

**TOWN OF WELLESLEY
FINANCIAL
RESERVES POLICY**

BACKGROUND

The Town desires to set out a policy for determining the appropriate level and use of Financial Reserves (Reserves) as part of its annual financial planning process. Reserves have been used over the years to accomplish several objectives, including resolving emergencies or for long term purposes such as capital expenditures. Reserves have also been used, at times, to balance the operating budgets.

As part of the long range planning process, it has been suggested that the Selectmen put a policy in place on the use of the Town's Reserves. As part of the annual Town wide Financial Plan, a critical component of the analysis is the determination of the level of Reserves.

The Government Finance Officers' Association recommends maintaining balances of Reserves in the amount of 5-15% of Budgeted Operating Revenues.

DEFINITIONS

Free Cash: Sum of funds appropriated and raised by the Town, but not expended in the years for which they were appropriated, plus unanticipated revenues, minus uncollected taxes of prior years. This amount must be certified by the Massachusetts Bureau of Accounts before it can be used. The determination is made annually in the late fall, based on sums as of the end of the previous fiscal year.

General Purpose Stabilization Fund: A special reserve account created to provide for any lawful purpose pursuant to MGL c. 40, section 5B. The Town may appropriate into this fund in any year an amount no more than 10% of the prior year's tax levy. The outstanding balance in the account cannot exceed 10% of the Town's equalized valuation. Creation of, and appropriation to and from, the General Purpose Stabilization Fund requires a two-thirds vote of Town Meeting.

Budgeted Operating Revenues: For purposes of this policy, the definition includes taxes and state and local receipts used for the operating budget. Self-supporting items such as traffic and parking receipts reserved for appropriation, Community Preservation Act Funds, Enterprise Funds, and excluded items (exempt debt and the funding

exclusion for Other Post Employment Benefits [OPEB]) are not included in the Budgeting Operating Revenue total.

Reserves: Free Cash and the Stabilization Funds.

Special Purpose Stabilization Fund: A stabilization fund set up for a specific purpose in order to encourage long-term planning and anticipated expenditures. Creation of, and appropriation to and, from the special purpose stabilization fund requires a two-thirds vote of Town Meeting.

POLICY STATEMENT

The determination of the appropriate level of Reserves must be evaluated in the context of the Town's overall financial picture which includes not only OPEB and Pension obligations but also funds set aside and used for specific purposes such as Community Preservation Act Funds, Chapter 90 Funds, and the Enterprise Funds. Maintenance of the proper level of Reserves will be part of the annual budget process.

Good financial policy articulates, and continues to reevaluate, the appropriate levels and use of Reserves to achieve the Town's long- range goals.

POLICY

The Town of Wellesley hereby adopts a policy on Reserves as follows:

- 1) Reserves shall be maintained at a level sufficient to provide required financial resources to:
 - a. Maintain top tier bond rating,
 - b. Ensure short-term cash availability when revenue is unavailable or there are unanticipated expenditures or emergency cash needs,
 - c. Minimize interest expense from short-term borrowing for operating budget needs,
 - d. Provide for investment income,
 - e. Provide for stable tax rates, and
 - f. Enhance planning for contingencies and long term planning.
- 2) Reserves shall be maintained in a range of 8 to 12% of the current period's Budgeted Operating Revenues.
 - a. Reserves in excess of 8 % but less than 12 % may be utilized for the following purposes:
 1. Stabilizing tax rates or fluctuations in cash flow requirements,
 2. Meeting anticipated capital needs, and.
 3. Avoiding or deferring an Override.

b. Reserves in excess of 12% may be used in accordance with the Town wide Financial Plan and can be available for appropriation at Town Meeting.

3) Reserves may be drawn below 8% for one or more extraordinary or unforeseen expenditures which are one-time, non-recurring expenditures.

Promulgated this 10th day of December, 2012 effective upon the filing of a copy hereof with the Town Clerk

WELLESLEY BOARD OF SELECTMEN

Terri Tsagaris
Terri Tsagaris, Chairman

Barbara D. Searle
Barbara D. Searle, Secretary

Ellen F. Gibbs
Ellen F. Gibbs, Vice Chairman

Katherine L. Babson, Jr.
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Donald S. McCauley
Donald S. McCauley

Reserve Calculation for Subsequent Budget

	<u>Year</u>	<u>Amount</u>	
Free Cash Balance (from prior year end)	6/30/2012	\$ 10,499,623	
Stabilization balance (from prior year end)	6/30/2012	\$ 3,071,289	
			Total Reserves
		\$ 13,570,912	
			Current year beginning reserve %
			11.37%
Possible Current year changes			
Current year (2013) estimated revenue shortfall - State		\$ (250,000)	
Current year (2013) estimated expense turnback 2013		\$ 750,000	
Additional current year (2013) Snow and Ice		\$ (600,000)	
Proposed to balance subsequent (2014) year budget		\$ (2,500,000)	
Other Unanticipated needs			
Change in Retirement Funding schedule (2014 budget)		\$ (600,000)	
Other		\$ (3,200,000)	
Estimated Uses before recertification			
Estimated ending Reserves after estimated uses		\$ 10,370,912	
			Estimated Reserve Balance
Current year revenue budget (as calculated per policy)		\$ 119,305,603	8.693%

Town of Wellesley
Prior year (ending) Reserves as a percentage of current year revenues
 (For purposes of determining subsequent year action)
 12/7/2012 10:21

<u>1-Jul</u>	<u>Prior year Free Cash*</u>	<u>Prior Year General purpose Stabilization</u>	<u>Current Year Sources and Uses Revenue*</u>	<u>Subtract Debt - Excluded Revenue</u>	<u>Subtract OPEB Exclusion</u>	<u>Subtract CPC & Traffic</u>	<u>Current Net Revenue</u>	<u>General Reserves % of Revenue</u>
2013	\$ 10,499,623	\$ 3,071,289	\$ 133,159,065	\$ 10,436,702	\$ 1,800,000	\$ 1,616,760	\$ 119,305,603	11.37%
2012	\$ 8,439,070	\$ 3,045,628	\$ 127,197,630	\$ 10,058,107	\$ 1,800,000	\$ 1,476,136	\$ 113,863,387	10.09%
2011	\$ 9,471,751	\$ 3,022,256	\$ 124,030,778	\$ 8,954,941	\$ 1,800,000	\$ 1,675,161	\$ 111,600,676	11.20%
2010	\$ 9,145,674	\$ 2,786,551	\$ 118,333,453	\$ 6,504,369	\$ 1,800,000	\$ 2,170,133	\$ 107,858,951	11.06%
2009	\$ 10,692,354	\$ 2,150,628	\$ 115,043,010	\$ 5,033,306	\$ 1,800,000	\$ 3,024,798	\$ 105,184,906	12.21%
2008	\$ 6,786,386	\$ 1,980,183	\$ 105,664,965	\$ 3,743,001	\$ 1,800,000	\$ 1,175,370	\$ 98,946,594	8.86%
2007	\$ 4,028,225	\$ 1,992,348	\$ 98,131,055	\$ 3,794,401	\$ 1,031,302	\$ 93,305,352	\$ 6,45%	

PURPOSE:

To manage the portion of the Town's annual budget spent on cash capital and long-term debt financed within the Town's levy limit so as to provide a predictable funding stream for capital expenditures without negatively impacting annual operating budgets. Managing these costs will help insure that the Town maintains its Aaa bond rating which enables it to obtain the most favorable rates when money is borrowed for such projects.

APPLICABILITY:

This policy is applicable to all capital expenditures financed "inside the levy". This includes items financed with cash when possible, and other sources that may be available (grants, gifts, or the CPA surcharge), and projects that are borrowed but paid for inside the Town's levy. Debt that is issued as a result of a voter-approved debt exclusion is not applicable to this policy.

POLICY:

1. In order to best manage resources inside the levy, the Town's policy is to provide for a combination of cash capital and inside the levy debt to between 6.2% and 6.8% of recurring operating revenues (the combination of the (inside) levy, State revenues, and Local receipts). Any increase in this percentage will negatively impact the funds available for departmental operating budgets.
2. Inside the levy debt is intentionally structured to be of short average duration. The Town attempts to avoid issuing debt by financing capital needs with cash, when possible, or with other sources, including grants, gifts, and the CPA surcharge.
3. Debt may be issued for assets having a life longer than three to five years. Massachusetts Municipal Law governs the type of projects that may be borrowed and limits the maximum duration of the amortization, although the Town typically chooses a shorter life. Debt is used in part to smooth the financial impact of capital projects on the tax rate and assign costs to the period that the asset is in service.

IMPLEMENTATION PROCEDURE:

1. It is the policy of the Board of Selectmen to continue to support the longstanding practice of amortizing debt on depreciable assets on a level principal, rather than level debt service, basis. Level principal amortization is a conservative practice which allows rapid reduction of debt. The only level debt service debt issued is on non- depreciating assets such as land purchases.
2. Issuing and structuring debt is the responsibility of the Treasurer under Mass General Law. The Treasurer and financial team, under the direction of the Board of Selectmen, will finance projects voted by Town meeting or by referendum in a fiscally prudent and affordable manner. The financial team may also seek advice from an outside financial advisor specializing in municipal debt.

3. The Financial Team will recommend to the Board of Selectmen a combination of cash capital and borrowed debt that falls within the guideline set by the Board in order to appropriately finance the projects prioritized by the Town in each budget year.
4. Town Meeting must authorize all debt funded projects through a two-thirds vote at Town Meeting.
5. The Board of Selectmen must approve all debt at a posted public meeting.
6. Funds necessary to conduct feasibility studies on projects slated to be considered for exclusion may be borrowed on a temporary basis. If the project is eventually authorized, the funds may be rolled into the exclusion. If the project fails, the feasibility funds must be borrowed inside the levy with a shortened amortization period (G.L. c.44 § 7).

EXCLUDED DEBT GUIDANCE:

Debt exclusions (exempt from limits of Proposition 2 ½) are utilized to temporarily add a direct funding source to the Tax Levy, thereby avoiding a negative impact upon the operating budget. At present, 89% of the Town's outstanding general fund debt has been financed in this manner, primarily attributable to major school building projects. The Town has not established specific limits for excluded debt at this time, but it is expected that the Town will continue to find it necessary to finance large school replacements and significant renovations to other buildings in the foreseeable future. It is the responsibility of the financial team to inform the legislative body as they consider the potential cost of a project, through modeling the potential tax impact to an average household as ultimately taxpayer votes will determine the amount of exempt debt – subject to MGL limits.

DEFINITION:

1. Inside the levy debt is defined as items financed with cash and projects that are borrowed but paid for inside the Town's levy.
2. Total debt is limited by MGL to 5% of the Equalized Valuation (\$587.5 million at 6/30/16) and the Town's outstanding general fund debt is about 27% of this limit as of 6/30/16.

REGULATORY / STATUTORY REFERENCES:

This policy is subject to the requirements set forth in G.L. c.44 § 1-20.

APPROVED BY:

Board of Selectmen, Chair: Ellen F. Gibbs

Board of Selectmen: Jack Morgan

Board of Selectmen: Marjorie R. Freiman

Board of Selectmen: Thomas H. Ulfelder

Board of Selectmen: Elizabeth Sullivan Woods

Ellen F. Gibbs
Jack Morgan
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Original date: January 30, 2018

Revised dates:

TOWN OF WELLESLEY INVESTMENT POLICY

(revised 5/14/12)

Background

The Town of Wellesley is responsible for the management of various Town funds for the liquidity needs for Town operations and for the maintenance of reserves for future uses.

Policy Statement

The Town's Investment Policy is intended to set forth investment objectives, establish guidelines and define responsibilities for the investment of the Town Funds. The Town Funds are to be invested in a manner which will meet the daily cash flow demands of the Town, conform to state statutes and Town Bylaws governing the investment of public funds and provide maximum security of such funds, taking into account the three principles of municipal investment policy: safety, liquidity and yield. This investment policy will be shared with all financial institutions that the Town utilizes for non-retirement banking and investment activities.

Definitions

- A. **Operating Funds:** All funds of the Town and its utilities generated through normal operations and borrowing except for the Funds set forth below;
- B. **Reserve Funds:** All Town funds held separately in accounts for future uses, such as the Stabilization, Unemployment, Workers' Compensation, and Liability Insurance Accounts as well as any new account established by the appropriate public authority and designated as a Reserve Fund.
- C. **Trust Funds:** Gifts and bequests made to the Town for a specific long term purpose. The gift or bequest must be accepted by the appropriate public authority pursuant to Town Bylaw Article 5.6 and specifically identified as a Trust Fund.
- D. **Retirement Funds:** Assets of the Wellesley Contributory Retirement System held separately from Town funds and managed under MGL c. 32. Such funds are not subject to this Investment Policy.
- E. **OPEB Funds:** Retiree Healthcare funds ("OPEB") held separately pursuant to Acts of 2004, c. 88, which are invested under the guidance of the Town's Retirement Board. Such Funds are not subject to this Investment Policy.
- F. **Treasurer:** The person appointed under the provisions of Town Bylaw Article 19.43 and, in his/her absence, the person designated by the Treasurer to serve as the Assistant Treasurer/Collector.
- G. **Fixed Income Securities:** Bonds, Notes and Certificates of Deposit (CD's), with a maturity of greater than one year but not to exceed ten years and are legal for investment by Massachusetts municipalities. This can include Equity Linked Certificates of Deposit, as long as all CD's carry current applicable FDIC limits and are represented by an FDIC number. The average maturity for the Fixed Income portfolio at any time shall not exceed five years

Objective

The objective of this Investment Policy is to set general guidelines for the investment of the Town of Wellesley's available Operating, Reserve and Trust Funds in a manner that ensures the following:

- A. **Operating Funds:** First and foremost, preserving capital of the overall portfolio through diversification and prudent selection of investment instruments; maintaining sufficient liquidity to meet all operating and debt

service requirements; and attaining a market average rate of return comparable to portfolios of similar investment mix and maturities, throughout budgetary and economic cycles taking into account the legal requirements detailed below and the cash flow characteristics of the portfolio

- B. **Reserve Funds:** Continued emphasis on preserving capital and maintaining liquidity, while attaining a slightly better rate of return than that of Operating Funds as a result of more flexible investment opportunities provided by state law
- C. **Trust Funds:** Although the emphasis on safety remains, Trust Funds have a longer investment horizon which provides for more flexible investment opportunities through the possible use of Fixed Income Securities and equities provided by state law.

Responsibilities

- The Board of Selectmen has the responsibility to set the guidelines and criteria for investments of Town Funds and to establish adequate procedures for issuing reports on investment activities. (Town Bylaw Article 19.5.3.)
- The Treasurer has responsibility for the investment of Town Funds (Town Bylaw Article 19.43).
- The Treasurer shall make all decisions regarding the management of the investment program; however, if the Treasurer wishes to make a decision to deviate from the terms of this policy, the Treasurer shall obtain prior written approval from the Board of Selectmen.
- The Treasurer and those responsible to the Treasurer shall be bonded as required by law, and insured for their fiduciary responsibilities to limits set by the Board of Selectmen on the advice of the Town's insurance consultant.
- The Treasurer shall be responsible for monitoring changes to the General Laws governing the type and method of investing Town funds referred to in this Investment Policy.

Statutory Authority

- A. **Operating Funds:** MGL c. 44, § 55B requires that all funds of the Town which are not required to be kept liquid for purposes of immediate distribution, shall be invested at the highest possible interest rate reasonably available, taking into account the three principles of municipal investment policy: safety; liquidity; and yield. MGL c. 44, § 55 limits the investment options which are legal for municipal Treasurers to the following:
 1. Certificates of Deposit with a maximum maturity of one year or less as defined in MGL c. § 55 issued by commercial banks, mutual savings banks, savings and loans and cooperative banks;
 2. Money Market Deposit Accounts with commercial banks, mutual savings banks, savings and loans and cooperative banks;
 3. Repurchase Agreements with a maturity of less than 90 days, issued by a bank and secured by U.S. Government or Agency obligations;
 4. Pooled Investment Funds operated under the authority of the State Treasurer;
 5. U.S. Treasury instruments or U.S. Government Agency obligations with a maximum maturity as defined in MGL C. 44, § 55;
 6. Money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940, as amended, operated in accordance with Section 270.2a-7 of Title 17 of the Code of Federal Regulations, that have received the highest possible rating from at least one nationally recognized statistical rating organization.
- B. **Reserve Funds:** The following are the legal requirements for investment of the Reserve Funds:

1. Stabilization Fund: MGL c. 40, § 5B provides for investment in savings banks, co-operative banks or trust companies organized under the laws of the Commonwealth, or invest in securities which are legal for the investment of funds of savings banks under the laws of the Commonwealth or in federal savings and loans associations situated in the Commonwealth.
2. Unemployment Compensation Fund: MGL c. 40, § 5E provides for investment in such manner as may be legal for other city, town or district funds under the laws of the Commonwealth including, without limitation, the Massachusetts Municipal Depository Trust.
3. Workers Compensation Fund: MGL c. 40, § 13A provides that the Fund shall be under the management of the "commissioners of trust funds" but there is no statutory investment requirement set forth.
4. Liability Insurance Fund: The Town of Wellesley's special act, creating the Liability Insurance Fund (Acts of 1987, c. 751), provides that the investment of such Fund shall be in such a manner as may be legal for the investment of municipal trust funds (see C. below).

C. **Trust Funds**: MGL c. 44, § 54 provides that the funds shall be deposited into savings banks, trust companies incorporated under the laws of the Commonwealth which are members of the Federal Deposit Insurance Corporation ("FDIC"); national banks; or invested in participation units in a combined investment fund under MGL c. 29, § 38A, in paid-up shares and accounts of and in co-operative banks; in shares of savings and loan associations; or in shares of savings deposits of federal savings and loan associations doing business in the Commonwealth. In addition, such funds may be invested 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 (1.5%) of such funds be invested in the stock of any one bank or insurance company.

Investment Guidelines

A. **Operating Funds**

1. Diversification: The Town of Wellesley will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and the State Treasurer's investment pools, no more than 25% of the Town's total investment portfolio may be invested in a single security type referenced in the following Sections 2 through 7 or with a single financial institution, unless that investment category carries full FDIC insurance or that single financial institution's investments are fully collateralized.
2. Selection of Banks for Investments: It is the responsibility of the Treasurer to assess the financial condition of the banks in which the Town of Wellesley invests by reviewing bank rating guides and banks' Reports of Financial Condition and by periodic discussions with the institutions about their financial condition. Primary emphasis will be placed on a bank's capital adequacy, loan quality and profitability before determining suitability for Town investments. MGL c. 44, § 55 specifies that a municipality may not at any one time have on deposit in a bank or trust company an amount exceeding 60% of the capital and surplus of that institution and a total of all the municipality's accounts must not exceed 60% of the bank's net equity. For purposes of this policy, the Town of Wellesley will not have on deposit amounts exceeding 10% of capital and surplus and 10% of net equity, unless those deposit carry full FDIC insurance or are fully collateralized. In addition, it is the Town's policy that at no time shall any single bank or bank holding company hold in excess of 25% of the cash balance under the control of the Treasurer for more than three consecutive days.

3. Investment Size and Collateralization: The size of the Town's investment portfolio precludes the use of only FDIC insured products. Efforts will be made to maximize FDIC insurance protection and periodic modifications to this policy may be made to take advantage of changing FDIC regulations. Massachusetts has no legal requirement for collateralizing public deposits. Until adoption of collateralization legislation, the Treasurer will provide as much security as possible for the Town of Wellesley's bank investments through the prudent selection process described above.
4. Utilization of State Treasurer's Investment Pools: The Massachusetts Municipal Depository Trust (MMDT) combines the funds of Massachusetts public units and invests on their behalf in short-term instruments of U.S. Treasury and Government Agencies and large corporations and financial institutions, thus offering investors, such as the Town of Wellesley, the opportunity to earn higher yields through a professionally managed fund. Investments in these pools are not a deposit in a bank and are neither insured nor guaranteed by the Commonwealth of Massachusetts, the FDIC, or the U.S. Government or any of its agencies. Although the Cash Portfolio is managed to seek to maintain a stable \$1.00 unit price, there is no guarantee it will be able to do so and a loss of principal is possible with these pools. Assets will be invested only in "tier 1" and "tier 2" credit quality securities as defined by the guidelines in SEC rule 2a-7. This degree of safety is recognized by the Government Accounting Standards Board in its qualification of state investment pools in financial statements.
The Town of Wellesley will continue to utilize this highly liquid, comparatively safe pool as an integral part of its overall investment strategy.
5. Third Party Custody: For administrative ease, custody accounts may be established in the name of the Town of Wellesley in order to receive and hold book entry U.S. Treasury and Government Agency securities purchased by the Town from commercial banks, collateral for any repurchase agreements to which the Town is party, and collateral against any bank investments the Town may require.
6. U.S. Treasury and Government Agency Securities: The Town will utilize these securities, with a maturity of one year or less, for reasons of diversification and security. Treasury securities will be purchased either at auction or through the secondary market. Agency securities will only be purchased through registered dealers.
7. Repurchase Agreements: Repurchase agreements may be used on a limited basis for durations of 90 days or less. Except in the case of overnight repurchase agreements used for the investment of available float in one of the Town's operating accounts, any agreement entered into by the Town will be on a delivery versus payment basis and in the format of the Public Securities Association Master Repurchase Agreement. Collateral will be in the form of U.S. Treasury or Government Agency securities delivered to the Town's third party custodian.

B. Reserve Funds

1. The Investment Guidelines and Options for Operating Funds also are applicable to the investment of Reserve Funds.
2. The investment options available for Reserve Funds also will include such securities as are legal for the investment of funds of savings banks under the laws of the Commonwealth. However, unlike trust funds, Reserve Funds have a much higher liquidity requirement and a greater need for preservation of principal thus precluding the use of equities that would normally be permitted under statutory authority. The investment portfolio for Reserve Funds shall not consist of more than 75% in Fixed Income Securities. All securities must maintain active secondary markets, and hence be able to liquidate within five business days.

C. **Trust Funds**

1. The Investment Guidelines and Options for Reserve Funds are also applicable to the investment of Trust Funds.
2. The investment options available for Trust Funds also will include those options set forth in MGL c. 44, §54, allowing a municipality to 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 no more than fifteen percent (15%) of such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half percent (1.5%) of such funds be invested in the stock of any one bank or insurance company.

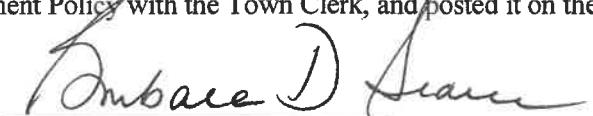
Review And Reporting

A. **Review:** To comply with Town Bylaw Article 19.5.3 this policy shall be reviewed by the Board of Selectmen every three years.

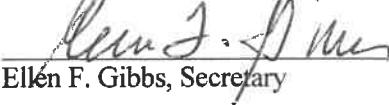
B. **Reporting by the Treasurer:**

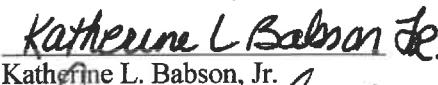
1. Cash Analysis: The Treasurer shall prepare a Cash Analysis report monthly for the Finance Director and Executive Director in a form substantially as attached hereto and the Treasurer will submit it to the Board of Selectmen on a quarterly basis for its review.
2. Trust/Reserve Fund Report: The Treasurer shall prepare quarterly for the Finance Director and Executive Director the Trust/Reserve Fund Report in a form substantially as attached hereto and the Treasurer will submit it to the Board of Selectmen on an annual basis for its review.

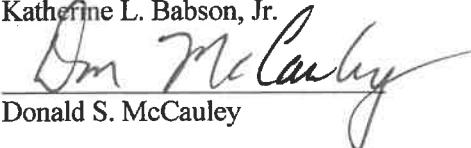
The Board of Selectmen voted to adopt the within Investment Policy Statement at its meeting held on May 1, 2012. The Board of Selectmen filed the within Investment Policy with the Town Clerk, and posted it on the Town website on May 15, 2012.


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