

INTRODUCTION

The following financial principles set forth the broad framework for overall fiscal planning and management of the Town of Hopkinton's resources. In addition, these principles address both current activities and long-term planning. The principles are intended to be advisory in nature and serve as a point of reference for all policy-makers, administrators, department heads and advisors. Nothing contained herein shall be construed to supersede any provision of applicable federal or state law, the Charter of the Town of Hopkinton or any Town Bylaw. In addition, it is fully understood that Town Meeting retains the full right to appropriate funds and incur debt at levels it deems appropriate, subject to statutory limits.

It is equally important that the Town maintain flexibility in its finances to ensure that the Town is in a position to react and respond to changes in the economy and new service challenges without measurable financial stress.

ANNUAL BUDGET DEVELOPMENT POLICIES

- a) The Town Manager will continue to build capacity among staff and town boards to review strategic issues, refine the comprehensive budget message development process and prepare the comprehensive budget collaboratively. The Town manager will consult with others, including the Town Finance Director, the Superintendent of Schools, other department heads, and Town boards before preparing a balanced comprehensive annual budget. The Comprehensive Budget Message shall include a detailed examination of trends in tax levy, "new growth" revenues, local receipts, state aid, and available funds.
- b) The Town's Finance Director will continue to prepare five-year models in support of the budget process. These models should show how various proposed budgets affect Hopkinton's long-term financial outlook.
- c) The Town will require that the Superintendent and other department heads participate in financial strategy planning and budget managing. This is integral to the success of resilient financial planning.
- d) Town boards will continue to review the recommended budget. The Board of Selectmen and Appropriation Committee will continue to hold open budget hearings on the Town Manager/Board of Selectmen recommended Comprehensive Budget.
- e) The Town Manager and Board of Selectmen may change the recommended budget as needed up to and including when the Appropriation Committee prepares its report to Town Meeting which shall be no later than 14 days prior to Town Meeting. Revisions to the recommended budget made as such may be based on input from the budget process set in the Town Charter, including recommendations of Board of Selectmen, Appropriation Committee and other Town boards, and based on new information, such as firmer state aid numbers and state/federal requirements.
- f) The Town Manager's recommended budget(s) will be posted on the Town web site.

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- g) The Town will strive to avoid budgetary procedures that balance current expenditures at the expense of meeting future years' expenses, such as postponing expenditures, accruing future years' revenues, rolling over short-term debt.
- h) The Town will, wherever possible, fund ongoing operating costs through ongoing operating revenue sources. This protects the Town from fluctuating service levels and avoids concern when one-time revenues are reduced or removed while still encouraging the pursuit and use of state and federal grants as a supplementary revenue source.
- i) Fund balances, other than balances contained in special revenue funds, will be used only for building up reserves, one-time expenditures such as capital improvements, capital equipment and unexpected or extraordinary and other post employment benefits.
- j) New operating costs associated with capital projects will be funded through operating budgets rather than through additional capital expenditures. Such new operating costs will still be reflected in the Capital Improvement Plan.
- k) If necessary, the Fall Special Town Meeting will be used to balance the budget. The budget voted at the Annual Town meeting in May is based on the best available financial information at the time. When final information is available, the changes required to balance the budget for the fiscal year will be presented for a vote at the Fall Special Town Meeting.
- l) The Town may fund extraordinary and unforeseen expenditures either by budgetary transfers or by the reserve fund within limits set by MGL.

RESERVE/STABILIZATION FUND POLICIES

- a) Pursuant to M.G.L. chapter 40 sections 5B and 6, the Town will establish four separate reserves for the purpose of funding economic uncertainty, emergency response, working capital and other post employment benefits. This helps protect the integrity of reserves, build redundancy and prevent reserves from being diverted to other purposes.
- b) The Town will establish reserve levels that meet its needs. It shall be the goal of the Town to achieve and maintain a balance in the Free Cash/Stabilization Fund of 5% of the Operating Budget. The proposed Capital Reserve is not included in this amount since it is intended for a specific purpose. Maintaining a balance in the Free Cash/Stabilization Fund at or above this level is a major factor in determining the Town's bond rating, which in turn determines borrowing costs. The Town may seek to build reserves beyond the minimum recommended level in anticipation of economic downturns or unforeseen and extraordinary expenses. A planned expenditure that drops the balance in the Free Cash/Stabilization Fund below five (5) percent will be subject to an approved replenishment plan developed by the proposing department, in collaboration with the Town Manager and Finance Director where appropriate.
- c) The Town shall proscribe using reserves or the stabilization funds for recurring expenditures and will limit the use of reserves to close the budget gap between revenue and operating expenditures.

OVERRIDE POLICIES

- a) The Town will strive to plan for multiple years when proposing an operating budget override. An override for a specific service should sustain that service for a specified time period. Any amounts needed to be carried over to balance future budgets should be placed in the stabilization fund and not be spent for any other purpose.
- b) The Town may use debt exclusions to finance major capital items such as major construction projects or significant renovations. Debt exclusion proposals must account for any impact on future operating budgets.
- c) When considering an override request the Town will require a plan in the event that the request fails. The plan should be made available to the voters prior to the Board of Selectmen voting to support the override request.

DEBT MANAGEMENT POLICIES

- a) The Town will take great care and planning when incurring long-term debt to avoid placing an undue strain on future revenues.
- b) The Town will continually evaluate opportunities to improve its bond rating through enhanced financial management, improved receivables management, accounting and financial reporting, and increased reserves such as the Stabilization Fund.

The Town will restrict long-term borrowing to large-scale capital projects such as new buildings, total building renovations, and land purchases. A debt exclusion should be put to the voters to fund large scale projects.

- c) The Town will consider tax rate impacts when planning to incur debt, and will look for ways, when possible, to minimize the rate impact, such as through timing future project borrowing to tie with the retirement of excluded debt. The Town will establish and maintain a five (5) year Capital Improvement Plan (CIP), including all proposed projects and major pieces of equipment that may require debt financing. The Town's long-term debt strategies will be structured to reflect its capital needs and impact on tax rates.
- d) General Fund Debt Service: Due to Proposition 2 ½ constraints on the Town's budget, the Town will establish a debt service "ceiling" of 15%, meaning that annual debt service payable on bonded debt should not exceed 15% of the annual operating budget. The Town will also establish a debt service "floor" of 2% as an expression of support for continued investment in the Town's roads, sewers, public facilities and other capital assets.
- e) Debt Maturity Schedule: The Town will establish a goal of issuing debt for shorter periods than the maximum allowable when the statutory limit exceed 10 years. Exceptions may be made when grants, reimbursements or other situations warrant. As a general concept, the timeframe of borrowing should match as closely as possible the expected life of the asset to be acquired through the borrowing.

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- f) **Alternative Financing Strategies:** The Town will continually pursue opportunities to acquire capital by means other than conventional borrowing; such as grants, and low-or zero- interest loans from state agencies such as the Mass. Water Pollution Abatement Trust (MWPAT) Massachusetts School Building Authority (MSBA), etc.
- g) **Debt Issuance:** The Town will work closely with the Town's Financial Advisor and Bond Counsel to ensure that all legal requirements are met and that the lowest possible interest rate can be obtained. This includes preparation of the all-important disclosure document (official statement), as well as preparation of the required documents to be signed by the Board of Selectmen and the Treasurer, and signed and notarized by the Town Clerk.

CAPITAL PROGRAM POLICIES

- a) The Town has made a practice of funding the operating budget at the expense of capital items, resulting in a backlog of pending capital requirements and deferred maintenance which could ultimately lead to critical failures and increased costs. The Town should strive to ensure that capital items are not funded through operating budgets, and should seek to ensure that capital items are properly funded even in times of financial constraint in order to prevent larger costs or losses later.
- b) The Capital Improvement Committee and the Town Manager will continue to maintain a rolling five-year list of anticipated capital needs. The list should be reviewed and updated annually.
- c) For each of the Town's capital assets, the Town will determine its "annual capital contribution." An item's annual capital contribution is the amount of money that should be set aside each year to have enough money available to pay for a replacement item when the current one reaches the end of its life, based on the item's life expectancy and replacement cost.
- d) The Town will build up the Capital Reserve fund. Each year, the Town will calculate the total of all the individual annual capital contributions and seek to appropriate this amount to the Capital Reserve at the annual Town Meeting. In addition, the Town will seek to appropriate funds from the Capital Reserve to pay for items scheduled for replacement.
- e) Excess funds will be returned to the Capital Reserve fund if a capital item costs less than the budgeted amount.
- f) The Town will establish a process for requesting a capital item or capital improvements that applies to all capital requests, whether requested by a department, a committee, an organization, or an individual. The process would require that all capital requests go through the Town Manager. The process would require completion of a Capital Request form. The completed form must include not only the cost of the capital item but also any new ongoing impact on the operating budget. If the requested capital item replaces another capital item, the completed form must state what will happen to the obsolete item.

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- g) In the case of capital expenses that are justified by anticipated cost savings, efficiency enhancements or other benefits, those gains shall be quantified by the recommending department head or committee/board/commission/petitioner. It is the Town's intention that such assertions of benefit will be periodically reviewed to confirm they are realized.
- h) The Town will establish a standard form to be used to report the disposal or disposition of replaced capital items. When any capital item is replaced, the form must be submitted to describe what happened to the item that was replaced.
- i) The Capital Improvement Committee shall review each capital request estimated to cost \$25,000 or greater and present its recommendations to the Town Manager by December 31.
- j) Proponents of capital articles will list specific items and the cost associated with the item in the capital article presented at Town Meeting. Information about new ongoing costs associated with any capital item, including funding source, must be made available to Town Meeting.
- k) The Town will strive to finance major capital items such as major construction projects or significant renovations with debt exclusions.

INVESTMENT POLICY

I. The Investment of General Funds, Special Revenue Funds, Enterprise Funds, and Capital Projects Funds

A. Scope

This section applies only to short term operating funds such as general funds, special revenue funds, enterprise funds, bond proceeds and capital project funds. Section two will deal with trust funds, and any other funds with special circumstances such as stabilization funds. A separate Contributory Retirement Board, either local or county, is responsible for the investment of the pension funds.

B. Objectives

Massachusetts General Laws, Chapter 44, section 55B requires the Treasurer to invest all public funds except those required to be kept uninvested for purposes of immediate distribution. Modern banking systems enable the treasurer to maintain even these funds in interest bearing form until the date a disbursement order clears through the banking system.

The state law further requires that invested funds are to be placed at the highest possible rate of interest reasonably available, taking into account the acceptable levels of safety, liquidity and yield. Therefore, these guidelines are intended to further the objective of securing the highest reasonable return available that is consistent with safety of principal while meeting the daily cash requirements for the operation of the Town's business.

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- **Safety** of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to preserve capital through the mitigation of credit risk and interest rate risk. These risks shall be mitigated by the diversification and prudent selection of investment instruments, and choice of depository. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.
- **Liquidity** is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the Treasurer shall attempt to carry out investment activities in a manner that provides for meeting unusual or unexpected cash demands without requiring the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.
- **Yield** is the third, and last, objective. Investments shall be undertaken so as to achieve a fair market average rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

C. Investment Instruments

Note: Public investments in Massachusetts are not protected through provisions in State law. Therefore, they are largely uncollateralized. Many banking institutions are willing to put up collateral, albeit at a cost to the entity resulting in a lower interest rate. The Treasurer negotiates for the highest rates possible, consistent with safety principles.

The Treasurer may invest in the following instruments:

- Massachusetts State pooled fund: **Unlimited amounts** (Pool is liquid)
 - The Massachusetts Municipal Depository Trust (MMDT), an investment pool for state, local, county and other independent governmental authorities, is under the auspices of the State Treasurer and currently managed by Fidelity Investments. It invests in Bankers Acceptances, Commercial Paper of high quality, Bank Certificates of Deposit, Repurchase agreements (Repos), and U. S. Treasury Obligations. It has Federal Deposit Insurance Corporation (F.D.I.C.) pass-through insurance on the CD's up to the standard limits and takes delivery on the Repos and Treasuries. Under Government Accounting Standards Board Regulation (GASB III), it is not considered an uncollateralized product.
- U. S. Treasuries that will be held to maturity: **Unlimited amounts (Up to one year maturity from date of purchase).**
- U.S. Agency obligations that will be held to maturity. **Unlimited amounts (Up to one year maturity from date of purchase).**
- Bank accounts or Certificates of Deposit ("CDs") **(Up to one year)** which are fully collateralized through a third party agreement: **Unlimited Amounts.**

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- Bank accounts and CDs (**Up to one year**) insured by F.D.I.C. **up to the coverage limit**. All bank accounts and CDs in one institution are considered in the aggregate for the insurance coverage limit. In some cases Banking Institutions carry additional insurance, Depository Insurance Fund (D.I.F.): Contact banking representative for amounts of coverage.
- **Unsecured bank deposits** of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at Banks that do not fit the above categories. These investments are subject to the following limitation: **No more than 5% of an institution's assets**. This percentage may be increased for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the Town in the near future. These payments may be for such items as debt service payment or regional school assessments. Their credit worthiness will be tracked by Veribanc, or other bank credit worthiness reporting systems. They will be diversified as much as possible. CDs will be purchased for no more than one year and will be reviewed frequently.
- **Money Market Mutual Funds** that are registered with the Securities and Exchange Commission that have received the highest possible rating from at least one nationally recognized statistical rating organization and as otherwise referenced in the Massachusetts General Law Chapter 44 Section 55.

- **Risk Tolerance**

- **Credit Risk**

- “Credit risk” is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

- The Town will manage credit risk several ways. There will be no limit to the amount of United States Treasury and United States Government Agency obligations.

- In regards to other investments, the Town will only purchase investment grade securities with a high concentration in securities rated A or better.

- The Town may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund.

- The Town may place funds in banking institutions as stated in Section C.

- **Custodial Risk**

- The “custodial credit risk” for deposits is the risk that, in the event of the failure of a depository financial institution, a municipality will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a municipality will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

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The Town will review the financial institution's financial statements and the background of the Advisor. The intent of this qualification is to limit the Town's exposure to only those institutions with a proven financial strength, capital adequacy of the firm, and overall affirmative reputation in the municipal industry.

Further, all securities not held directly by the Town, will be held in the Town's name and tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

- **Concentration of Credit Risk**

"Concentration of credit risk" is the risk of loss attributed to the magnitude of a municipality's investment in a single issuer.

The Town will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

- **Interest Rate Risk**

"Interest rate risk" is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Town will manage interest rate risk by managing duration in the account.

- **Foreign Currency Risk**

"Foreign currency risk" is the risk that changes in foreign monetary exchange rates will adversely affect the fair value of an investment or a deposit.

The Town will not invest in any instrument exposed to foreign currency risk.

D. Diversification

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities, as well as concentration in a specific institution. With the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies, and State pools (MMDT), no more than 10% of the Town's investments shall be invested in a single financial institution.

E. Authorization

The Treasurer has authority to invest municipality/district funds, subject to the statutes of the Commonwealth Massachusetts General Law Chapter 44 Section 55, 55A, & 55B.

F. Ethics

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The Treasurer (and Assistant Treasurer) shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair ability to make impartial investment decisions. Said individuals shall disclose to the Town Manager any material financial interest in financial institutions that do business with the Town. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the Town's investments.

G. Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to their financial soundness and stability. The Town subscribes to the Veribanc Rating Service to evaluate the banking institutions with which it chooses to establish relationships. Brokers should be recognized, reputable dealers and members of the Financial Industry Regulatory Authority (FINRA).

In instances where the Town does not purchase the Veribanc Rating Service, the Treasurer should request the banking institution's Veribanc rating from all of the banking institutions that are working with the Town on a quarterly basis.

When using the Veribanc Rating Service the Treasurer may invest in such banks that show a green rating in a particular quarter. If a rating is yellow the Treasurer should contact the appropriate banking institution and request in writing an explanation of the change in rating and the expected time table for it to be changed to green.

If for a second quarter such rating is not green, the Treasurer should consider removing all funds that are not collateralized, or carry some form of depositors insurance.

If a rating moves to red all money should be immediately collateralized or covered by some form of depositors insurance or be removed from the banking institution.

The Treasurer shall require any brokerage houses and broker/dealers wishing to do business with the municipality to supply the following information to the Treasurer on an annual basis:

- Audited financial statements
- If acting as a Registered Investment Advisor, copy of their Form ADV Part II
- Proof of FINRA membership
- A statement that the Advisor has read the municipality's investment policy and will comply with it on an annual basis
- Proof of credit worthiness (minimum standards: at least five years in operation and a minimum capital of 10 million dollars)

H. Reporting Requirements

On a quarterly basis, a report containing the following information will be prepared by the Treasurer and distributed to the Chief Executive Officer, Town Manager, and/or Appropriation Committee, as

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appropriate. The quarterly report will include the following information, as a minimum requirement:

- A listing of the individual accounts and individual securities held at the end of the reporting period.
- A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the "Diversification" section of this investment policy.
- A summary of the income earned on a monthly basis and year-to-date basis shall be reported.
- The Treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the Town's cash position.
- The report should demonstrate the degree of compliance with the tenets set forth in the investment policy.

I. Restrictions

Chapter 44, Section 55 set forth several restrictions that the Treasurer must be aware of when making investment selections.

- The Treasurer shall not at any one time have on deposit in a bank, trust company or banking company an amount exceeding 60% of the capital and surplus of such bank, trust company, or banking company, unless satisfactory security is given to it by such bank, trust company, or banking company for such excess.
- The Treasurer shall not make a deposit in any bank, trust company or banking company with which he is, or for any time during the three years immediately preceding the date of any such deposit was, associated as an officer or employee.
- All securities shall have a maturity from date of purchase of one year or less.
- Purchases under an agreement with a trust company, national bank or Banking Company to repurchase at not less than original purchase price of said securities on a fixed date shall not exceed ninety days.

J. Legal References

Massachusetts General Law Chapter 44, Section 55
Massachusetts General Law Chapter 44, Section 55A
Massachusetts General Law Chapter 44; Section 55B

II. The Investment of Trust Funds, Stabilization Funds and Community Preservation Act Funds

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This section applies only to funds that could be invested long term, i.e. trust funds, stabilization funds and community preservation act funds.

A. Scope

This investment policy applies to all accounts that are designated as Trust Funds, Stabilization Funds, and Community Preservation Funds. These funds include all accounts that are received as scholarships and perpetual care receipts. In addition the Town has placed both the Capital Stabilization and regular Stabilization money in this account along with their workers compensation and unemployment compensation accounts.

All accounts will be maintained separately receiving their proportionate interest and any realized and unrealized gains or losses. The account will be established as a pooled investment portfolio unless otherwise stated. Any additional accounts will be maintained in this same manner.

B. Authority

Massachusetts General Law Chapter 44, section 54 pertains to the investment of Trust Funds. All trust funds shall fall under the control of the Treasurer unless otherwise provided or directed by the donor.

C. Objective

Massachusetts General Laws, Chapter 44, section 55B requires the Treasurer to invest all public funds except those required to be kept uninvested for purposes of immediate distribution.

This section also requires that invested funds are to be placed at the highest possible rate of interest reasonably available, taking into account the acceptable levels of safety, liquidity and yield. Therefore, these guidelines are intended to further the objective of securing the highest reasonable return available that is consistent with safety of principal while meeting the daily cash requirements for the operation of the Town's business.

- **Safety** of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to preserve capital through the mitigation of credit risk and interest rate risk. These risks shall be mitigated by the diversification and prudent selection of investment instruments, and choice of depository. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.
- **Liquidity** is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the Treasurer shall attempt to carry out investment activities in a manner that provides for meeting unusual or unexpected cash

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demands without requiring the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.

- **Yield** is the third, and last, objective. Investments shall be undertaken so as to achieve a fair market average rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

D. Investment Instruments

M.G.L. Chapter 44 section 54 states that money should be deposited into savings bank, trust companies incorporated under the laws of the Commonwealth, banking companies incorporated under the laws of the Commonwealth which are members of the Federal Deposit Insurance Corporation, or national banks, or invested in participation units in a combined investment fund under section thirty-eight A of chapter twenty-nine, or in a paid-up shares and accounts of and in co-operative banks, or in shares of savings and loan associations or in share or savings deposits of federal savings and loan associations doing business in the commonwealth.

Additionally the Town may invest such funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth; provided, that not more than fifteen percent (15%) of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half percent (1 ½%) of such funds be invested in the stock of any one bank or insurance company. See attached the Commonwealth of Massachusetts [List of Legal Investments](#).

The Treasurer may invest in the following instruments:

- U. S. Treasuries that may be sold prior to maturity: **Unlimited amounts (With no limit to the length of maturity from date of purchase).**
- U.S. Agency obligations that may be sold prior to maturity. **Unlimited amounts (With no limit to the length of maturity from date of purchase).**
- Bank accounts or Certificates of Deposit (“CDs”) **Unlimited amounts (With no limit to the length of maturity from date of purchase)**, which is fully collateralized through a third party agreement.
- Bank accounts and CDs **(With no limit to the length of maturity from date of purchase)** fully insured by F.D.I.C. and in some cases also Depository Insurance Fund of Massachusetts (D.I.F.): All bank accounts and CDs in one institution are considered in the aggregate to receive the insurance coverage limit.
- **Unsecured bank deposits** of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at Banks that do not fit the above categories. These investments are subject to the following limitations: These investments **will be limited to no more than 5% of an institution's assets and no more than 25% of a municipality's cash.** This

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percentage may be increase for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the Town in the near future. These payments may be for such items as debt service payment or regional school assessments. Their credit worthiness will be tracked by Veribanc, or other bank credit worthiness reporting systems. They will be diversified as much as possible. CDs will be purchased with no limit to the length of maturity from the date of purchase and will be reviewed frequently.

- Common and preferred stock that are listed in the List of Legal Investments.
- Investment Funds that are listed in the List of Legal Investments.
- All other items not separately identified here that are listed in the List of Legal Investments.
- **Risk Tolerance**

- **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Town will manage credit risk several ways. There will be no limit to the amount of United States Treasury and United States Government Agency obligations.

In regards to other investments the Town will only purchase investment grade securities with a high concentration in securities rated A or better.

The Town may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund.

The Town may place funds in banking institutions as stated in this section C.

- **Custodial Risk**

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a municipality will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a municipality will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The Town will review the financial institution's financial statements and the background of the advisor. The intent of this qualification is to limit the Town's exposure to only those institutions with a proven financial strength, capital adequacy of the firm, and overall affirmative reputation in the municipal industry.

Further, all securities not held directly by the Town, will be held in the Town's name and tax identification number by a third party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

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- **Concentration of Credit Risk**

“Concentration of credit risk” is the risk of loss attributed to the magnitude of a municipality’s investment in a single issuer.

The Town will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

- **Interest Rate Risk**

“Interest rate risk” is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Town will manage interest rate risk by managing duration in the account.

- **Foreign Currency Risk**

“Foreign currency risk” is the risk that changes in foreign monetary exchange rates will adversely affect the fair value of an investment or a deposit.

The Town will not invest in any instrument exposed to foreign currency risk.

E. Standards of Care

The standard of prudence to be used by the Treasurer shall be the “Prudent Person” standard and shall be applied in the context of managing an overall portfolio. The Treasurer acting in accordance with written procedures and this investment policy, and exercising reasonable due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided the purchases and sale of securities is carried out in accordance with the terms of this investment policy.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs; not for speculation, but for investment considering the probable safety of their capital as well as the probable income to be derived.

In addition this section would also apply to M.G.L. Chapter 44 Section 55A which refers to the liability of the Treasurer for losses due to bankruptcy.

F. Diversification

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities, as well as concentration in a specific institution, with the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies.

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G. Authorization

The Treasurer has authority to invest municipality funds, subject to the statutes of the Commonwealth Massachusetts General Law Chapter 44 Section 55, 55A, & 55B.

H. Ethics

The Treasurer and Assistant Treasurer shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair ability to make impartial investment decisions. Said individuals shall disclose to the Town Manager any material financial interest in financial institutions that do business with the Town. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the Town's investments.

I. Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to their financial soundness and stability. The Town subscribes to Veribanc a recognized bank rating service. Brokers should be recognized, reputable dealers.

The Treasurer shall require any brokerage houses and broker/dealers, wishing to do business with the Town, to supply the following information to the Treasurer:

- Audited financial statements
- If acting as a Registered Investment Advisor, yearly copy of their Form ADV Part II
- Proof of FINRA membership
- A statement that the Advisor has read the municipality's investment policy and will comply with it on an annual basis
- Proof of credit worthiness (minimum standards: at least five years in operation and a minimum capital of 10 million dollars)

J. Reporting Requirements

On a quarterly basis, a report containing the following information will be prepared by the Treasurer and distributed to the Town Manager, and/or Appropriation Committee, as appropriate. The quarterly report will include the following information, as a minimum requirement:

- A listing of the individual accounts and individual securities held at the end of the reporting period.
- A listing of the investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the "Diversification" section of this investment policy.

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- A summary of the income earned on a monthly basis and year-to-date basis shall be reported.
- The Treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the Town's cash position.
- The report should demonstrate the degree of compliance with the tenets set forth in the investment policy.

K. Legal References

Massachusetts General Law Chapter 44, Section 54
Massachusetts General Law Chapter 44, Section 55A
Massachusetts General Law Chapter 44, Section 55B

Trust Funds may be co-mingled and invested in any instruments allowed by the Commonwealth of Massachusetts list of Legal Investments Legal issued by the Banking Commissioner each July. Each trust fund must be accounted for separately. Chapter 44 Section 54 sets forth that the Treasurer may invest in instruments that are legal for savings banks. This list of investments is included in the Commonwealth of Massachusetts List of Legal Investments, Chapter 167 Section 15A.

OPERATIONAL AND OTHER EFFICIENCIES

- a) Town Departments and boards will continue to pursue and implement operational and other efficiencies (e.g. regionalization, centralization, cooperation and elimination of redundancies) to ensure that the Town nets the greatest possible service and fiscal value for its tax investment.
- b) Town Departments will adopt and utilize an assessment instrument to identify and quantify cost savings of proposed efficiencies. Identified cost savings will be reflected in the Town Manager's budget recommendation.
- c) The Town Manager will enhance and expand communication tools whereby citizens of the Town may participate in identifying efficiencies and strategies to ensure the greatest service and fiscal value for their tax investment, inform and educate citizens as to the opportunities to communicate to, and participate in, their local government.
- d) The Board of Selectmen will promote the active identification and pursuit of potential cost-cutting measures and work with the Town Manager to maintain a list on an ongoing basis. Each item that is added to the list should either be accepted and implemented or rejected with an explanation.
- e) The Board of Selectmen and Town Manager will work with town departments and boards to establish performance metrics/quality and cost of service level measurements. Mandated and non-mandated services will be assigned a service level according to development of a quality and cost of delivery comparative metric. .

Town of Hopkinton - Financial Management Policies

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ENTERPRISE FUNDS POLICIES

- a) All enterprise funds shall have a goal of being self-sufficient within three years of the establishment of the fund.
- b) Department heads responsible for enterprise funds and fee-based services should annually report the percentage of each service paid by fees and the percentage paid by tax dollars.

FEES

- a) Fee-based services that are intended to be self-supporting should cover the total cost of providing the service. When determining if a service is self-supporting, the cost of the service should include not only costs directly incurred by providing the service, but also indirect costs incurred both within the department providing the service and by other Town departments. Such services that do not meet the goal of self-sufficiency should be identified and evaluated.
- b) Department Heads will review fees annually.

POST-EMPLOYMENT BENEFIT POLICIES

- a) In the near future the Governmental Accounting Standards Board will require full disclosure in the Town's financial statements of the Town's pension and health benefit responsibilities and obligations to its retired employees. The town will work to ensure those obligations are fully funded prior to their cost becoming an undue burden on the town's budget. This will likely require development and implementation of a funding strategy in the near future.

CONTRACT AND SALARY NEGOTIATIONS POLICIES

- a) Total employee compensation must reflect the financial realities in the Town. The Finance Director should be consulted during contract negotiations to understand how proposed salary increases (including cost of living adjustments, step increases, and other compensation) will affect future operating budgets.
- b) The Town will use local "market basket" communities to identify trends in salaries and benefits. "Market basket" communities should be those that are likely to compete with the Town for employees.
- c) Competitive salaries help to attract and retain qualified employees. In addition to base salary, all compensation (such as longevity increases, uniform allowances, etc) should be taken into account when comparing positions to their counterparts in market basket communities.
- d) The Town should seek to minimize provision of benefits where total cost is unclear (e.g., town owned vehicles) and should further seek to minimize the amount and frequency of such perquisites.
- e) Contract language and benefits, whenever possible, and in keeping with the concept of good faith bargaining, should be consistent and in the short and long term best interest of the Town. Review and assessment across department and committees should be ongoing.