

Town of West Fairlee

Banking and Investment Policy

Adopted: May 7, 2012

Reviewed:

Purpose

In accordance with 24 VSA1571(b) moneys received by the treasurer on behalf of the Town of West Fairlee may be invested and reinvested by the treasurer with the approval of the selectboard. The purpose of this Investment Policy is to establish the investment objectives, standards of investment prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the proper management and investment of the funds of the Town of West Fairlee.

This Policy does not apply to trust funds (e.g. Cemetery Commission funds) held by the Town of West Fairlee. It does not apply to bond fund investments made in accordance with applicable bond debenture requirements.

Objectives

The primary objectives in priority order of investment of the funds of the Town of West Fairlee shall be safety, liquidity, yield, and local investment:

1. **Safety.** Safety of principal shall be the foremost objective of Town funds. Investments will be undertaken so as to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk (the risk of loss due to the failure of the security) and interest rate risk (the risk that the market value of securities in the portfolio will fall due to changes in market interest rates). Credit risk will be minimized by diversifying the Town's investment portfolio so that the impact of potential losses from any one type of investment will be minimized. Interest rate risk will be minimized by investing operating funds primarily in shorter term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the Town's investment portfolio.
2. **Liquidity.** The Town's investment portfolio will remain sufficiently liquid to meet all reasonably anticipated operating requirements. This will be accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. The portfolio will consist primarily of securities with active secondary or resale markets. A portion of the portfolio may be placed in money market mutual funds to ensure liquidity for short-term funds.
3. **Yield.** The investment portfolio will be designed to attain a market rate of return throughout budget and economic cycles, taking into account the investment risk constraints and liquidity needs. **Return on investment or yield is of secondary importance compared to the safety and liquidity objectives described above.** The core of investments will be limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk assumed.

4. Local Investment. Where possible, funds may be invested for the betterment of the local economy. Local investment is of tertiary importance compared to the safety, liquidity, and yield objectives described above.

Pooling

Except where prohibited by law, cash and reserve balances from all funds will be consolidated to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income will be allocated to various funds based on their respective participation and in accordance with generally accepted accounting practices.

Standards of Care

The standard of care used by the treasurer and selectboard shall be the prudent person standard and shall be applied in the context of managing an overall portfolio. 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.

Conflicts of Interest

The selectboard and the treasurer shall refrain from personal business activity that could conflict with the proper execution and management of the Town's investments or that could impair their ability to make impartial decisions. In accordance with the Town's Conflict of Interest Policy, they shall disclose any material interests in financial institutions with which the Town conducts business, and further disclose any personal financial or investment positions that could be related to the performance of the Town's investments. Selectboard members and treasurer shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town.

Internal Controls

The selectboard and treasurer will establish a system of internal controls, which shall be documented in writing to prevent the loss of invested funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Town.

Authorized Investments and Institutions

Public deposits shall only be made in qualified public depositories as established by Vermont law. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the Town must supply the following as appropriate:

1. Demonstrated experience as government banking professionals.
2. Audited financial statement demonstrating compliance with state and federal capital adequacy guidelines;
3. Proof of National Association of Securities Dealers (NASD) certification;
4. Proof of state registration;
5. Certification of having read and understood and agreeing to comply with the Town's investment policy; and
6. Evidence of adequate insurance coverage.

As part of its annual, year-end audit, The treasurer and selectboard will conduct a review of the financial condition and registration of all qualified financial institutions and broker/dealers (if appropriate).

The following investments will be permitted under this policy:

1. US Treasury obligations which carry the full faith and credit guarantee of the United States Government (e.g. FDIC) and are considered to be the most secure instruments available;
2. US Government agency and instrumentality obligations that have liquid market with a readily determinable market value;
3. Certificates of deposit and other evidences of deposit at financial institutions;
4. To maximum extent possible, Town funds in excess of protections provided through US Treasury or other US Government Agency obligations should be protected by institution-based collateralization.
5. Bankers acceptances
6. Commercial paper, rated in the highest tier (e.g. A-1, P-1, F-1, D-1 or higher) by a nationally recognized rating agency;
7. Investment grade obligations of state and local governments and public authorities, (e.g. bonds);
8. Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
9. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
10. Local government investment pools, either state-administered or developed through joint powers statutes, and other intergovernmental agreement legislation.

Collateralization

Collateralization using obligations fully guaranteed by the full faith and credit of a Vermont municipality, the State of Vermont, and/or the United States Government will be required on certificates of deposit and repurchase agreements. The current market value of the applicable collateral will at all times be no less than 102% of the sum of principal plus accrued interest of the certificates of deposit or the repurchase agreement secured by the collateral. Collateral will always be held by an independent party, in the Town's name, with whom the Town has a current custodial agreement. Evidence of ownership must be supplied to, and retained by, the Town.

Safekeeping and Custody

To date, the Town of West Fairlee is not exposed to uncollateralized marketable securities. These aspects of the Investment Policy should be revisited annually to monitor any changes of this status. All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by an independent third-party custodian selected by the treasurer as evidenced by safekeeping receipts in the Town's name. The safekeeping institution shall annually provide a copy of its most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

Reporting

As noted above, the Town of West Fairlee has a fairly simple and limited investment portfolio. The Selectboard will analyze performance of these investments through its year-end self-audit and review. Additional analysis and reporting should be developed as the Town's investments grow and diversify over time.