

CITY OF NEWTON

FINANCIAL AUDIT ADVISORY COMMITTEE

INVESTMENT POLICIES AD HOC SUB-COMMITTEE AGENDA

TUESDAY, DECEMBER 4, 2012

Room 222
8 AM

AGENDA ITEMS

- Review draft language for Investment Policies

Respectfully Submitted

Howard Merkowitz, Chairman

The location of this meeting is handicap accessible, and reasonable accommodations will be provided to persons requiring assistance. If you have a special accommodation need, please contact the Newton ADA Coordinator Trisha Guditz, 617-796-1156, via email at TGuditz@newtonma.gov or via TDD/TTY at (617) 796-1089 at least two days in advance of the meeting date.

**City of Newton
Investment Policy**

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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 Veribanc 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. Two types of investments require collateralization: Certificates of Deposit and 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, 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 should be provided to the Mayor, Board of Aldermen, and Comptroller on a quarterly basis. The report will include 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 a comprehensive annual report 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.

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

THESE ARE NEWTON'S CURRENT INVESTMENT POLICIES OR PARAMETERS. ALL OF THEM HAVE BEEN MOVED TO THE APPROPRIATE SECTION IN THE UPDATED INVESTMENT POLICY:

The Treasurer will prepare, maintain, and keep current a cash budget in sufficient detail to adequately plan the annual investment/debt program. *[Note: Moved to Reporting.]*

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. *[Note: Moved to Objectives: Liquidity]*

2. Continue to pool cash from several different funds for investment purposes, in order to obtain the best possible return on all cash investments. *[Note: Moved to Objectives: Return]*

3. Continue to analyze market conditions and investment securities on a daily basis *[IS DAILY CORRECT?]* to determine the maximum yield to be obtained. *[Note: Moved to Objectives: Return]*

4. Invest in quality issues and ~~will~~ comply with state statutes regarding investment requirements. *[Note: Moved to Objectives: Safety]*

5. Organize and maintain banking relationships designed to ensure investment of all funds available in disbursement accounts. *[Note: Moved to Suitable and Authorized Investments]*

6. Continue to invest the maximum amount of its idle cash on a continuous basis taking advantage of disbursement float whenever possible. *[Note: Moved to Objectives: Return]*

7. Utilize bank certificates of deposit and/or U.S. Treasury securities for maturity periods which provide a favorable rate differential compared to the state Treasurer's pooled investment based upon the Treasurer's ~~judgement- judgment~~ taking advantage of disbursement float whenever possible. *[Note: Moved to Investment Guidelines: CDs]*

8. Utilize the state Treasurer's pooled investment fund during those periods when, in the Treasurer's ~~judgement judgment~~, liquidity is necessary, or it is advantageous to do so taking advantage of disbursement float whenever possible. *[Note: Moved to Investment Guidelines: MMDT]*

9. Utilize 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 principal Boston Bank *[WHAT DO THE WORDS "PRINCIPAL BOSTON BANK" MEAN? KEEP THOSE WORDS?]* which is ~~rate rated~~ no lower than 5. *[IS THIS THE RIGHT TERMINOLOGY "RATED NO LOWER THAN 5" ?]* *[Note: Moved to Investment Guidelines: Repurchase Agreements]*

10. Utilize a reputable bank rating service or services in judging the risk characteristics of the available banks. *[Note: Moved to Investment Guidelines: Bank Ratings]*

Risk Limits

The following limits shall be utilized:

- 1. State Treasurer's Pooled Fund: No Limit *[Note: Moved to Investment Guidelines: State Treasurer's Pooled Fund]*
- 2. U.S. Treasury Securities: No Limit *[Note: Moved to Investment Guidelines: US Treasury and Govt Agency Securities]*
- 3. Bank Certificates of Deposit: *[Note: Moved to Investment Guidelines: CDs]*

Primary Investment Type

a. Not to exceed 15% of capital and surplus of bank as of most recent annual report.

NOTE: CH 44, SECTION 55 SAYS THAT "Section 55. A city, town, or district or regional school district shall not at any one time have on deposit in a bank or trust company or banking company an amount exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess."

b. Bank rating- 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 appropriate. [ARE THESE THE RIGHT WORDS???] *[Note: Moved to Investment Guidelines: Bank Ratings]*

Second Investment Type

~~Not to exceed 15% of capital and surplus as of most recent annual report.~~

~~Bank rating—Middle 30% of rated banks:~~

Investment limit not to exceed \$ 1,000,000.

NOTE: Deleted this altogether

Risk Investment Type

~~Not to exceed 15% of capital or surplus as of most annual report.~~

~~Bank rating—Bottom 40% of rated banks:~~

Investment not to exceed FDIC limit or 100% ~~collateralization (Limit to \$1,000,000).~~

Note: Deleted this altogether

4. 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. *Note: Moved to Investment Guidelines: Diversification*

