

CITY OF NEWTON

FINANCIAL AUDIT ADVISORY COMMITTEE

INVESTMENT POLICIES AD HOC SUB-COMMITTEE REPORT

TUESDAY, DECEMBER 4, 2012

Present: Howard Merkowitz (Chair), School Committee Member Matt Hills, Alderman Ruthanne Fuller, Alderman Lenny Gentile, Jim Reardon (Treasurer), David Wilkinson (Comptroller)

The Sub-committee reviewed the draft Investment Policy, which was attached to the meeting agenda. The discussion focused on the eight sections of the draft policy with a focus on the draft investment guidelines and reporting sections.

FDIC Insurance Changes

Treasurer Jim Reardon highlighted the future changes in Federal Deposit Insurance Corporation insurance coverage. He reviewed the changes, which are scheduled to take place on January 1, 2013, to the current unlimited deposit insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The FDIC will no longer provide unlimited deposit insurance coverage for noninterest-bearing transaction accounts. The noninterest-bearing accounts would be added to any other type of account held by the depositor at any one financial institution and the aggregate balance of those accounts insured up to \$250,000. However, many of the banks will be providing private insurance for funds that are not covered by FDIC insurance.

Massachusetts Municipal Depository Trust & Certificates of Deposits

Mr. Reardon added that most of the City's money is invested in the Massachusetts Municipal Depository Trust (MMDT). It was pointed out that the MMDT portfolio consists almost entirely of Certificate of Deposits (CDs), with almost no government debt involved. The draft investment policy includes language describing the MMDT and the caveat that funds invested in the MMDT are not 100% guaranteed.

The draft investment policy language regarding investing in Certificates of Deposit states that the Treasurer may invest in CDs with a maturity of less than one year and that for any one financial institution, Newton's investment in its CDs will not exceed 15% of the capital and surplus of that institution as of its most recent annual report. The Sub-committee discussed whether 15% is the appropriate limit or if it should be decreased or increased. The City's

Treasurer and Comptroller are comfortable with the 15% limit and the sub-committee agreed with the limit.

Collateralization

The discussion turned to whether the City should collateralize all bank accounts. The Sub-committee discussed the pros and cons of collateralization. Collateralization would ensure the complete safety of the City's funds but there would be a loss of yield on investment. The Sub-committee felt that requiring collateralization on bank investments should be left to the Treasurer's discretion. The draft policy includes language stating that all cash accounts will be kept within the available FDIC coverage unless collateralization or private insurance is provided.

The draft policy adds a requirement that Certificates of Deposit be collateralized. The requirement was a recommendation of the external auditor. The Treasurer has never heard of a collateralized Certificate of Deposit. Alderman Fuller will check with the auditor to determine why he recommended the collateralization of Certificates of Deposit. [NOTE: Subsequent to the meeting, Alderman Fuller spoke with Chris Rogers. Mr. Rogers does not recommend that CDs always be collateralized.]

Reporting

The Sub-committee reviewed the reporting requirements contained in the draft policy. There was agreement that there should be flexibility in the policy language pertaining to what type of information is provided on a quarterly basis. It was suggested that the third bullet point under Investment Report be modified to state, "It will include at a minimum the cash balance in each bank as a percent of the City deposits." In addition, the policy should make it clear that the report information will go through the Finance Committee to the Board of Aldermen. The Sub-committee was also of the opinion that it would be beneficial to specify that the Treasurer's annual report described in the draft policy be provided in February each year.

Conclusion

The above agreed upon changes will be incorporated into the draft policy and the Financial Audit Advisory Committee will have an opportunity to review the draft before it is submitted for approval to the Finance Committee and then the Board of Aldermen.

Respectfully Submitted

Howard Merkowitz, Chairman