

CITY OF NEWTON

FINANCIAL AUDIT ADVISORY COMMITTEE

INVESTMENT POLICIES AD HOC SUB-COMMITTEE REPORT

THURSDAY, JULY 12, 2012

Present: Howard Merkowitz (Chair), School Committee Member Matt Hills, Alderman Ruthanne Fuller, Jim Reardon (Treasurer), David Wilkinson (Comptroller), Maureen Lemieux (Chief Financial Officer)

The Investment Policy Ad Hoc Sub-Committee is charged with working with City management to establish investment policies and procedures. The investment policies and procedures will address policies for short-term cash, medium-term cash and endowment funds. The Committee will also consider alternative investment policies and processes for making investment decisions, which include the possibility of having PRIT manage the Other Post Employment Benefit funds.

The initial focus of the meeting was an inventory of where the City's cash funds are located and how much money is in each account. The City's Treasurer provided the Sub-committee with the attached handout that included a balance sheet dated June 30, 2012 summarizing the short-term and medium-term cash accounts. The balance sheet lists the cash accounts by bank and account name. The City currently has thirty-nine cash accounts at various banks. The Treasurer reviewed all of the accounts and the purpose for each of the accounts. The balance sheet also includes a brief summary of the trust funds that fall under the Treasury. As of June 30, 2012, the City had approximately \$123 million in short-term cash accounts and another \$17.5 million in trust funds.

Sub-committee members inquired if it is mandated that the City have separate accounts for each function. There are no mandates for specific accounts with a few exceptions, for example, the Mass Municipal Depository Trust Bond Account is an arbitrage account mandated by the state. If the City borrows money from the State, they have to track that money to make sure the City is not investing it and that it is spending it in the appropriate amount of time. Therefore, that money is isolated in a separate account. Most of the other accounts listed were created for convenience or practicality. Some of the accounts correspond to specific funds. The Treasurer moves money from accounts when there is a demand for additional money in a specific account. After that, moving funds becomes discretionary and determined by the rates offered by the bank.

The City's current investment policy (attached) has been in place since 1991. An investment policy that requires the City to diversify its money by establishing the maximum amount of money in any one institution works well. In addition, an investment policy that requires the City to only use banks with high ratings is important. (The City requires a bank rating of green by Veribanc.) These policies insulate the Treasurer by ensuring that the Treasurer is not put in the position of having to place deposits with local banks whether the bank is in sound financial shape or not.

The policy states the minimum investment limit is not to exceed 15% of the bank's capital and surplus as of the most recent Veribank Report. From the City management's perspective, the current investment policy of 15% should be reviewed by the Sub-Committee to determine if that specific percentage is still a good policy or if there should be some modifications, as most of what the Treasurer does in terms of investments is based on that policy. There should also be some consideration given to whether the 15% limit is too high or too low. The 15% limit influences the number of bank accounts the City has. The City of Wellesley updated their investment policy in 2009 and now has a 10% limit. It would be helpful for the Sub-committee to look at investment policies of other Aaa rated communities. The Chief Financial Officer volunteered to collect those investment policies. The Treasurer added that the Mass Collectors and Treasurers Association provides a sample investment policy, which is fairly conservative and most municipalities use it as a guideline. In addition, there should be some thought given to whether a new investment policy should include language stating that if there is a negative change to a bank's Veribank ranking, the city would either monitor the bank regularly, drop balances to a smaller percentage, or no longer use that bank.

There was discussion surrounding whether the 15% limit was too low and whether the City should look at different investment vehicles. The Treasurer explained that most investment choices are made based on the risk factor. The city is a non-profit agency, which cannot gamble with citizens' money. The City does not want to risk its liquidity. Even though most deposits are fully insured, there are still liquidity risks. For example, if the City were to put 60% of its cash in one bank and the bank failed, the City would not be able to access most of its money easily. In this economic environment, there is no real advantage to putting the funds in one place, as the competitive interest rates are the same. There is no sense in giving up the liquidity to get the same rate.

The Sub-committee members felt that it would be helpful to review investments policies developed by other communities before continuing the discussion. The Treasurer agreed to put together a memo detailing how the City's position is best served by changes in the current investment policy and what he believes are the most important areas for sub-committee to

review. The external auditors will also be consulted regarding the number of bank accounts the City has and what is the optimal number of bank accounts for a city of this size.

Once a policy is developed, the Administration expects that the Board of Aldermen will review the policy. The Administration will draft the policy, the Financial Audit Advisory Committee can vet it, and the Board of Aldermen will take an action.

The Sub-committee had a brief discussion on whether the State's PRIT Fund is the appropriate place for the City to put the Other Post Employment Benefit funds, as they begin to grow or if the City is better off having a group of investors manage the funds. The Sub-committee will continue this discussion at its next meeting.

Note: The next meeting has been scheduled for Wednesday, September 12 at 6:15 pm at City Hall.

Respectfully Submitted

Howard Merkowitz, Chairman

City of Newton Treasurer/Collector's Office
Balance Sheet
 As of June 30, 2012

Jun 30, 12

ASSETS

Current Assets

Checking/Savings

Bank of America

BoA General A/C 001-3005	6,951,372.38
BoA NPS Cafeteria 53672083	357,740.88
BOA NPS Transport #4609772900	164.24

Total Bank of America 7,309,277.50

Cambridge Savings Bk 350517821 15,340,927.46

Century Bank

Century Lockbox 42846	80,150.49
Century MMA 66269636	20,378,309.38

Total Century Bank 20,458,459.87

Citizen's Bank

Citizens Cmnty Dev 1139741206	31,202.33
Citizens DDA 1134643273	5,001,471.55
Citizens Invest MMA 1103039161	373,067.29
Citizens NRS Dsburse 1305065767	3.86

Total Citizen's Bank 5,405,745.03

Eastern Bank

Eastern C&D 10107043	6,029,965.99
Eastern DDA 9369392	25,059.26
Eastern Invest MMA 9130403	59,898.16
Eastern Payroll 10087518	2,436.52
Eastern Vendor 10087484	592,974.47

Total Eastern Bank 6,710,334.40

First Trade UnionMMA 0119007898 10,236.94

MMDT

MMDT Bond A/C 44273670	8,758,096.26
MMDT General Fund 44000255	23,348,223.47
MWRA FY01 Drink Wtr 44259588	3,257,811.87
MWRA I/I Lcl Fin Asst 44227031	1,189,799.11

Total MMDT 36,553,930.71

Rockland Trust

Rockland Tr MMA 0002482975	11,574,821.79
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Total Rockland Trust 11,574,821.79

	<u>Jun 30, 12</u>
Sovereign Bank 95570005942	258,435.24
TD Bank	
TD Bank MMA 8241809893	3,234,125.16
Total TD Bank	<u>3,234,125.16</u>
Unibank	
Unibank City Clerk 880232855	1,996.61
Unibank DPW 880236237	1,273.68
Unibank MMA 791020217	7,195,682.78
Unibank Online 880213301	725,995.07
Unibank Police 880231766	7,021.59
Unibank School Rcpts 880223680	13,810.56
Unibank Unassigned 880223672	5.11
Total Unibank	<u>7,945,785.40</u>
Village Bank	
Village Bank MMA 7188011568	7,583,650.71
Village Bank Parking 3588002478	4,098.41
Total Village Bank	<u>7,587,749.12</u>
Total Checking/Savings	122,389,828.62
Other Current Assets	
Bank of America NA	
Chaffin Trust Fund	4,658,733.64
Total Bank of America NA	<u>4,658,733.64</u>
Bank of New York Trust	
Investment - Newton North HS	556,877.06
Investment - Scovill Trust Fund	1,057,757.22
Investment - Workers' Comp	8,097,190.61
Total Bank of New York Trust	<u>9,711,824.89</u>
Salomon Smith Barney	
Invest - Cousens 3534736016275	1,906,291.25
Total Salomon Smith Barney	<u>1,906,291.25</u>
UBS Paine Webber	
Investment - Commonwealth 15476	283,811.72
Investments - Bldg Ins Tr 15477	430,638.28
Total UBS Paine Webber	<u>714,450.00</u>
Total Other Current Assets	16,991,299.78

Jun 30, 12

Total Current Assets

139,381,128.40

TOTAL ASSETS

139,381,128.40

LIABILITIES & EQUITY

0.00

BANK	30	60	90	180	210	360	RATE DATE	CURRENT BALANCE (actual \$)	ACCOUNT TYPE / TERM - MATURITY	TOTAL ASSETS (\$000)	EQUITY % OF ASSETS	TOTAL EQUITY (\$000)	NEWTON % LIMIT OF EQUITY	NEWTON LIMIT (\$000)
CENTRAL BANK Green**/BB FDIC/SIF 1-617-628-4000										538,995	7.55%	40,694	15.00%	6,104
MT WASHINGTON BANK Green**/BB FDIC/DIF										429,007	7.35%	31,532	15.00%	4,730
WELLESLEY COOPERATIVE Green**/BB FDIC										164,733	8.10%	13,343	15.00%	2,002

Investment Policy

Authority

Massachusetts General Laws, Chapter 44, Section 55B requires that the Treasurer invest all public funds except those required to be kept uninvested for purposes of immediate distribution. Invested funds are to be placed at the highest possible rate reasonably available, taking account of safety, liquidity, and yield. (MGL Ch. 740, Acts of 1985).

Legal Investment

Massachusetts General Laws, Chapter 44, Section 55 sets forth the types of investments that are legal for municipal Treasurers. They are:

- Certificates of Deposits of a maturity of no more than one year.
- Savings and Money Market Accounts.
- U.S. Treasury securities with a maturity of one year or less.
- Investment in a pooled fund operated under the authority of the State Treasurer.
- Repurchase Agreements backed by US Govt. securities, term of no more than 90 days.

Investment Goals

The Treasurer pursuant to the following goals will manage the City's investment activities:

Safety - Safety of principal is the foremost goal of the City of Newton's Investment Policy. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity - The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated.

Return on Investment - 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 the cash flow characteristics of the portfolio.

In order to achieve these goals, the Treasurer shall:

1. Continue to analyze the cash flow of all funds on a regular basis to ensure maximum cash availability.
2. Continue to pool cash from several different funds for investment purposes, in order to obtain the best possible return on all cash investments.
3. Continue to analyze market conditions and investment securities on a daily basis to determine the maximum yield to be obtained.
4. Invest in quality issues and will comply with State statutes regarding investment-requirements.

5. Organize and maintain banking relationships designed to ensure investment of all funds available in disbursement accounts.
6. Continue to invest at least 97% of its idle cash on a continuous basis.
7. Utilize bank certificates of deposit with U.S. Treasury securities for maturity periods that provide a favorable rate differential compared to the State Treasurer's pooled investment based upon the Treasurer's judgment as to projected future interest rates.
8. Utilize the State Treasurer's pooled investment fund during those periods when, in the Treasurer's judgment, liquidity is necessary, or it is advantageous to do so in order to accumulate cash for later investments in periods when interest rates are forecasted to rise.
9. Utilize repurchase agreements only on a limited basis when no other more favorable options are possible and then only for duration of no more than three days and only with a principal Boston Bank which is rated no lower than Veribanc green.
10. Avoid the necessity to redeem a term deposit prior to maturity, with attendant interest forfeiture or penalty in order to meet cash flow needs.
11. Utilize wire transfer of funds whenever the interest benefit exceeds the transaction costs associated with the wire.
12. Utilize a bank rating service in judging the safety and/or risk of an investment.

Risk Limits

The following limits shall be utilized:

- | | |
|---------------------------------|----------|
| • State Treasurer's Pooled Fund | No Limit |
| • U.S. Treasury Securities | No Limit |
| • Bank Certificates of Deposit: | |

Minimum Investment Limit

Not to exceed 15% of capital and surplus as of most recent Veribanc report

Bank rating Veribanc green.

In addition to the above limits, no single banking institution shall hold in excess of 25% of the Treasurer's cash balance (cash and investments) at any time.

Statutory References

The Treasurer shall at all times be cognizant of and comply with provisions of the following sections of Massachusetts General Laws:

- Chapter 44, Section 55 - Deposit of Public Funds
- Chapter 44, Section 53F - Compensatory Balance
- Chapter 44, Section 55B - Requirement to Invest.