**      Comptroller David Wilkinson was present for the discussion of this reappointment. The Committee members were very pleased with the reappointment of Mr. Wilkinson. Mr. Wilkinson has provided excellent knowledge and support to the Board of Aldermen in his role as Comptroller. Committee members also praised Mr. Wilkinson's work, attention to detail, and thoughtfulness.

Chief Financial Officer Maureen Lemieux stated that the Administration has a wonderful relationship with Mr. Wilkinson, as he is a pleasure to work with. . All members of the Committee strongly endorsed the reappointment and voted unanimously in favor of Ald. Salvucci's motion to reappointment David Wilkinson.

***THE FOLLOWING ITEMS WERE REFERRED TO THE 2012-2013 BOARD OF ALDERMEN:***

**REFERRED TO FINANCE AND APPROPRIATE COMMITTEES**

#403-13      HIS HONOR THE MAYOR submitting the FY15-FY19 Capital Improvement Plan and Long Range Projection pursuant to section 5-3 of the Newton City Charter. [10/21/13 @ 9:59 AM]

**ACTION:**      **REFERRED TO 2014-2015 BOARD OF ALDERMEN**

#41-11(2)      ALD. CICCONE requesting implementation of the fees associated with the Winter Overnight Parking Pilot Program. [09/19/13 @ 3:49 PM]

**ACTION:**      **REFERRED TO 2014-2015 BOARD OF ALDERMEN**

**REFERRED TO PUBLIC FACILITIES AND FINANCE COMMITTEES**

#288-13 PUBLIC FACILITIES & FINANCE COMMITTEES requesting that the Administration update the Board of Aldermen when a funding source is determined for the Zervas Elementary School Feasibility Study. [07-11-13 @ 10:10 AM]

**ACTION:** **REFERRED TO 2014-2015 BOARD OF ALDERMEN**

**REFERRED TO PUBLIC SAFETY & TRANS. AND FINANCE COMMITTEES**

#428-12 ALD. CICCONE & FULLER requesting a discussion with the Executive Office and the Police Department regarding police staffing and overtime costs. [12/07/12 @ 1:34 PM]

**ACTION:** **REFERRED TO 2014-2015 BOARD OF ALDERMEN**

#248-12 RECODIFICATION COMMITTEE recommending that **ARTICLE IV. PURCHASES AND CONTRACTS, Secs. 2-182 through 2-205**, be amended to make it consistent with state law.

**ACTION:** **REFERRED TO 2014-2015 BOARD OF ALDERMEN**

#247-12 RECODIFICATION COMMITTEE recommending that Chapter 18 MEMORIAL FUNDS AND TRUSTS be reviewed relative to the consequences and practices of special legislation passed by the General Court in 2007, Chapter 75 of the Acts of 2007, in which the City sought and was granted an exemption from G.L. Chapter 44 §54, which intent was to allow the City greater flexibility in terms of investments.

**ACTION:** **REFERRED TO 2014-2015 BOARD OF ALDERMEN**

The Committee adjourned at 8:25 PM and all other items before the Committee were held without discussion. Draft Board Orders for the above items that are recommended for Board of Aldermen action are attached.

Respectfully submitted,

Leonard J. Gentile, Chairman



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SETTI D. WARREN  
MAYOR

RECEIVED  
NEWTON CITY OFFICE  
2013 NOV -8 PM 2:43  
DAVID A. OLSON, CMG  
Newton, MA 02459

November 8, 2013

Honorable Board of Aldermen  
Newton City Hall  
1000 Commonwealth Avenue  
Newton Centre, MA 02459

Ladies and Gentlemen:

I write to request that your Honorable Board docket for consideration a request to amend Docket #102-12 *HIS HONOR THE MAYOR requesting authorization to appropriate the sum of five hundred thousand dollars (\$500,000) from cable contract receipts for the purpose of constructing Phase I of III to connect all city facilities with high-speed fiber infrastructure for continued reliance on the IT network. [04-09-12 @ 3:40PM]* by replacing "the sum of five hundred thousand dollars \$(500,000) from cable contract receipts for the purpose of constructing Phase I of III to connect all city facilities with high-speed fiber infrastructure for continued reliance on the IT network" with "the sum of one million one hundred thousand dollars (\$1,100,000) from cable contract receipts for the purpose of supplying and installing a fully redundant fiber network"

Thank you for your consideration of this matter.

Sincerely,

Setti D. Warren  
Mayor



The City expects to receive the GMP in September 2014 once the 100% construction drawings are completed. The existing school will be demolished in the summer of 2014 as an early site package. Other early site packages include the steel, the foundation and the retaining wall. The OPM and City will tightly control any change orders due to errors and omissions on the construction plan. The MSBA also reviews all change orders and it makes clear that there can be no change of scope in the project through change orders.

The Committee reviewed the attached draft Board Order including the line item budget for the project. The Committee requested that the line items be updated and provided to the Comptroller once a month throughout the project.

Committee members asked if there has been any testing for hazardous materials on the site. Jeff Luxenberg of Joslin, Lesser & Associates, Inc. (JLA), responded that there has been testing around the site particularly the location of the oil tanks and no problems were discovered. There were also questions regarding what would happen if change orders drive the cost of the project past the \$37.5 million. The City would have to make decisions on what to cut from the project or go back to the voters for further funding, as the project is being funded through a debt exclusion override. The OPM is very aware of the budget and will closely monitoring the project to ensure that the project remains within budget. The Administration will keep the Board of Aldermen well informed regarding the project budget.

Ald. Rice moved approval of the item, which carried unanimously.

**REFERRED TO PUBLIC FACILITIES AND FINANCE COMMITTEES**

#322-12(4) HIS HONOR THE MAYOR requesting authorization to amend the Fiscal Year 2014 Budget Board Order #322-12(2) for the Public Buildings Department by reducing the Municipal Building Maintenance – Building Improvements line item by one hundred fifty thousand dollars (\$150,000) and increasing the Municipal Building Maintenance – Public Buildings R&M by one hundred fifty thousand dollars (\$150,000) in order to create a non-lapsing account for small capital projects. [08/05/13 @ 1:59 PM]

**PUBLIC FACILITIES APPROVED 7-0 on 09/11/13**

**ACTION:** **APPROVED 8-0**

**NOTE:** Chief Financial Officer Maureen Lemieux explained that this is a request to adjust the Fiscal Year 2014 Budget Board Order. It was the Administration's intention to establish an account to provide funding for small capital items that do not meet the monetary threshold for inclusion in the Capital Improvement Program. By adjusting the budget, it will create a non-lapsing account for these small capital items in the Public Buildings Department. Ald. Ciccone moved approval, which carried unanimously.

#102-12 HIS HONOR THE MAYOR requesting authorization to appropriate the sum of five hundred thousand dollars (\$500,000) from cable contract receipts for the purpose of constructing Phase I of III to connect all city facilities with high-speed fiber infrastructure for continued reliance on the IT network. [04-09-12 @ 3:40 PM]

**ACTION:** **HELD 8-0**

**NOTE:** Director of Information Technology Joseph Mulvey and Chief Financial Officer Maureen Lemieux provided the Committee with an update on the fiber infrastructure project. The fiber project is fully designed and it will run throughout the City with four hubs where fiber runs begin and terminate. Once the project is finished, there will be connections between all municipal and school buildings through a looped, redundant fiber network. The design was developed with the Information Technology Department, School Department, Fire Department and input from other departments. The design includes built in excess capacity, which provides enormous ability to expand the network.

The Request for Proposals (RFP) is expected to be released on September 26, 2013 and responses received by October 17, 2013. The standard warranty for the installation of the fiber is twenty-five years and is included in the RFP. The expected life of the network is 25 to 30 years. The fiber installation is expected to begin in March 2014 and complete by the start of the 2014-2015 School Year. The Administration will docket the request for funding when the RFP is awarded. The project is no longer expected to be a two or three year project due to the delay in funding the first phase. The City now has over \$1 million to fund the project and expects further funds in the upcoming months. If the bids are favorable, the project can be done in one phase.

Maureen Lemieux asked that the Committee hold the item until December when the bid is awarded to determine what the costs are for the project. With that, Ald. Ciccone moved hold on the item.

**REFERRED TO PUBLIC SAFETY/TRANSPORTATION & FINANCE COMMITTEES**

#281-12 HARRY SANDERS requesting creation of an ordinance to allow pawnbrokers in the City of Newton pursuant to G.L. c. 140 section 70 with potential for non-fixed location of business. Secured property storage would not entail retail walk-in; model would entail possible satellite locations enabling the possibility of integrating Newton students. [08-31-12 @12:25 PM]

**PUBLIC SAFETY VOTED NO ACTION NECESSARY 7-0**

**ACTION: NO ACTION NECESSARY 8-0**

**NOTE:** The Public Safety and Transportation Committee recommended that the above item be voted no action necessary. The request is to create an ordinance to allow pawnbrokers in the City of Newton. In addition, the request includes the possibility of creating mobile locations and involving high school students. The proposed ordinance requires additional research before it can be considered. The docketor will resubmit the docket item once the required research is completed. Ald. Fuller moved the item no action necessary and the Committee voted unanimously to support the motion.

The Committee adjourned at 9:05 PM and all other items before the Committee were held without discussion. Draft Board Orders for the above items that are recommended for Board of Aldermen action are attached.

Respectfully submitted,

Leonard J. Gentile, Chairman



#15-13      FINANCIAL AUDIT ADVISORY COMMITTEE requesting review and acceptance of the revised City of Newton Investment Policy. [12/18/12 @ 9:31 AM]

**ACTION:**      **HELD 8-0**

**NOTE:**      The Financial Audit Advisory Committee provided the attached updated draft Investment Policy. The investment policy was updated by the Investment Policy Ad Hoc Sub-committee of the Financial Audit Advisory Committee with input from the Chief Financial Officer Maureen Lemieux, Treasurer/Collector Jim Reardon, and Comptroller David Wilkinson. Howard Merkowitz who chaired the sub-committee and Treasurer/Collector Jim Reardon were present at the meeting to answer any questions related to the draft policy.

The 1991 policy was solid and strong policy. The new draft policy is still solid and strong but it is more expansive and conclusive. There are eight sections of the draft policy, which the Finance Committee reviewed. State law invests much of the responsibility of managing the City's funds with the City's Treasurer/Collector. The Investment Policy cannot override the State law. The policy clearly states that safety, liquidity, and yield are the City's top priorities. The sub-committee spent a lot of time on what the objectives should be after safety liquidity and yield and felt that it would be reasonable to consider quality of service, cost, and the betterment of Newton's economy as the next priorities.

The draft policy also formalizes the reporting requirements of the Treasurer/Collector. The policy requires the Treasurer to provide a cash analysis report to the Chief Financial Officer on a monthly basis and to the Board of Aldermen on a quarterly basis. The attached balance sheet provides a summary of all of the City's accounts and the money contained in the accounts as of December 31, 2012. In addition, the policy requires the Treasurer to provide an investment report on a quarterly basis and an annual report in February of each year to the Mayor, the Finance Committee, and the Comptroller.

The Committee Chair would like to strengthen the language regarding investing in banks that contribute to the Newton community. He provided the attached list of one bank's contributions to the community in the past months. He feels that if a bank reinvests in the community and all things are equal in terms of safety, liquidity, and yield, further consideration should be given to those banks that reinvest in the community. He would like the policy to state "shall" instead of "may" in Section IIID.

The Chair would like the Committee to hold the item for further discussion. He asked the Committee to further review the policy and give thought to whether the language related to investing in banks that contribute to the Newton community should be strengthened. A motion to hold was made and approved unanimously.

#14-13      FINANCIAL AUDIT ADVISORY COMMITTEE requesting review and acceptance of a City of Newton Whistleblower Policy. [12/18/12 @ 9:31 AM]

**ACTION:**      **APPROVED 8-0**

## City of Newton Investment Policy

I. Responsibilities and Scope	2	
A. Responsibilities		
B. Scope		
II. Standards of Care		3
A. Prudence		
B. Ethics and Conflict of Interest		
III. Objectives	3	
A. Safety		
B. Liquidity		
C. Return		
D. Quality of Services, Cost, Community Support		
IV. Suitable and Authorized Investments	4	
A. General Operating Funds		
B. City Trust Funds		
C. Retirement Funds		
D. Investment Restrictions		
V. Authorized Financial Institutions, Brokers/Dealers and Depositories		6
VI. Investment Guidelines		6
A. Safety		
B. Liquidity		
C. Diversification		
D. Maturity		
E. State Treasurer's Pooled Fund		
F. Certificates of Deposit and U.S. Treasury and Government Agency Securities		
G. Mutual Funds		
H. Repurchase Agreements		
I. Bank Ratings		
J. FDIC Insurance		
K. Collateralization		
VII. Safekeeping and Custody	11	
A. Custody		
B. Delivery vs. Payment		
C. Internal Controls		
IX. Reporting		12
A. Reports		
B. Performance Standards and Evaluation		
C. Marking to Market		
D. Fees		
E. Arbitrage		
F. Exemptions		
G. Performance Monitoring		

## I. Responsibilities and Scope

### A. Responsibilities

The Mayor, the Treasurer and the Comptroller shall develop the policy for investment of City funds for the approval of the Board of Aldermen. This policy shall be reviewed on a regular basis and, at a minimum, every four years. The Treasurer shall report on the review to the Board of Aldermen Financial Audit Advisory Committee.

The Treasurer has the responsibility and authority to manage the investment of City Funds (see Massachusetts General Laws, Chapter 44, section 55B and Acts of 1985, Chapter 740). The Treasurer shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. If the Treasurer wishes to make a decision to deviate from the terms of this policy, the Treasurer shall obtain prior written approval from the Board of Aldermen. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

The selection of financial institutions and broker/dealers authorized to engage in transactions with the City of Newton shall be at the sole discretion of the Treasurer.

The Treasurer, as required by Massachusetts General Laws, Chapter 44, section 55B, must invest all public funds, except those required to be kept uninvested for purposes of immediate distribution. Invested funds are required to be “invested in such a manner as to require the payment of interest on the money at the highest possible rate reasonably available, taking account of safety, liquidity, and yield.” (Ref: Ch 740, Acts of 1985 and Chapter 44, section 55B)

The Treasurer and those responsible to the Treasurer shall be bonded as required by law and insured for their fiduciary responsibilities.

The Treasurer shall be responsible for monitoring changes to the General Laws governing the type and method of investing City funds referred to in this Investment Policy.

### B. Scope

This investment policy is to be used by the Treasurer as a general guideline for the investment of the City of Newton’s cash assets. The policy applies to the following:

- General Operating Funds (which includes Special Revenue Funds, Stabilization Funds, most Self-Insured Trust Funds, Capital Project Funds, Internal Service Funds and Agency Funds)
- City Trust Funds and one Self-Insured Trust Fund, the Workers Compensation Insurance Fund

## II. Standards of Care

### A. Prudence

The standard of prudence used by the Treasurer and employees involved in the investment process shall be the "prudent person" standard. Such fiduciaries must act in the manner of a prudent person, with judgment and care, discretion and intelligence. They must act not for speculation but for investment, considering the probable safety of the capital as well as the probable income to be derived, with the understanding that no investment is completely without risk. 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 Conflict of Interest

The Treasurer 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 City.

## III. Objectives

City funds are to be invested in a manner which will meet the daily cash flow demands of the City of Newton. The investment activities shall conform to all applicable federal and state statutes and City ordinances governing the investment of public funds. In addition, the City's investment activities will be managed by the Treasurer to achieve the primary objectives, in order of priority, of safety, liquidity and return.

### A. Safety

Safety of principal is the foremost goal of the City of Newton's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital. Safety also is the assurance that the investment expectation will be fulfilled in a timely fashion. To attain this objective, diversification of types of investments, duration of investments and financial institutions holding the investments shall be considered. The Treasurer shall invest in quality issues and comply with state statutes regarding investment requirements.

## B. Liquidity

After safety, the next most important objective is liquidity. The investment portfolio shall remain sufficiently liquid to enable the City to meet all operating, debt service and cash needs that may be reasonably anticipated without substantial transaction costs. Liquidity is accomplished by structuring the portfolio so that securities mature concurrently with cash needs (static liquidity). In addition, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). The Treasurer shall continue to analyze the cash flow of all funds on a regular basis to ensure maximum cash availability.

## C. Return

Return on investment is the third priority after the safety and liquidity objectives described above. The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and liquidity needs.

The Treasurer shall continue to pool cash from several different funds for investment purposes, in order to obtain the best possible return on all cash investments. The Treasurer shall continue to analyze market conditions and investment securities on a regular basis to determine the maximum yield to be obtained. The Treasurer shall continue to invest the maximum amount of idle cash on a continuous basis taking advantage of disbursement float whenever possible.

## D. Quality of Services, Cost, Community Support

To repeat, the most important investment goals are, in order of priority, safety, liquidity and return on investment. Once all three of those criteria have been met, the Treasurer, when appropriate, may also give consideration to:

- (1) Quality of services provided by the financial institution;
- (2) The ability of the City to minimize costs, either those charged by the financial institution or the internal costs borne by the City of Newton in managing its relationship(s) with financial institutions; and,
- (3) Investing for the betterment of Newton's local economy.

## IV. Suitable and Authorized Investments

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

A. General Operating Funds (which includes Special Revenue Funds, Stabilization Funds, most Self-Insured Trust Funds, Capital Project Funds, Internal Service Funds and Agency Funds)

General operating will be invested by the Treasurer in accordance with 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.
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), i.e., pooled investment funds operated under the authority of the State Treasurer in the Massachusetts Municipal Depository Trust (“MMDT”)

#### B. City Trust Funds

City trust funds will be invested by the Treasurer in accordance with the Acts of 2007 Ch. 75. This chapter specifies that, notwithstanding any general or special law to the contrary, the Treasurer of the City of Newton may invest the funds of the City in the custody of the Treasurer in accordance with the investor rule, and sections 3, 4, 5, 8 and 9 of Chapter 203C of the General Laws. The Treasurer, in consultation with each trust fund board of trustees, shall develop investment policies which shall include an asset allocation policy for each trust fund and shall select professional investment advisors to manage the funds.

#### C. Retirement Funds

Pension funds are under the jurisdiction of the City of Newton’s Contributory Retirement System. The restrictions imposed by Sections 54 and 55 do not apply to city retirement systems. A breakdown of these investments may be obtained either from the Director of the Newton Contributory Retirement System or by consulting the Retirement page of the City of Newton website. Quarterly information about fund investments is posted on this site.

#### D. Investment Restrictions

The City 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 not authorized by this policy; and,
- Any entity doing business with Sudan pursuant to Newton City Ordinances Sec. 2-117, except as exempted by the ordinance.

## V. Authorized Financial Institutions, Brokers/Dealers and Depositories

The Treasurer shall organize and maintain banking relationships designed to ensure investment of all available funds in disbursement accounts.

The Treasurer will maintain a list 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 City 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;
- Certification of having read, understood and agreeing to comply with the City's investment policy.

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

## VI. Investment Guidelines

### A. Safety

Investments will be limited to relatively low risk financial instruments in anticipation of earning a fair return relative to the risk being assumed. Similarly, investments are limited to financial instruments that have higher credit risks with all fixed income investments rated A or above by Standard & Poors (S&P) or a similar rating by another nationally recognized rating agency.

### B. Liquidity

To ensure liquidity to meet ongoing obligations, the Treasurer will maintain an appropriate portion of the portfolio in readily available cash, money market funds, the State Treasurer's Pooled Fund, or overnight repurchase agreements. At least 25% of the portfolio shall be invested in cash or marketable securities which can be sold to raise cash in one business day's notice. The Treasurer shall maintain a minimum of three months of budgeted operating expenditures in short term investments to provide sufficient liquidity

for expected disbursements. The Treasurer will make longer-term investments only with funds that are not needed for current cash flow purposes.

### C. Diversification

The City of Newton will limit risk by diversifying its investments by investment type, by issuer, and by maturity.

- With the exception of U.S. Treasury securities and the State Treasurer's investment pools, no more than 25% of the City's total investment portfolio may be invested in a single investment type, unless that investment category carries full FDIC insurance. Note: Investment types are those required for disclosure in the Comprehensive Annual Financial Report (CAFR) by Generally Accepted Accounting Principles (GAAP). In 2011, these included U.S. agencies debt securities, corporate bonds, money market mutual funds, mutual bond funds, certificates of deposit, equity securities, equity mutual funds, and real estate investments.
- With the exception of the U.S. Treasury securities and the State Treasurer's investment pools, no more than 15% of the City's total investment portfolio may be invested with a single financial institution, unless that single financial institution's investments carries full FDIC insurance or are fully collateralized.
- With the exception of the U.S. Treasury securities and the State Treasurer's investment pools, no single banking institution shall hold in excess of 25% of the Treasurer's cash balance (cash and investments) for more than three consecutive days.
- MGL c. 44, § 55 specifies that a municipality may not at any one time have on deposit in a bank or trust company an amount exceeding 60% of the capital and surplus of that institution and a total of all the municipality's accounts must not exceed 60% of the institution's net equity. The City of Newton has a more stringent policy. The City of Newton will not have on deposit in a bank or trust company an amount exceeding 15% of capital and surplus of that institution and a total of all the municipality's accounts must not exceed 15% of the institution's net equity, unless those deposits carry full FDIC insurance or are fully collateralized.

Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type. Securities do not necessarily need to be liquidated to realign the portfolio; however, consideration should be given to liquidation and to this matter when future purchases are made to ensure that appropriate diversification is maintained.

### D. Maturity

The City will limit risk by staggering the maturity of securities to avoid concentrations in any one maturity sector. All General Operating Funds maximum final maturity is one year or less unless specific authority requires it to be shorter.



#### E. State Treasurer's Pooled Fund, a.k.a., Massachusetts Municipal Depository Trust

The Massachusetts Municipal Depository Trust (MMDT) is an investment pool created by the Commonwealth under the supervision of the State Treasurer's Office. The Massachusetts Municipal Depository Trust (MMDT) combines the funds of Massachusetts public units and invests on their behalf in short-term instruments of the U.S. Treasury and Government Agencies and large corporations and financial institutions, thus offering investors, such as the City of Newton, the opportunity to earn higher yields through a professionally managed fund. According to the State Treasurer, the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. Government obligations and highly-rated corporate securities, with maturities of one year or less. Assets are invested only in "tier 1" and "tier 2" credit quality securities. Investments in the MMDT are not a deposit in a bank and are neither insured nor guaranteed by the Commonwealth of Massachusetts, the FDIC, or the U.S. Government or any of its agencies. Although the MMDT Cash Portfolio is managed to seek to maintain a stable \$1.00 unit price, there is no guarantee it will be able to do so and a loss of principal is possible with these pools. The degree of safety of the MMDT has been deemed collateralized by the Government Accounting Standards Board 5(GASB) in its qualification of state investment pools in financial statements.

The City of Newton will continue to use this highly liquid, comparatively safe pool as an integral part of its overall investment strategy when, in the Treasurer's judgment, liquidity is necessary, or it is advantageous to do so, taking advantage of disbursement float whenever possible. There is no limit on the amount of funds that may be invested in the State Treasurer's Pooled Fund.

#### F. Certificates of Deposit and U.S Treasury and Government Agency Securities

The City of Newton will use bank certificates of deposit and/or U.S. Treasury and Government Agency securities for maturity periods which provide a favorable rate differential compared to the state Treasurer's pooled investment based upon the Treasurer's judgment and taking advantage of disbursement float whenever possible.

- Certificates of Deposit: The Treasurer may invest in Certificates of Deposit with a maturity of less than one year or less from trust companies, national banks, savings banks, banking companies, or cooperative banks.
  - No more than 15% of the portfolio shall be invested in Certificates of Deposit in any one financial institution.
  - For any one financial institution, Newton's investment in its Certificates of Deposit will not exceed 15% of the capital and surplus of that institution as of its most recent annual report.
- U.S Treasury and Government Agency Securities: The City will use these securities, with a maturity of one year or less, for reasons of diversification and security. Treasury securities will be purchased either at auction or through the

secondary market. Agency securities will only be purchased through registered dealers. There is no limit on the amount of funds that may be invested in U.S Treasury and Government Agency securities.

#### G. Mutual Funds

The City may from time to time invest trust 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;
- Portfolio contains no derivative products;
- Favorable market risk (volatility) rating from nationally recognized rating agency; and
- Maintains a high rating from a nationally recognized rating agency such as Morningstar.

#### H. Repurchase Agreements

A repurchase agreement (or repo) is economically similar to a secured loan. It is the sale of securities together with an agreement for the seller to buy back the securities at a later date for a higher price. The City of Newton, who would initially sell the security, is effectively a borrower. The buyer of the security -- effectively the lender -- receives securities as collateral.

The City of Newton will use repurchase agreements only on a limited basis when no other more favorable options are possible and then only for a duration of no more than three days and only with a bank with a top bank rating (if using Veribanc, a rating of Green).

Except in the case of overnight repurchase agreements used for the investment of available float in one of the City's operating accounts, any agreement entered into by the City will be on a delivery versus payment basis.

Any Repo purchased by the City Treasurer is subject to the following:

- Special caution used in selecting parties with whom the City will conduct repurchase transactions;
- The ability to identify the parties acting as principals to the transaction;
- The use of a Master Repurchase Agreement, or the use of a Public Securities Association Repurchase agreement with added language addressing delivery, substitution, margin maintenance, margin amounts, seller representations and governing law;
- The use of proper collateralization practices to protect funds invested in repos:

1. Collateral will be in the form of U.S. Treasury or Government Agency securities delivered to the City's third party custodian.
2. Delivery of underlying securities through physical delivery or safekeeping with the City's custodian; and
3. Over collateralization ("haircuts") or marking-to-market practices are mandatory.

#### I. Bank Ratings

The Treasurer will assess the financial condition of the banks in which the City of Newton invests by reviewing bank rating guides and banks' Reports of Financial Condition and by periodic discussions with the institutions about their financial condition. Primary emphasis will be placed on a bank's capital adequacy, loan quality and profitability before determining suitability for City investments.

The Treasurer will use a reputable bank rating service or services in judging the risk characteristics of the available banks. The Treasurer will invest funds only in institutions with a top rating from a reputable bank rating service. In the case of Veribanc, the bank must have a green rating. If the bank rating falls to yellow, the Treasurer must inform the Chief Financial Officer and the Chair of the Board of Aldermen's Finance Committee. The Treasurer will closely monitor the situation and move the funds if and when appropriate.

#### M. FDIC Insurance

The size of the City's investment portfolio precludes the use of only FDIC insured products. Efforts will be made to maximize FDIC insurance protection and period modifications to this policy may be made to take advantage of changing FDIC regulations.

All FDIC accounts will be kept within the maximum coverage level as a maximum unless additional collateralization or insurance (i.e. DIF coverage for Massachusetts banks) is provided and the yield is advantageous.

#### N. Collateralization

Massachusetts has no legal requirement for collateralizing public deposits. Until adoption of collateralization legislation, the Treasurer will provide as much security as possible for the City of Newton's bank investments through the prudent selection process described above. In addition, all cash accounts will be kept within the maximum FDIC coverage level unless additional collateralization or insurance (i.e. DIF coverage for Massachusetts banks) is provided and the yield is advantageous. One type of investment requires collateralization: Repurchase Agreements.

When collateralization is required, the City of Newton will have all pledged collateral held at an independent third-party institution outside the holding company of their bank in the name of the City of Newton, and evidenced by a written agreement. The value of the pledged collateral will be marked to market monthly, or more frequently, depending

on the volatility of the collateral pledged. The margin level of the pledged collateral must be at least 102% of the face value of the security and may be higher depending on the liquidity and volatility of the collateral pledged. Substitutions of collateral must meet the requirements of the collateral agreement, be approved by the entity in writing prior to release, and the collateral should not be released until the replacement collateral has been received. When surety bonds are used in lieu of collateral, they should be limited to those insurers of the highest credit quality as rated by A.M. Best or another nationally recognized rating agency. The City of Newton requires monthly reporting directly from the custodian. The custodian must warrant and be signatory to the agreement.

## VII. Safekeeping and Custody

### A. Custody

For administrative ease, custody accounts may be established in the name of the City of Newton in order to receive and hold book entry U.S. Treasury and Government Agency securities purchased by the City from commercial banks, collateral for any repurchase agreements to which the City is party, and collateral against any bank investments the City may require.

### B. 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.

### C. Internal Controls

The Comptroller is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City 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 Comptroller 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.

## IX. Reporting

### A. Reports

**Cash Budget:** The Treasurer will prepare, maintain, and keep current a cash budget in sufficient detail to adequately plan the annual investment and debt program.

**Cash Analysis:** The Treasurer shall prepare a Cash Analysis report monthly for the Chief Financial Officer and the Treasurer will submit it to the Board of Aldermen on a quarterly basis for its review.

**Investment Report:** The Treasurer shall prepare an investment report at least quarterly, including a 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 City to ascertain whether the investment activities during the reporting period have conformed to the investment policy. The report shall be provided to the Mayor, the Finance Committee of the Board of Aldermen, and Comptroller on a quarterly basis. The report will include at a minimum the following:

- The cash balance by bank
- The total assets of each bank
- The cash balance in each bank as a percent of City deposits
- The cash balance vis a vis the limits identified in this policy
- The excess problem loan (EPL) as a percent of each bank's assets

**Annual Report:** The Treasurer will prepare an annual report of the calendar year in conjunction with an investment policy review. This report shall include comparisons of City's return to the Benchmark Index return, shall suggest policies and improvements that might enhance the investment program, and shall include an investment plan for the coming year. The report shall be provided to the Mayor, the Finance Committee of the Board of Aldermen, and Comptroller in February each year.

### B. Performance Standards and Evaluation

The investment portfolio will be managed in accordance with the guidelines specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. The portfolio's performance shall be compared on a regular basis, at least annually, to market returns.

### 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 distributions or netted against the investment's purchase price.

#### E. 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.

#### F. Exemptions

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.

#### G. Performance Monitoring

The Treasurer along with designated financial staff, auditor, and the Comptroller may review the performance of the entities selected to provide 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

From: Lenny Gentile <lennypmgi@aol.com>

To: ruthannefuller <ruthannefuller@gmail.com>; hmerk01 <hmerk01@gmail.com>; lgentile <lgentile@newtonma.gov>; mlemieux <mlemieux@newtonma.gov>; jreardon <jreardon@newtonma.gov>; dwilkinson <dwilkinson@newtonma.gov>

Cc: rfuller <rfuller@newtonma.gov>

Subject: Re: Investment Policy & Nov. 13th Fin Comm mtg

Date: Wed, Nov 13, 2013 12:16 pm

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my suggestion would be to add a new 3. The Treasurer is encouraged to consider local financial institutions that have a record of financially reinvesting in the Newton community when making investment decisions: such consideration to be subject to the specifications and guidelines set forth within the Investment Policy pertaining to the specific investment being considered.

-----Original Message-----

From: Ruthanne Fuller <ruthannefuller@gmail.com>

To: Howard Merkowitz <hmerk01@gmail.com>; lgentile <lgentile@newtonma.gov>

Cc: 'Ruthanne Fuller' <rfuller@newtonma.gov>

Sent: Mon, Nov 11, 2013 1:45 pm

Subject: Investment Policy & Nov. 13th Fin Comm mtg

Howard (with a cc to Lenny),

Lenny has the request to review and accept the revised Investment Policy on the agenda for the Finance Committee mtg this Wednesday (Nov. 13). I'm guessing that we'll get to it around 7:30 pm. We'll be in Room 222.

Perhaps you can come?

I think one issue that Lenny would like to be sure to cover is the wording around objectives.

You will recall that the current draft says:

*D. Quality of Services, Cost, Community Support*

*To repeat, the most important investment goals are, in order of priority, safety, liquidity and return on investment. Once all three of those criteria have been met, the Treasurer, when appropriate, may also give consideration to:*

- (1) Quality of services provided by the financial institution;*
- (2) The ability of the City to minimize costs, either those charged by the financial institution or the internal costs borne by the City of Newton in managing its relationship(s) with financial institutions; and,*
- (3) Investing for the betterment of Newton's local economy.*

I believe that Lenny would like to be sure to discuss whether the word "may" should be "shall" and whether the wording "Investing for the betterment of Newton's local economy" is the most appropriate wording.

Ruthanne

Ruthanne Fuller  
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## B. Liquidity

After safety, the next most important objective is liquidity. The investment portfolio shall remain sufficiently liquid to enable the City to meet all operating, debt service and cash needs that may be reasonably anticipated without substantial transaction costs. Liquidity is accomplished by structuring the portfolio so that securities mature concurrently with cash needs (static liquidity). In addition, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). The Treasurer shall continue to analyze the cash flow of all funds on a regular basis to ensure maximum cash availability.

## C. Return

Return on investment is the third priority after the safety and liquidity objectives described above. The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and liquidity needs.

The Treasurer shall continue to pool cash from several different funds for investment purposes, in order to obtain the best possible return on all cash investments. The Treasurer shall continue to analyze market conditions and investment securities on a regular basis to determine the maximum yield to be obtained. The Treasurer shall continue to invest the maximum amount of idle cash on a continuous basis taking advantage of disbursement float whenever possible.

## D. Quality of Services, Cost, Community Support

To repeat, the most important investment goals are, in order of priority, safety, liquidity and return on investment. Once all three of those criteria have been met, the Treasurer, when appropriate, may also give consideration to:

- (1) Quality of services provided by the financial institution;
- (2) The ability of the City to minimize costs, either those charged by the financial institution or the internal costs borne by the City of Newton in managing its relationship(s) with financial institutions; and,
- (3) Investing for the betterment of Newton's local economy.

Additionally, the Treasurer is encouraged to consider financial institutions that have a record of financially reinvesting in the Newton community when making investment decisions; such consideration to be subordinate to the specifications and guidelines set forth within the Investment Policy pertaining to the specific investment being considered.

## IV. Suitable and Authorized Investments

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



CITY OF NEWTON  
IN BOARD OF ALDERMEN

2013

ORDERED:

That in accordance with the recommendation of the Finance Committee through its Chairman Leonard J. Gentile the sum of one million one hundred thousand dollars (\$1,100,000) to be appropriated from cable receipts for the purpose of connecting all city facilities with high speed fiber infrastructure and create a fully redundant fiber network be and is hereby appropriated and expenditure authorized.

FROM:	CATV Receipts Reserved (14L114-5901) .....	\$1,100,000
TO:	Fiber Network PH I-III .....	\$1,100,000

Under Suspension of Rules  
Readings Waived and Approved

(SGD) DAVID A. OLSON  
City Clerk

(SGD) SETTI D. WARREN  
Mayor

Date: \_\_\_\_\_

CITY OF NEWTON

IN BOARD OF ALDERMEN

2013

ORDERED:

That, in accordance with the recommendation of the Finance Committee through its Chairman, Leonard J. Gentile, the City of Newton Investment Policy be and is hereby approved as follows:

**Investment Policy**

I. Responsibilities and Scope	2
A. Responsibilities	
B. Scope	
II. Standards of Care	3
A. Prudence	
B. Ethics and Conflict of Interest	
III. Objectives	3
A. Safety	
B. Liquidity	
C. Return	
D. Quality of Services, Cost, Community Support	
IV. Suitable and Authorized Investments	4
A. General Operating Funds	
B. City Trust Funds	
C. Retirement Funds	
D. Investment Restrictions	
V. Authorized Financial Institutions, Brokers/Dealers and Depositories	6
VI. Investment Guidelines	6
A. Safety	
B. Liquidity	
C. Diversification	
D. Maturity	
E. State Treasurer's Pooled Fund	
F. Certificates of Deposit and U.S. Treasury and Government Agency Securities	
G. Mutual Funds	
H. Repurchase Agreements	
I. Bank Ratings	
J. FDIC Insurance	

K. Collateralization

VII. Safekeeping and Custody	11
A. Custody	
B. Delivery vs. Payment	
C. Internal Controls	

VIII. Reporting	12
A. Reports	
B. Performance Standards and Evaluation	
C. Marking to Market	
D. Fees	
E. Arbitrage	
F. Exemptions	
G. Performance Monitoring	

I. Responsibilities and Scope

A. Responsibilities

The Mayor, the Treasurer and the Comptroller shall develop the policy for investment of City funds for the approval of the Board of Aldermen. This policy shall be reviewed on a regular basis and, at a minimum, every four years. The Treasurer shall report on the review to the Board of Aldermen Financial Audit Advisory Committee.

The Treasurer has the responsibility and authority to manage the investment of City Funds (see Massachusetts General Laws, Chapter 44, section 55B and Acts of 1985, Chapter 740). The Treasurer shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. If the Treasurer wishes to make a decision to deviate from the terms of this policy, the Treasurer shall obtain prior written approval from the Board of Aldermen. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

The selection of financial institutions and broker/dealers authorized to engage in transactions with the City of Newton shall be at the sole discretion of the Treasurer.

The Treasurer, as required by Massachusetts General Laws, Chapter 44, section 55B, must invest all public funds, except those required to be kept uninvested for purposes of immediate distribution. Invested funds are required to be “invested in such a manner as to require the payment of interest on the money at the highest possible rate reasonably available, taking account of safety, liquidity, and yield.” (Ref: Ch 740, Acts of 1985 and Chapter 44, section 55B)

The Treasurer and those responsible to the Treasurer shall be bonded as required by law and insured for their fiduciary responsibilities.

The Treasurer shall be responsible for monitoring changes to the General Laws governing the type and method of investing City funds referred to in this Investment Policy.

#### B. Scope

This investment policy is to be used by the Treasurer as a general guideline for the investment of the City of Newton's cash assets. The policy applies to the following:

- General Operating Funds (which includes Special Revenue Funds, Stabilization Funds, most Self-Insured Trust Funds, Capital Project Funds, Internal Service Funds and Agency Funds)
- City Trust Funds and one Self-Insured Trust Fund, the Workers Compensation Insurance Fund

### II. Standards of Care

#### A. Prudence

The standard of prudence used by the Treasurer and employees involved in the investment process shall be the "prudent person" standard. Such fiduciaries must act in the manner of a prudent person, with judgment and care, discretion and intelligence. They must act not for speculation but for investment, considering the probable safety of the capital as well as the probable income to be derived, with the understanding that no investment is completely without risk. 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 Conflict of Interest

The Treasurer 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 City.

### III. Objectives

City funds are to be invested in a manner which will meet the daily cash flow demands of the City of Newton. The investment activities shall conform to all applicable federal and state statutes and City ordinances governing the investment of public funds. In addition, the City's investment activities will be managed by the Treasurer to achieve the primary objectives, in order of priority, of safety, liquidity and return.

#### A. Safety

Safety of principal is the foremost goal of the City of Newton's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital. Safety also is the assurance that the investment expectation will be fulfilled in a timely fashion. To attain this objective, diversification of types of investments, duration of investments and financial institutions holding the investments shall be considered. The Treasurer shall invest in quality issues and comply with state statutes regarding investment requirements.

#### B. Liquidity

After safety, the next most important objective is liquidity. The investment portfolio shall remain sufficiently liquid to enable the City to meet all operating, debt service and cash needs that may be reasonably anticipated without substantial transaction costs. Liquidity is accomplished by structuring the portfolio so that securities mature concurrently with cash needs (static liquidity). In addition, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). The Treasurer shall continue to analyze the cash flow of all funds on a regular basis to ensure maximum cash availability.

#### C. Return

Return on investment is the third priority after the safety and liquidity objectives described above. The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and liquidity needs.

The Treasurer shall continue to pool cash from several different funds for investment purposes, in order to obtain the best possible return on all cash investments. The Treasurer shall continue to analyze market conditions and investment securities on a regular basis to determine the maximum yield to be obtained. The Treasurer shall continue to invest the maximum amount of idle cash on a continuous basis taking advantage of disbursement float whenever possible.

#### D. Quality of Services, Cost, Community Support

To repeat, the most important investment goals are, in order of priority, safety, liquidity and return on investment. Once all three of those criteria have been met, the Treasurer, when appropriate, may also give consideration to:

- (1) Quality of services provided by the financial institution;
- (2) The ability of the City to minimize costs, either those charged by the financial institution or the internal costs borne by the City of Newton in managing its relationship(s) with financial institutions; and,
- (3) Investing for the betterment of Newton's local economy.

Additionally, the Treasurer is encouraged to consider financial institutions that have a record of financially reinvesting in the Newton community when making investment decisions; such consideration to be subordinate to the specifications and guidelines set forth within the Investment Policy pertaining to the specific investment being considered

#### IV. Suitable and Authorized Investments

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

##### A. General Operating Funds (which includes Special Revenue Funds, Stabilization Funds, most Self-Insured Trust Funds, Capital Project Funds, Internal Service Funds and Agency Funds)

General operating will be invested by the Treasurer in accordance with 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.
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), i.e., pooled investment funds operated under the authority of the State Treasurer in the Massachusetts Municipal Depository Trust (“MMDT”)

##### B. City Trust Funds

City trust funds will be invested by the Treasurer in accordance with the Acts of 2007 Ch. 75. This chapter specifies that, notwithstanding any general or special law to the contrary, the Treasurer of the City of Newton may invest the funds of the City in the custody of the Treasurer in accordance with the investor rule, and sections 3, 4, 5, 8 and 9 of Chapter 203C of the General Laws. The Treasurer, in consultation with each trust fund board of trustees, shall develop investment policies which shall include an asset allocation policy for each trust fund and shall select professional investment advisors to manage the funds.

##### C. Retirement Funds

Pension funds are under the jurisdiction of the City of Newton’s Contributory Retirement System. The restrictions imposed by Sections 54 and 55 do not apply to city retirement systems. A breakdown of these investments may be obtained either from the Director of the Newton Contributory Retirement System or by consulting the Retirement page of the City of Newton website. Quarterly information about fund investments is posted on this site.

#### D. Investment Restrictions

The City 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 not authorized by this policy; and,
- Any entity doing business with Sudan pursuant to Newton City Ordinances Sec. 2-117, except as exempted by the ordinance.

#### V. Authorized Financial Institutions, Brokers/Dealers and Depositories

The Treasurer shall organize and maintain banking relationships designed to ensure investment of all available funds in disbursement accounts.

The Treasurer will maintain a list 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 City 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;
- Certification of having read, understood and agreeing to comply with the City's investment policy.

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

#### VI. Investment Guidelines

##### A. Safety

Investments will be limited to relatively low risk financial instruments in anticipation of earning a fair return relative to the risk being assumed. Similarly, investments are limited to financial instruments that have higher credit risks with all fixed income investments rated A or above by Standard & Poors (S&P) or a similar rating by another nationally recognized rating agency.

#### B. Liquidity

To ensure liquidity to meet ongoing obligations, the Treasurer will maintain an appropriate portion of the portfolio in readily available cash, money market funds, the State Treasurer's Pooled Fund, or overnight repurchase agreements. At least 25% of the portfolio shall be invested in cash or marketable securities which can be sold to raise cash in one business day's notice. The Treasurer shall maintain a minimum of three months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements. The Treasurer will make longer-term investments only with funds that are not needed for current cash flow purposes.

#### C. Diversification

The City of Newton will limit risk by diversifying its investments by investment type, by issuer, and by maturity.

- With the exception of U.S. Treasury securities and the State Treasurer's investment pools, no more than 25% of the City's total investment portfolio may be invested in a single investment type, unless that investment category carries full FDIC insurance. Note: Investment types are those required for disclosure in the Comprehensive Annual Financial Report (CAFR) by Generally Accepted Accounting Principles (GAAP). In 2011, these included U.S. agencies debt securities, corporate bonds, money market mutual funds, mutual bond funds, certificates of deposit, equity securities, equity mutual funds, and real estate investments.
- With the exception of the U.S. Treasury securities and the State Treasurer's investment pools, no more than 15% of the City's total investment portfolio may be invested with a single financial institution, unless that single financial institution's investments carries full FDIC insurance or are fully collateralized.
- With the exception of the U.S. Treasury securities and the State Treasurer's investment pools, no single banking institution shall hold in excess of 25% of the Treasurer's cash balance (cash and investments) for more than three consecutive days.
- MGL c. 44, § 55 specifies that a municipality may not at any one time have on deposit in a bank or trust company an amount exceeding 60% of the capital and surplus of that institution and a total of all the municipality's accounts must not exceed 60% of the institution's net equity. The City of Newton has a more stringent policy. The City of Newton will not have on deposit in a bank or trust company an amount exceeding 15% of capital and surplus of that institution and a total of all the municipality's accounts must not exceed 15% of the



institution's net equity, unless those deposits carry full FDIC insurance or are fully collateralized.

Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type. Securities do not necessarily need to be liquidated to realign the portfolio; however, consideration should be given to liquidation and to this matter when future purchases are made to ensure that appropriate diversification is maintained.

#### D. Maturity

The City will limit risk by staggering the maturity of securities to avoid concentrations in any one maturity sector. All General Operating Funds maximum final maturity is one year or less unless specific authority requires it to be shorter.

#### E. State Treasurer's Pooled Fund, a.k.a., Massachusetts Municipal Depository Trust

The Massachusetts Municipal Depository Trust (MMDT) is an investment pool created by the Commonwealth under the supervision of the State Treasurer's Office. The Massachusetts Municipal Depository Trust (MMDT) combines the funds of Massachusetts public units and invests on their behalf in short-term instruments of the U.S. Treasury and Government Agencies and large corporations and financial institutions, thus offering investors, such as the City of Newton, the opportunity to earn higher yields through a professionally managed fund. According to the State Treasurer, the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. Government obligations and highly-rated corporate securities, with maturities of one year or less. Assets are invested only in "tier 1" and "tier 2" credit quality securities. Investments in the MMDT are not a deposit in a bank and are neither insured nor guaranteed by the Commonwealth of Massachusetts, the FDIC, or the U.S. Government or any of its agencies. Although the MMDT Cash Portfolio is managed to seek to maintain a stable \$1.00 unit price, there is no guarantee it will be able to do so and a loss of principal is possible with these pools. The degree of safety of the MMDT has been deemed collateralized by the Government Accounting Standards Board 5(GASB) in its qualification of state investment pools in financial statements.

The City of Newton will continue to use this highly liquid, comparatively safe pool as an integral part of its overall investment strategy when, in the Treasurer's judgment, liquidity is necessary, or it is advantageous to do so, taking advantage of disbursement float whenever possible. There is no limit on the amount of funds that may be invested in the State Treasurer's Pooled Fund.

#### F. Certificates of Deposit and U.S Treasury and Government Agency Securities

The City of Newton will use bank certificates of deposit and/or U.S. Treasury and Government Agency securities for maturity periods which provide a favorable rate differential compared to the state Treasurer's pooled investment based upon the Treasurer's judgment and taking advantage of disbursement float whenever possible.

- Certificates of Deposit: The Treasurer may invest in Certificates of Deposit with a maturity of less than one year or less from trust companies, national banks, savings banks, banking companies, or cooperative banks.
  - No more than 15% of the portfolio shall be invested in Certificates of Deposit in any one financial institution.
  - For any one financial institution, Newton's investment in its Certificates of Deposit will not exceed 15% of the capital and surplus of that institution as of its most recent annual report.
- U.S Treasury and Government Agency Securities: The City will use these securities, with a maturity of one year or less, for reasons of diversification and security. Treasury securities will be purchased either at auction or through the secondary market. Agency securities will only be purchased through registered dealers. There is no limit on the amount of funds that may be invested in U.S Treasury and Government Agency securities.

#### G. Mutual Funds

The City may from time to time invest trust 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;
- Portfolio contains no derivative products;
- Favorable market risk (volatility) rating from nationally recognized rating agency; and
- Maintains a high rating from a nationally recognized rating agency such as Morningstar.

#### H. Repurchase Agreements

A repurchase agreement (or repo) is economically similar to a secured loan. It is the sale of securities together with an agreement for the seller to buy back the securities at a later date for a higher price. The City of Newton, who would initially sell the security, is effectively a borrower. The buyer of the security -- effectively the lender -- receives securities as collateral.

The City of Newton will use repurchase agreements only on a limited basis when no other more favorable options are possible and then only for a duration of no more than three days and only with a bank with a top bank rating (if using Veribanc, a rating of Green).

Except in the case of overnight repurchase agreements used for the investment of available float in one of the City's operating accounts, any agreement entered into by the City will be on a delivery versus payment basis.

Any Repo purchased by the City Treasurer is subject to the following:

- Special caution used in selecting parties with whom the City will conduct repurchase transactions;
- The ability to identify the parties acting as principals to the transaction;
- The use of a Master Repurchase Agreement, or the use of a Public Securities Association Repurchase agreement with added language addressing delivery, substitution, margin maintenance, margin amounts, seller representations and governing law;
- The use of proper collateralization practices to protect funds invested in repos:
  1. Collateral will be in the form of U.S. Treasury or Government Agency securities delivered to the City's third party custodian.
  2. Delivery of underlying securities through physical delivery or safekeeping with the City's custodian; and
  3. Over collateralization ("haircuts") or marking-to-market practices are mandatory.

#### I. Bank Ratings

The Treasurer will assess the financial condition of the banks in which the City of Newton invests by reviewing bank rating guides and banks' Reports of Financial Condition and by periodic discussions with the institutions about their financial condition. Primary emphasis will be placed on a bank's capital adequacy, loan quality and profitability before determining suitability for City investments.

The Treasurer will use a reputable bank rating service or services in judging the risk characteristics of the available banks. The Treasurer will invest funds only in institutions with a top rating from a reputable bank rating service. In the case of Veribanc, the bank must have a green rating. If the bank rating falls to yellow, the Treasurer must inform the Chief Financial Officer and the Chair of the Board of Aldermen's Finance Committee. The Treasurer will closely monitor the situation and move the funds if and when appropriate.

#### M. FDIC Insurance

The size of the City's investment portfolio precludes the use of only FDIC insured products. Efforts will be made to maximize FDIC insurance protection and period modifications to this policy may be made to take advantage of changing FDIC regulations.

All FDIC accounts will be kept within the maximum coverage level as a maximum unless additional collateralization or insurance (i.e. DIF coverage for Massachusetts banks) is provided and the yield is advantageous.

#### N. Collateralization

Massachusetts has no legal requirement for collateralizing public deposits. Until adoption of collateralization legislation, the Treasurer will provide as much security as possible for the City of Newton's bank investments through the prudent selection process described above. In addition, all cash accounts will be kept within the maximum FDIC coverage level unless additional collateralization or insurance (i.e. DIF coverage for Massachusetts banks) is provided

and the yield is advantageous. One type of investment requires collateralization: Repurchase Agreements.

When collateralization is required, the City of Newton will have all pledged collateral held at an independent third-party institution outside the holding company of their bank in the name of the City of Newton, and evidenced by a written agreement. The value of the pledged collateral will be marked to market monthly, or more frequently, depending on the volatility of the collateral pledged. The margin level of the pledged collateral must be at least 102% of the face value of the security and may be higher depending on the liquidity and volatility of the collateral pledged. Substitutions of collateral must meet the requirements of the collateral agreement, be approved by the entity in writing prior to release, and the collateral should not be released until the replacement collateral has been received. When surety bonds are used in lieu of collateral, they should be limited to those insurers of the highest credit quality as rated by A.M. Best or another nationally recognized rating agency. The City of Newton requires monthly reporting directly from the custodian. The custodian must warrant and be signatory to the agreement.

## VII. Safekeeping and Custody

### A. Custody

For administrative ease, custody accounts may be established in the name of the City of Newton in order to receive and hold book entry U.S. Treasury and Government Agency securities purchased by the City from commercial banks, collateral for any repurchase agreements to which the City is party, and collateral against any bank investments the City may require.

### B. 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.

### C. Internal Controls

The Comptroller is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City 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 Comptroller 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.

## VIII. Reporting

### A. Reports

**Cash Budget:** The Treasurer will prepare, maintain, and keep current a cash budget in sufficient detail to adequately plan the annual investment and debt program.

**Cash Analysis:** The Treasurer shall prepare a Cash Analysis report monthly for the Chief Financial Officer and the Treasurer will submit it to the Board of Aldermen on a quarterly basis for its review.

**Investment Report:** The Treasurer shall prepare an investment report at least quarterly, including a 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 City to ascertain whether the investment activities during the reporting period have conformed to the investment policy. The report shall be provided to the Mayor, the Finance Committee of the Board of Aldermen, and Comptroller on a quarterly basis. The report will include at a minimum the following:

- The cash balance by bank
- The total assets of each bank
- The cash balance in each bank as a percent of City deposits
- The cash balance vis a vis the limits identified in this policy
- The excess problem loan (EPL) as a percent of each bank's assets

**Annual Report:** The Treasurer will prepare an annual report of the calendar year in conjunction with an investment policy review. This report shall include comparisons of City's return to the Benchmark Index return, shall suggest policies and improvements that might enhance the investment program, and shall include an investment plan for the coming year. The report shall be provided to the Mayor, the Finance Committee of the Board of Aldermen, and Comptroller in February each year.

### B. Performance Standards and Evaluation

The investment portfolio will be managed in accordance with the guidelines specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. The portfolio's performance shall be compared on a regular basis, at least annually, to market returns.

### 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 distributions or netted against the investment's purchase price.

#### E. Arbitrage

The City shall not use bond proceeds for purposes of arbitrage. Bond issues (and any proceeds thereof) are to be used for the intended purpose and are not to be considered surplus for investment in higher yielding, taxable securities.

#### F. Exemptions

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.

#### G. Performance Monitoring

The Treasurer along with designated financial staff, auditor, and the Comptroller may review the performance of the entities selected to provide 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

Under Suspension of Rules  
Readings Waived and Approved

(SGD) DAVID A. OLSON  
City Clerk

(SGD) SETTI D. WARREN  
Mayor

Date: \_\_\_\_\_

CITY OF NEWTON

IN BOARD OF ALDERMEN

, 2013

ORDERED:

That, in accordance with the recommendation of President Scott Lennon and Vice-president Cheryl Lappin, DAVID C. WILKINSON is hereby re-appointed by the Board of Aldermen as COMPTROLLER OF ACCOUNTS; said term of office will be two (2) years or until a successor is duly qualified.

Under Suspension of Rules  
Readings Waived and Approved

(SGD) DAVID A. OLSON  
City Clerk