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Councilors Sherwood, Stanganelli, and Lavoie

An Order to adopt Financial Policies and Objectives for the City of Amesbury

Be it Ordered by the City Council of the City of Amesbury assembled and by the authority of the same, as follows:

That the attached "City of Amesbury Financial Policies and Objectives--proposed October 5, 2017" be adopted by the City of Amesbury.

Summary: The City of Amesbury shall establish financial management policies to ensure the provision of efficient and effective municipal services and to establish policies and procedures that are financially prudent and economically sound.

CITY OF AMESBURY FINANCIAL POLICIES AND OBJECTIVES

Proposed October 5, 2017

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CITY OF AMESBURY FINANCIAL MANAGEMENT POLICIES

I. OVERVIEW

The City of Amesbury established these financial management policies to ensure the provision of efficient and effective municipal services and to establish policies and procedures that are financially prudent and economically sound.

The objectives of the City of Amesbury's financial management policies are:

- Establish operational principles that minimize the cost of government, consistent with services desired by the public, and that minimize financial risk;
- Provide effective financial management that conforms with Generally Accepted Accounting Principles (GAAP), Uniform Municipal Accounting System (UMAS) and Massachusetts Department of Revenue (DOR) Informational Guideline Releases;
- Modernize the financial systems and provide increased public access to annual budgets, reports, audits and other needs as they occur;
- Provide residents with a high level of clarity of taxes and charges and maximize their ability to utilize online payment services;
- Provide increased public confidence in financial management;
- Protect and enhance the City's credit rating and prevent the default of any payments on municipal debt; and
- Provide safeguards to ensure the quality and integrity of financial systems.

II. ACCOUNTING, AUDITING AND FINANCIAL REPORTING

- A. The City will utilize accounting practices that conform to GAAP as set forth by the Government Accounting Standards Board (GASB), UMAS and DOR Informational Guideline Releases.
- B. An annual audit will be performed by an independent public accounting firm in accordance with the Amesbury City Charter.
- C. The City will utilize a cash basis of budgeting, while the audited financial statements

will be reported on an accrual basis, in accordance with statutory requirements

D. Recognizing the important role of City Council in the oversight of government fiscal operations, reports shall be provided to the Clerk for distribution to Councilors on a monthly and quarterly basis identifying total, quarterly and monthly budgeted amounts compared to actual expenditures and cash resources for the corresponding periods. Such reports will be formatted to include tabular and graphic representations of data and include multi-year trend analyses. Commercially available software may be used to supplement reports created by the Administration.

III. GENERAL OPERATIONS

- A. Budget Goals and Objectives shall be developed annually by each Department Head in consultation with the Mayor. No later than May 15 of each year, the Mayor shall submit to the City Council a proposed operating budget for all city departments, which shall include the school department, for the ensuing fiscal year with an accompanying budget message and supporting documents. The budget document should conform to guidelines set forth by Section 6-3 of the City Charter, the Governmental Finance Officers Association (GFOA), and the DOR.
- B. The City will carefully and routinely monitor all amounts due. An active collection policy will be followed for all receivables, including property taxes, fees, and fines. An average collection rate of at least 95% of current levy shall be maintained provided, however, that it is the City's full intent to collect 100% of all receivables in any given year.
- C. Charges for services and other revenues shall be reviewed on a regular basis at least every three (3) years. Charges shall be adjusted as necessary to respond to changes in the cost of providing services. The Mayor, in consultation with Department Heads, shall be responsible for cost recovery goals for individual departments or services, as appropriate, and shall make recommendations to the City Council for review and final approval of all applicable fees.
- D. Reserves reflect a community's ability to react to unforeseen circumstances and to minimize borrowing for capital expenditures. Reserves should average between 5% and 10% of the City's General Fund Expenditures (operating budget). The City will endeavor to continue its policy of maintaining reserves at a minimum of 5% of General Fund Expenditures. Reserves are defined to include all Stabilization Funds (and Free Cash).

The General Stabilization Fund is the City's main reserve fund designed to provide financial stability for the City, while improving the City's credit worthiness and flexibility. The provisions of this fund are dictated by Massachusetts General Law (MGL), Chapter 40, Section 5B. The Stabilization Fund may be appropriated for any lawful purpose upon recommendation by the Mayor and a two-thirds (2/3) vote by the City Council. However, at no time can an appropriation placed into the fund exceed 10% of the previous year's real property tax levy, nor can the fund itself exceed 10% of the equalized value of the City.

Free Cash reserves are the remaining, unrestricted funds from operations of the previous fiscal year; these include unexpended Free Cash from the previous year, actual receipts in excess of revenue estimates and unspent amounts in budget line-items. The City shall endeavor to realize a Free Cash balance of 3 to 5% of the annual budget, in any given year.

- E. In accord with accounting best practices, the City will arrange to extend liability insurance and surety bond to those departments and/or individuals where staff or volunteers may either handle or access cash, currency or coins.
- F. As sponsor of various retirement plans for employees, the City is recognized as a Fiduciary according to federal Department of Labor rules and the Pension Protection Act of 2006 (as amended).

To faithfully discharge this responsibility and to mitigate liability, the City shall adopt a policy to regularly review and complete at least a limited-scope plan audit at least once every four (4) years. In addition to requirements that may be set by the Internal Revenue Service or Department of Labor for such reviews, the scope of the review shall include an analysis of the investment choices available to participants with a focus on using options that are at least rated with three stars according to Lipper or Morningstar and are less than the cost of group peers.

A qualified default investment alternative shall be available for all participants (full- or part-time) that shall be used in the absence of any direction from the plan participant.

A qualified default investment alternative must be diversified and may not penalize the participant for early withdrawal. Qualified default investment alternatives were defined in the Pension Protection Act of 2006 as part of a broader effort to ease automatic enrollment in retirement plans.

IV. ONE-TIME REVENUES

The City has historically used some portion of its Free Cash to subsidize the ensuing year's annual operating budget. It is fiscally prudent to avoid using any one-time revenue source to fund ongoing operations since that funding source cannot be expected to reoccur. Doing so without identifying future available offsets effectively postpones difficult decisions necessary to achieve structurally sound and sustainable spending plans. It is the City's goal to limit the amount of Free Cash used in the operating budget to a sustainable level and to use these available funds for non-recurring one-time expenses, such as capital projects/items.

The City Auditor will inform the Mayor of the anticipated receipt of any sizable or extraordinary one-time revenues, which can include free cash, bond premiums, overlay surplus, sale of municipal equipment, legal settlements, insurance proceeds, and gifts. The City will thoroughly analyze any unexpected or unusual one-time revenue source before appropriation.

For purposes of this policy, the following are deemed to be appropriate uses of Free Cash, listed in order of funding priority:

- Appropriated Reserve – an amount in the annual operating budget to provide for extraordinary or unforeseen expenditures.
- General Stabilization Fund – to fund or replenish the Stabilization Fund.
- Capital Improvement Program – to fund capital projects (as defined below) that would otherwise incur borrowing costs associated with the issuance of debt.
- Special Education Stabilization Fund – to fund or replenish the Special Education Stabilization Fund
- Special Use – to augment the trust funds related to benefits and unfunded liabilities related to employee benefits.
- Extraordinary Deficits – to fund any potential deficits that would otherwise be carried over to the following fiscal year
- Emergency Appropriations – to allow for fiscal flexibility

Economic downturns or unanticipated fiscal stresses may compel reasonable exceptions to this policy. In such cases, the Mayor, in consultation with the City Auditor, can recommend to City Council the use of one-time revenues for operational appropriations.

Such use will trigger the Mayor to develop an action plan with the City Auditor to avoid continued reliance on one-time revenues.

V. FINANCIAL RESERVES

The overall level of Financial Reserves is critical to maintaining the City's credit rating and ensuring sufficient funds to manage unanticipated needs. The City's reserves provide resources that help the municipality to stabilize finances and to sustain operations during difficult economic periods. It is therefore important to have a policy that establishes prudent and consistent practices for appropriating to and expending these funds. With well-planned sustainability, the City can use its reserves to finance emergencies and other unforeseen needs, to hold money for specific future purposes, or in limited instances, to serve as revenue sources for the annual budget. Reserve balances and policies can also positively impact the City's credit rating and consequently its long-term cost to fund major projects.

Funds shall be allocated from Reserves only after an analysis has been prepared by the Finance Director and presented to the Mayor and City Council. The analysis shall provide sufficient evidence to establish that the remaining balance is adequate to offset potential downturns in revenue and meet the daily cash needs of the City.

There are multiple types of reserves, including free cash, stabilization funds, retained earnings, and overlay surplus.

A. Free Cash

The Division of Local Services (DLS) must certify a community's free cash before it can be appropriated. DLS defines free cash as "the remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line items."

The City shall set a year-to-year goal of maintaining its free cash in the range of three to five percent of the annual budget. To achieve this, the City Auditor shall assist the Mayor in proposing budgets with conservative revenue projections, and department heads shall carefully manage their appropriations to produce excess income and budget turn backs. Further, budget decision makers will avoid fully depleting the City's free cash in any year, so that the succeeding year's calculation can begin with a positive balance. Moreover, as practicable, the City will limit its use of free cash to funding one-time expenditures (like capital projects or emergencies and other unanticipated expenditures) and any excess above five percent of the annual budget will be appropriated to reserves or used to offset unfunded liabilities.

B. Stabilization Funds

A stabilization fund is a reserve account allowed by state law to set aside monies to be available for future spending purposes, including emergencies or capital expenditures, although it may be appropriated for any lawful purpose. Prior to the adoption of this policy, the City established and appropriated to a general stabilization fund and a capital stabilization fund.

General Stabilization: The City will endeavor to maintain a minimum balance of five percent of the current operating budget in its general stabilization fund. Withdrawals from general stabilization should only be used to mitigate emergencies or other unanticipated events that cannot be supported by current general fund appropriations. When possible, withdrawals of funds should be limited to the amount available above the five percent minimum reserve target level. If any necessary withdrawal drives the balance below the minimum level, the withdrawal should be limited to one-third of the general stabilization fund balance. Further, the Mayor shall develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.

Special Education Stabilization: The Special Education Stabilization fund was established for the purpose of improving the School Committee's ability to absorb unusually high or unexpected mid-year costs for the outplacement of Amesbury pupils into specialized learning environments. The City will endeavor to maintain a minimum balance of ten percent of prior year special education outplacement expenses in the fund. Withdrawals from the special education stabilization fund should only be used for unforeseen or extraordinary out placement costs. Expected or continuing placement costs should be included in the annual public school operating budget.

C. Retained Earnings

The City has three business-type operations, whose accounting is done in the manner of enterprise funds: the Water Department, the Sewer Department, and Landry Stadium. By accounting for the revenues and expenditures of each of these operations in individual funds segregated from the general fund, the City can effectively identify their true service delivery costs—direct, indirect, and capital—and to recover them through user fees. Under this accounting, the City may reserve each operation's generated surplus (referred to as retained earnings or, alternatively, as net assets unrestricted) rather than closing the amount out to the general fund at year-end.

For each of the three business-type operations, the City will maintain a reserve amount at 10 percent of the operation's total budget, at minimum, but any reserve may be significantly higher if major infrastructure improvements are necessary. These reserves will be used to provide rate stabilization and to fund major, future capital projects.

D. Overlay Surplus

The overlay is a reserve that is used to offset unrealized revenues resulting from property tax abatements and exemptions. The City will prudently manage the overlay to avoid the need to raise overlay deficits in the tax levy.

At the conclusion of each fiscal year, the Board of Assessors shall submit to the Mayor and City Auditor an update of the overlay reserve broken out by fiscal year, including but not limited to, current balances, potential abatement liabilities, and any transfers to surplus. The Board will vote to use excess overlay to fund potential overlay deficits in other fiscal years before making it available for spending, which should be limited to onetime expenses. If the balance of any fiscal year overlay exceeds the amount of potential liabilities, the Mayor may request the Board to vote to declare those balances surplus available for use in the City's capital improvement plan or for any other one-time expense.

VI. CAPITAL IMPROVEMENTS

In order to maintain public assets and infrastructure, the City shall endeavor to budget 1.5% of the annual operating budget or \$500,000, whichever is higher, for Capital Improvement projects outlined in the Capital Improvement Plan (as revised from time to time) to be initiated in the upcoming fiscal year. Funds may be carried over between fiscal years with approval of the City Council if such projects are not reasonably expected to be completed within the same fiscal year of appropriation. This balance requirement may be decreased in a particular fiscal year by a majority vote of the City Council.

The Mayor's Office, in collaboration with Department Heads and the School Committee, shall continue to prepare a five-year Capital Improvement Program (CIP) to be updated on an annual basis, as outlined in the Charter of the City of Amesbury:

- A. No later than April 1 of each year, the Mayor shall submit a capital improvement program to the City Council. The Capital Improvement Program shall be consistent with the mission statement of the City and shall include:
 - a. a clear and concise general summary of its contents;
 - b. a list of all capital improvements proposed to be undertaken during the ensuing 5 years, with supporting information as to the need for each capital improvement;
 - c. cost estimates, methods of financing and recommended time schedules for each improvement; and,

- d. the estimated annual cost of operating and maintaining each facility and piece of major equipment involved.

This information is to be annually revised by the Mayor with regard to the capital improvements still pending or in the process of being acquired, improved or constructed.

- B. Public Hearing: The City Council shall publish in at least 1 local newspaper a notice stating: (1) the times and places where entire copies of the Capital Improvement Program are available for inspection by the public; and, (2) the date, time and place not less than 14 days after such publication, when a public hearing on said plan will be held by the City Council.
- C. Adoption: At any time after the public hearing but before June 1 of each year, the City Council shall by resolution adopt the Capital Improvement Program with or without amendment, provided that each amendment must be voted separately and that any increase in the Capital Improvements Program as submitted must specifically identify the method of financing proposed to accomplish such increase.
- D. Availability of Capital Improvement Program: In addition to any other posting requirement under law, immediately after the submission of the proposed Capital Improvement Program to the City Council, the Mayor shall cause the entire Capital Improvement Program document to be posted on the city's website. After the enactment of the program, a copy of the Capital Improvement Program document as approved shall be posted on the city website indicating its approval by the City Council, and it shall remain posted at least until the enactment of any subsequent capital improvement program.
- F. Incorporation into Annual Budget: The CIP shall be incorporated by reference into the annual operating budget, including the funding of current fiscal year projects.

Long-term debt is an appropriate funding source for certain types of projects, while current revenues should be used for assets with short useful lifespans. The City will strive to maintain five to ten percent of the general fund operating budget, net of debt, on capital investment allocations. Funding will be derived from a combination of property taxes and the capital stabilization fund.

The CIP shall be prepared and financed in accordance with the following policies:

- Grant funding shall be pursued and used to finance the capital budget whenever possible.

- Capital projects for any business-type operation shall be financed solely from the operation's revenues.
- The annual operating costs of each proposed capital project, as well its debt service costs, will be identified before any long-term, bonded capital project is recommended.
- Major capital projects, such as new construction or major renovations to existing facilities, may be accomplished through capital or debt exclusions.
- Infrastructure or facility maintenance budgets built into the general operating budget will not be reduced to fund other departmental budgets.

Definitions of Capital Improvement Program/Project:

- *Capital Improvement Program*: A comprehensive list of major public improvement projects that are proposed for the City's expenditure within the next six years. The CIP shall be reviewed annually.
- *Capital Improvement Project*: Items included within the Capital Improvement Program will involve the improvement or betterment of the physical plant of the City of a non-recurring nature as differentiated from ordinary repairs or maintenance of a recurring nature. Projects include acquisition of land, improvement of facilities and the replacement/purchase of equipment with a useful life of at least five (5) years and a cost of \$10,000 or more.

VII. DEBT MANAGEMENT

- A. A critical measure for credit rating agencies is the ratio of debt service payments to total expenditures. The City recognizes that maintaining debt levels within industry standards allows the City to more easily maintain its credit standing. Credit rating agencies consider individual community needs and circumstances, including emergencies, when evaluating the fiscal health of a community.
- B. The City will endeavor to manage debt so as not to exceed the following ratios, which are reflective of municipal credit standards:
5. Gross General Fund debt service/General Fund expenditures 10% and
 6. Net General Fund debt service/General Fund expenditures 5 – 10%

C. Definitions of Gross/Net Debt Service:

- General Fund Gross Debt Service: Annual debt payments (principal and interest) for which the City is held accountable; inclusive of assessments from

City and School appropriations and debt exclusions. The same shall apply to Enterprise Funds.

- **General Fund Net Debt Service:** After state reimbursements and state aid, the annual debt payments (principal and interest) for which the City is held accountable; inclusive of assessments from City and School appropriations and debt exclusions (i.e., Gross Debt Service less reimbursements/aid). The same shall apply to the Water, Sewer and Landry Stadium Enterprise Funds.

D. When considering the use of debt, the City shall be guided by the following:

- **Borrowing versus Cash:** The City will endeavor to finance Capital Improvement Projects/Items with a total cost of less than \$50,000 through cash appropriation rather than borrowing.
- **Useful Life:** When borrowing, the City will ensure that the term of bonds issued will not exceed the useful life of the project.
- **Capital Expenditure versus Capital Improvement Project:** Capital expenditures not meeting the definition of "Capital Improvement Projects" should be financed through inclusion within operating budgets.

E. When considering debt financing strategies, the City shall be guided by the following:

Exclusions from Proposition 2-1/2 Limits

The maximum amount a community can collect in taxes in a given year is its levy limit. Proposition 2¹/₂ (MGL Ch. 59, §21C) restricts growth in the levy limit from one year to the next by limiting the growth to an increase of not more than 2.5 percent over the prior fiscal year plus any increase in valuation due to new growth in the community.

There are provisions that allow a community to exceed the limits of Proposition 2¹/₂. The "debt exclusion" option is a temporary tax increase used to raise additional taxes to fund capital projects for which the community may borrow as defined in MGL Ch. 44, §7 and 8. The additional amount is added to the levy limit only during the life of the debt.

A community may also temporarily exceed the levy limit by raising additional taxes for a capital improvement in order to finance the purchase with cash. Such "capital outlay expenditure exclusion" is used for the year in which the capital item is acquired.

Overrides

Proposition 2^{1/2} allows a community to assess taxes in excess of the automatic annual 2.5 percent increase and any increase due to new growth by passing an override. A community may take this action as long as it is below its levy ceiling, or 2.5 percent of full and fair cash value. An override cannot increase a community's levy limit above the level of the community's levy ceiling.

When an override is passed, the levy limit for the year is calculated by including the amount of the override. The override results in a permanent increase in the levy limit of a community, which as part of the levy limit base, increases at the rate of 2.5 percent each year.

A majority vote of a City Council, with the Mayor's approval, allows an override question to be placed on the ballot. Override questions must be presented in dollar terms and must specify the purpose of the override. Overrides require a majority vote of approval by the electorate.

State, Federal and Other Sources of Funding

State, Federal and other sources of funding, including grants and reimbursements, will be actively sought for eligible capital projects.

Quality of Life Capital Program: To promote and fund projects that may improve the quality of life of City residents, the budget shall allocate 0.20% of the current fiscal year tax levy or \$75,000, whichever is greater, on such projects determined to further the mission of the Quality of Life Capital Advisory Committee. Funds may be held in reserve from year to year if approved by City Council without expenditure as a means of accumulating funds for larger-scale projects. Funds are not to be used for general maintenance.

VIII. ENTERPRISE FUND MANAGEMENT

Enterprise funds should be fully self-sufficient operationally with user charges and fees set to recover all costs associated with the activities of these funds, including capital expenditures. All costs, both direct and indirect, shall be reviewed on an annual basis to ensure proper allocation of costs between the General Fund and Enterprise Funds pursuant to the DOR's Indirect Cost Analysis performed June 2012. Enterprise Funds are governed by MGL Ch. 44, §53F^{1/2}.

IX. GIFTS AND GRANTS

- A. All grants shall be managed to comply with the laws, regulations and guidance of the grantor, and all gifts and donations shall be managed and expended according to the wishes and instructions of the donor, in accordance with state law. The Mayor's Office will provide an annual report to the City Council that summarizes all grant funded projects/programs.
- B. All gifts shall be evaluated for suitability and consistency with City policies. Gifts with values greater than \$500 shall be formally accepted by the City Council after review and recommendation by the Mayor, or as otherwise allowed by ordinance or by-law. Gifts of funds are governed by MGL Ch. 44, §53A. Gifts of tangible property are governed by MGL Ch. 44, §53A^{1/2}.

X. TRUST FUND MANAGEMENT

Trust Fund management shall be consistent with the legal requirements and spirit of each respective trust document and, to the maximum extent possible, realize the purpose the trusts were intended to achieve. All Trust Funds shall be invested in accordance with Section X of these policies.

XI. INVESTMENT POLICY FOR GENERAL FUNDS, SPECIAL REVENUE FUNDS, ENTERPRISE FUNDS AND CAPITAL PROJECTS FUNDS

- A. **Scope**—Section XI of this policy applies only to short term operating funds such as general funds, special revenue funds, enterprise funds, bond proceeds and capital project funds. Section XII will address trust funds and any other funds with special circumstances, such as stabilization funds. The Amesbury Retirement Board and Massachusetts Teacher's Retirement Board are responsible for the investment of the pension funds for all City employees.
- B. **Objectives**—MGL Ch. 44, §55B requires the Treasurer to invest all public funds except those required to be kept liquid for the purpose of immediate distribution.

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

The following objectives are listed in order of priority:

1. Safety of principal. The foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of 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.
2. Credit risk. The risk of loss due to the failure of the security issuer or backer.
3. Interest rate risk. The risk that the market value of the security will fall due to changes in general interest rates.
4. Liquidity. 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 carry out investment activities in a manner that provides for meeting unusual cash demands without the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.
5. Yield. 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**—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 at a lower interest rate. The Treasurer negotiates for the highest rates possible, consistent with safety principles. The Treasurer may legally invest in the following instruments:

1. 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. 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 C.D.'s and takes delivery on the Repos and Treasuries.
2. U. S. Treasuries that will be held to maturity: Unlimited amounts (Up to one year maturity from date of purchase).

3. U.S. Agency obligations that will be held to maturity: Unlimited amounts (Up to one year maturity from date of purchase).
4. Bank accounts or Certificates of Deposit, hitherto termed C.D.'s. (Up to one year) which are fully collateralized through a third party agreement: Unlimited amounts.
5. Bank accounts and C.D.'s (Up to one year) insured by F.D.I.C. up to, at present, a \$250,000 limit. All bank accounts and C.D.'s in one institution are considered in the aggregate to receive the \$250,000 insurance coverage. In some cases, banking institutions carry additional insurance, Depository Insurance Fund of Massachusetts (D.I.F.M).
6. 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: No more than 5% of an institution's assets and no more than 25% of a municipality's cash may be composed of unsecured bank deposits. 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 City in the near future. These payments may be for such items as debt service payment or regional school assessments. They will be diversified as much as possible.

D. Authorization—The Treasurer has authority to invest in municipal funds, subject to the statutes of MGL Ch. 44, §55, 55A, and 55B.

E. Restrictions—MGL Ch. 44, §55 sets forth the several restrictions that the Treasurer must be aware of when making investment selections for short term operating funds.

1. The Treasurer shall not at any one time have on deposit in a bank or trust company an amount exceeding 60% 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.
2. The Treasurer shall not make a deposit in any bank, trust company or banking company that she or he is associated with as an officer or employee or has been the same for any time during the three years immediately preceding the date of any such deposit.
3. All securities shall have a maturity from date of purchase of one year or less.

4. Purchases under an agreement with a trust company, national bank or banking company for repurchase at not less than original purchase price of said securities on a fixed date, for a term that shall not exceed ninety days.

XII. INVESTMENT POLICY FOR TRUST FUNDS and STABILIZATION FUNDS

- A. **Scope**—Section XII of this policy applies to funds that could be invested long term and includes accounts that are designated as Trust Funds, Stabilization Funds, and Conservation Funds. These funds include all accounts that are received as scholarships and perpetual care receipts. All accounts will be maintained separately receiving their proportionate interest allocation and any realized and unrealized gains or losses. The account can be established as a pooled investment portfolio. Any additional amounts added to such accounts will be maintained in this same manner.
- B. **Authorization**—MGL Ch. 44, §54 pertains to the investment of Trust Funds. All trust funds shall fall under the control of the Treasurer. The standard of care to be used by the Treasurer shall be the “prudent person” standard set forth in MGL Ch. 203C and shall be applied in the context of managing an overall portfolio. The Treasurer, in consultation with the Mayor and Finance Director, may select and appoint an independent investment advisor to manage the investment of the Trust Funds. Such appointment shall be reviewed on an annual basis.
- C. **Investment Objectives & Goals**—The accumulated income from the assets being invested are working funds for present and future needs of the various trusts that have been donated for the benefit of the City of Amesbury. It is essential that assets be invested in a high-quality portfolio, which;
 1. Preserves the non-expendable principal.
 2. Meets liquidity needs.
 3. Delivers a good return in relation to market conditions.
 4. Avoids inappropriate concentration in any single investment vehicle.
- D. **Investment Direction and Asset Allocation**—All investments must be allowable in accordance with MGL Ch. 44, §54, 55A & 55B, to the extent these sections apply. The portfolio should be invested in a blend of fixed income securities and equities with the following guidelines:
 1. No more than 55% of the portfolio’s market value may be invested in equities and of this portion not more than 10% may be invested in alternative type investments.

2. No less than 30% of the portfolio's market value may be invested in fixed income securities (including preferred stock).
3. Approximately 10% of the portfolio's market value may be maintained as cash and/or cash equivalents (defined as debt securities with less than one year to maturity).

E. Security Guidelines—Equities

1. Equity holdings may be selected from the New York and American Stock Exchange or the NASDAQ markets. Securities may be in U.S. companies, or foreign companies purchased as American Depository Receipts (ADR's). Funds may be invested in securities convertible into equities or preferred stock.
2. The equity portion of the portfolio should consist of a diversified mix of investments suitable to achieve the objectives of capital preservation. Individual equity holdings in any one company should not exceed 5% of the market value of the portfolio.
3. No funds may be invested in direct real estate but this shall not preclude investment in publicly traded mutual funds or Exchange Traded Funds that invest in real estate; No funds may be invested in private placements or letter stock; the Investment Advisor shall not engage in margin transactions, short sales or any other such specialized investment vehicles. The selection of individual equities will be at the discretion of the Investment Advisor, in consultation with the Treasurer.

F. Security Guidelines—Fixed Income

1. Investments in fixed income securities will be made principally for total return potential. Selection should be made from liquid, investment grade corporate debt, convertible debt and obligations of the United States Government and its agencies.
2. These investments will also be subject to the following limitations: All fixed income securities will have a maximum of 30 years to maturity and the average maturity of the portfolio will be between 2 and 20 years.
3. Securities of a single corporate issuer (excluding the U.S. Government and U.S. Government Agency debt) will not exceed 5% of the portfolio market value. Investments in U.S. Government debt will not include agencies that are not permitted under Massachusetts General Laws (i.e. Sallie Mae (SLMA) or Ginnie Mae (GNMA) obligations).

4. No more than 20% of the portfolio's total market value will be invested in convertible securities.
5. Corporate debt and preferred issues must be rated A or higher, as defined by Moody's and/or Standard & Poor's Rating Agency.
6. There shall be no direct investments in real estate, mortgages, collateral or non-collateral loans, private placements, fixed income or interest rate futures, and no engagement in any other specialized fixed income ventures. The selection of individual fixed income securities shall be at the discretion of the Investment Advisor, in consultation with the Treasurer.

G. Security Guidelines—Cash and Cash Equivalents

1. Funds may be invested in Treasury Bills; Certificates of Deposit and Money Market Funds to provide income, liquidity for expense payments, and preservation of the portfolio's principal value.
2. All such assets must have a maturity of one year or less at the time of purchase. No investments may be made in short-term financial instruments considered to have speculative characteristics, (i.e. uncertainty of principal and/or interest payments).
3. No more than 5% of the portfolio's total market value may be invested in the obligations of one single issuer, with the exception of U.S. Government or U.S. Government Agency Obligations.
4. Non-invested cash balances will be kept to minimum levels. The selection of individual short-term fixed income securities will be at the discretion of the Investment Advisor, in consultation with the Treasurer.

XII. INVESTMENT POLICY—OVERALL PROVISIONS

A. Diversification—Diversification should be interpreted in two ways: 1) in terms of maturity, and 2) in terms of 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 and agencies or investments fully collateralized.

B. 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 Mayor any material financial interest they may have in financial institutions that do business with the City. They shall also disclose any large personal financial investment positions or loans that they have which could be related to the performance of the City's investments. All municipal employees shall comply with the State Conflict of Interest Law, MGL, Ch. 268A.

C. Standards of Care—The standard of prudence to be used by the Treasurer shall be the “prudent person” standard set forth in MGL Ch. 203C 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 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 policy. The “prudent person” standard states that, “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 the probable income to be derived.”

D. Reporting Requirements—On an annual basis, a report containing the following information will be prepared by the Treasurer and distributed to the Mayor. The report will include as a minimum requirement, the following information:

1. A listing of the individual accounts and individual securities held at the end of the reporting period.
2. 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.
3. A summary of the income earned and fees paid on, at least, a monthly and year-to-date basis.
4. A summary of gross and net returns on, at least, a monthly and year-to-date basis, benchmarked against other communities in Massachusetts with similar sized portfolios.
5. The Treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the City's cash position.
6. The report should demonstrate the degree of compliance with the tenets set forth in the Investment Policy.
7. The report must be filed with the City Clerk no later than 60 days following the close of each fiscal year.

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