

Town of Newtown - Investment Policy

A. Background

In accord with Section 5-01(b) – (2) & (3) of the Town Charter, the Financial Director shall have all the powers and duties imposed by the General Statutes on town treasurers. The Financial Director shall make such deposits or investments as is deemed in the best interest of the Town within the limits imposed on such deposits or investments by the General Statutes.

In the event of any conflict or inconsistency between the provisions of this policy and the laws of the State of Connecticut (present and/or as from time to time amended) the provisions of the laws of the State of Connecticut shall be paramount and prevail.

B. Scope

The purpose of this document is to specify the policies and guidelines that provide for the prudent and productive investment of funds. This policy applies to the investment of short-term operating funds as follows:

Governmental Funds - including the general fund, special revenue funds, capital project funds, debt service funds;

Proprietary Funds- including enterprise funds and internal service funds;

Fiduciary Funds - trust and agency funds.

Pension fund has a separate policy statement

C. Investment Objectives

The objective of the Town of Newtown investment and cash management program is to ensure the safety, liquidity and yield of the funds entrusted to it. The Town shall seek as high a level of current income as is consistent with the safety of principal and the provision of liquidity to meet daily cash flow

requirements.

Safety of Principal- Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Credit Risk

The Town will minimize credit risk by:

1. Limiting investments to the safest types of securities;
2. Investing in only those types of investments that are covered by the State of Connecticut Municipal Investment Act;
3. Pre-qualifying the financial institutions with which the Town will do business;
4. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

Interest Rate Risk

The Town will minimize the risk of market value fluctuation due to changes in interest rates by:

1. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
2. Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably

anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demand. Furthermore, since all cash requirements cannot be anticipated, the portfolio should consist mainly of custodial arrangements, investment pools or money market funds, securities or deposits with very short maturities or securities with active secondary or resale markets.

Yield

The investment portfolio shall be designed to attain a market average rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the town's liquidity needs. The portfolio shall be managed with the objective of exceeding the average of three-month U.S. Treasury bill rates for the equivalent period. This index is considered a benchmark for near-risk less investment transactions and, therefore, comprises a minimum standard for the portfolio's rate of return.

D. Prudence

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.

The standard of prudence to be used by the Finance office shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio.

E. Investment Guidelines

All investments must be made in securities authorized by CGS 7-400, 3-24f, 3-27f or in deposits authorized by CGS 7-401&402. To further clarify allowable investments, the Town has adopted the following investment guidelines:

1. The Town may invest in the following securities or deposits:

- U.S. Treasury bills
- U.S. Treasury notes or bonds
- U.S. Government Agency Securities – excluding futures, swaps, options, interest-only or principal-only mortgage backed securities and floaters
- Insured or collateralized certificates of deposits of banks and savings and loan associations
- Repurchase agreements collateralized by U.S. Treasury or Government Agency securities
- Shares or other interest in a no-load open-end money market mutual fund maintaining a constant Net Asset Value, whose portfolio is limited to obligations of the U.S. Treasury and Government Agencies
- The State Treasurer's Short-Term Investment Fund (STIF)

2. Maximum Maturities

To the extent possible, the Town shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

F. Diversification

Invested funds shall be diversified to minimize risk or loss resulting from over-concentration of assets in a specific maturity or specific issuer. Diversification strategies shall include the following general policies and constraints:

1. A portion of the portfolio shall be invested in overnight instruments or marketable securities which can be sold to raise cash in one days notice.
2. There is no limitation on the percentage of the overall portfolio that may be invested in: a) U.S. government and agency obligations and in repurchase agreements fully collateralized by such securities, b) an authorized custodial arrangement, pool or money market fund or c) STIF.
3. At the time of acquisition, no more than 5 percent of the overall portfolio may be invested in floating rate securities with final maturities no greater than two years.

This section does not apply to bank accounts used for the temporary deposit of receipts and deposits needed to cover disbursements that are expected to clear over the next seven days.

Investment decisions shall be based on the relative and varying yields and risks of individual securities and the town's liquidity requirements.

G. Delegation of Authority

Investment authority is granted to the Treasurer by the Connecticut General Statutes and the Town Charter in conjunction with this policy. The Finance Director may delegate the daily investment activity to the Assistant Finance Director. The Finance Office shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures shall include trade documentation, investment transaction reports, master repurchase agreements, wire transfer and banking service contracts.

H. Safekeeping and Custody

To protect against potential fraud and embezzlement, funds of the Town invested in repurchase agreements and bearer instruments shall be secured through primary dealers of the Federal Reserve Bank of New York with short-term debt ratings of at least A-1, P-1 or F-1, or qualified public depositories which have executed master repurchase agreements with the Town.

I. Internal Controls

The Finance Director and staff shall be bonded/insured to protect the public against possible embezzlement and malfeasance. Internal controls shall be designed to prevent and control losses of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by officers and employees.

J. Reports

Quarterly and annual reports summarizing the investment portfolio by security types and maturities shall be provided. This report shall include a detailed portfolio listing, including cost, market valuations and maturities.

K. Ethics

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose in writing to the Board of Finance and Legislative Council any material financial interests in financial institutions with whom they conduct business. They shall further disclose any large personal financial or investment position that could be related to the performance of the investment portfolio, particularly with regard to the time of purchase and sales.

L. Adoption

The Town's investment policy shall be adopted by the Town of Newtown Board of Finance and Legislative Council. Any revisions must be approved by the Board of Finance and Legislative Council.

Approved: Board of Finance

Legislative Council

Date: August 28, 2010

APPENDIX

Excerpt from the Town Charter

5-01 OFFICE OF FINANCIAL DIRECTOR

(a) The First Selectman, with the approval of the Board of Selectmen and the Legislative Council, shall appoint a Financial Director to an indefinite term. The First Selectman, Board of Selectmen and Legislative Council shall choose and consider all candidates for the position of Financial Director solely on the basis of such candidate's professional qualifications, character, training and experience in the field of financial management.

(b) The powers, duties and responsibilities of the Financial Director shall be as follows:

- (1) He/She shall keep all books of account of the Town and shall establish and maintain a general cost accounting system for all Town Departments including the Board of Education, consistent with all State Laws and subject to the regulations adopted by the Board of Finance and approved by the Legislative Council. As part of this accounting system, he/she shall keep a separate account for each appropriation showing the amount of the appropriation, the amounts paid or transferred to it, the unpaid obligations against it and the unencumbered balance of the appropriation, and of any allotments thereof;
- (2) He/She shall have all of the powers and duties imposed by the General Statutes or by special act or law on town treasurers, and shall be Treasurer of all trust funds held by the Town;
- (3) He/She shall receive and have custody of all funds belonging to or under the control of the Town or any Town department or officer and shall make such deposits or investments as he deems in the best interest of the Town within the limits imposed on such deposits or investments by the General Statutes. In addition, he/she shall be responsible for the safekeeping of all bonds and notes owned by the Town and for the receipt and delivery of such bonds and notes for transfer, registration and exchange;

Excerpt from the Connecticut General Statutes

Sec. 7-400. Investment of funds. The treasurer of any municipality, as defined in section 7-359, upon approval by the budget-making authority, as defined in said section, of any metropolitan district, of any regional school district, of any district as defined in section 7-324, and of any other municipal corporation or authority authorized to issue bonds, notes or other obligations under the provisions of the general statutes or any special act may invest the proceeds received from the sale of bonds, notes or other obligations, or other funds, including the general fund, as hereinafter provided:

(1) In (A) the obligations of the United States of America, including the joint and several obligations of the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Savings and Loan Insurance Corporation, obligations of the United States Postal Service, all the federal home loan banks, all the federal land banks, all the federal intermediate credit banks, the Central Bank for Cooperatives, The Tennessee Valley Authority, or any other agency of the United States government, or (B) shares or other interests in any custodial arrangement, pool or no-load, open-end management-type investment company or investment trust registered or exempt under the Investment Company Act of 1940, 15 USC Section 80a-1 et seq. as from time to time amended,

provided (i) the portfolio of such custodial arrangement, pool, investment company or investment trust is limited to obligations described in subparagraph (A) of this subdivision and repurchase agreements fully collateralized by any such obligations; (ii) such custodial arrangement, pool, investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian; (iii) such custodial arrangement or pool is managed to maintain its shares at a constant net asset value or such investment company or investment trust is rated within one of the top two credit rating categories and, for any investment company or investment trust not managed to maintain its shares at a constant net asset value, within one of the top two risk rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner; and (iv) the municipal corporation or authority only purchases and redeems shares or other interests in such investment company or investment trust through the use of, or the custodian of such custodial arrangement or pool is, a bank, as defined in section 36a-2, or an out-of-state bank, as defined in said section, having one or more branches in this state.

(2) In the obligations of any state of the United States or of any political subdivision, authority or agency thereof, provided that at the time of investment such obligations are rated within one of the top two rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner.

(3) In the obligations of the state of Connecticut, or any regional school district, town, city, borough or metropolitan district in the state of Connecticut, provided that at the time of investment the obligations of such government entity are rated within one of the top three rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner.

(1949, 1951, S. 368d; P.A. 83-442; P.A. 86-350, S. 12, 28; P.A. 87-9, S. 2, 3; P.A. 89-211, S. 11; P.A. 90-317, S. 5, 8; P.A. 93-255; 93-435, S. 60, 95; P.A. 94-190, S. 1; P.A. 95-282, S. 10, 11; P.A. 96-244, S. 38, 63; P.A. 01-195, S. 108, 181; P.A. 03-84, S. 6.)

History: P.A. 83-442 allowed for investment in indirect federal government obligations; P.A. 86-350 made a variety of changes for purposes of clarification, updating the statutes to conform to current financial practices and to conform to anticipated changes in federal tax policy; (Reviser's note: Pursuant to P.A. 87-9 "banking commissioner" was changed editorially by the Revisers to "commissioner of banking"); P.A. 89-211 clarified references to the Internal Revenue Code of 1986; P.A. 90-317 amended Subdivs. (2) and (3) to remove the requirement that fund be invested in only those governmental obligations which are exempt from federal taxation; P.A. 93-255 amended Subdiv. (1) by adding Subpara. (B) providing for investment in shares or other interests in any custodial arrangement, pool or no-load, open-end management-type investment company or investment trust and designated existing provision of Subdiv. (1) as Subpara. (A); P.A. 93-435 made technical changes in Subdiv. (1), effective June 28, 1993; P.A. 94-190 deleted "investment company or investment trust" after pool in Subdiv. (1)(B)(iii) and inserted language re the requirement of a nationally recognized top rating for investment companies or investment trusts; P.A. 95-282 amended Subdiv. (1)(B)(iii) to require that the investment company or investment trust is rated within one of the top two "credit" rating categories "and, for any investment company or investment trust not managed to maintain its shares at a constant net asset value, within one of the top two risk rating categories" and made technical changes to Subdiv. (1)(B)(iv), effective July 1, 1995; P.A. 96-244 revised effective date section of P.A. 95-282 but without affecting this section; P.A. 01-195 made a technical change in Subdiv. (2),

effective July 11, 2001; P.A. 03-84 changed "Commissioner of Banking" to "Banking Commissioner", effective June 3, 2003.

Sec. 7-401. Definitions. As used in sections 7-402 and 7-403, the following words and terms shall have the following meanings unless the context indicates another meaning or intent:

(1) "Deposit" or "deposits" means demand deposits, time deposits, certificates of deposit, share accounts, term share accounts and share certificate accounts;

(2) "Municipality" means any town, city or borough, whether consolidated or unconsolidated, and any school district, regional school district, district, as defined in section 7-324, metropolitan district, and each municipal corporation, organization or authority and taxing district not previously mentioned in this subdivision;

(3) "Out-of-state bank" means an out-of-state bank, as defined in section 36a-2;

(4) "Public funds" means any moneys collected or received by, or in the custody of, any person and belonging to, or held in trust for, the municipality, including, but not limited to, moneys held in trust or for some public or charitable purpose by the municipality; and

(5) "Qualified public depository" means a qualified public depository, as defined in section 36a-330.

(1949 Rev., S. 831; 1955, S. 369d; 1959, P.A. 152, S. 15; 1967, P.A. 517, S. 13; P.A. 73-609, S. 2, 4; P.A. 75-256, S. 2, 5; P.A. 83-331, S. 1; P.A. 95-282, S. 2, 11; P.A. 96-244, S. 38, 63.)

History: 1959 act deleted provisions for administration of funds by counties; 1967 act raised amount of deposit allowed in single bank to 75% of bank's resources; P.A. 73-609 redefined "bank" to remove phrase "and is organized under ... the banking laws of the United States or of this state"; P.A. 75-256 added general loss reserve to listing of bank assets in Subsec. (b); P.A. 83-331 amended Subsec. (a) to include share accounts, term share accounts and share certificate accounts in the definition of "deposit" or "deposits"; P.A. 95-282 repealed previous provisions and revised definitions, effective July 6, 1995, provided "any designation of a depository of public funds of the state or any municipality or regional school district, and any prescription of the method of supervision of the investment and reinvestment of trust funds of a municipality, made in accordance with the applicable provisions of sections 4-33, 7-401, 7-402, 7-403, subsection (c) of section 10-52 or subsection (d) of section 10-56 in effect on or before July 6, 1995, shall remain in effect until rescinded or otherwise modified in accordance with the provisions of public act 95-282" (Revisers note: The reference to "section 10-52" appears to be a clerical error since Subsec. (c) of Sec. 10-51 was amended by Sec. 5 of P.A. 95-282); P.A. 96-244 revised effective date section of P.A. 95-282 but without affecting this section.

See Sec. 3-24 re deposit of funds by State Treasurer.

Sec. 7-402. Deposit of public money and trust funds. (a) Any public official of any municipality may deposit any public funds received, held or controlled by such public official and belonging to such municipality, or otherwise held by such public official as such public official or as a custodian or trustee on behalf of such municipality, (1) in any qualified public depository, or (2) in an amount not exceeding the Federal Deposit Insurance Corporation insurance limit, in any out-of-state bank which is not a qualified public depository, designated by such public official; provided such deposit shall only be made in such public official's name as such public official, custodian or trustee or in the name of the municipality to which the money belongs. The interest or other pecuniary consideration such depository allows for or upon such deposit of public funds shall belong to and accrue to the benefit of such municipality. In no case shall the deposit by such public official in any one such depository exceed in the aggregate at any one time seventy-five per cent of the total capital of such depository, as determined in accordance with applicable federal regulations and regulations adopted by the Banking Commissioner under section 36a-332. Any qualified public depository receiving deposits of public funds pursuant to this section is required to disclose such information relating to public deposits as the Banking Commissioner may require by regulations which the commissioner shall adopt in accordance with the provisions of chapter 54. The regulations shall include, but not be limited to, disclosure of the most current quarterly statement of condition and statement of income. Nothing in this section shall affect additional restrictions on the deposit of public funds imposed by the provisions of the charter of any municipal corporation.

(b) Any person, other than a public official, who receives, has control of, or is the custodian or trustee of, public funds promptly following the receipt or other acceptance of such public funds shall request the authority specified in this subsection to designate one or more depositories permitted under subsection (a) of this section as a depository for the whole or any part of such funds. The authority shall be (1) the board of selectmen, if the funds belong to a town that does not have a charter, special act or home rule ordinance relating to its government, (2) the first selectman, mayor or other chief executive officer described in a charter, special act or home rule ordinance relating to the government of a city, consolidated town and city, consolidated town and borough or a town having a charter, special act or home rule ordinance relating to its government, if the funds belong to such an entity, (3) the regional board of education, if the funds belong to a regional school district, (4) the warden, if the funds belong to a borough or (5) the chairman of the executive committee or other chief executive officer, if the funds belong to a district, metropolitan district or other municipal corporation. Such authority, upon the receipt of such request, may, in writing, designate one or more depositories and may, within the limitations of this section, specify the public fund or funds and the maximum amount thereof which may be deposited in each of such depositories. The instrument designating such depository or depositories shall be filed in the office of the town clerk in the case of a town and with the clerk of any other municipality. Such authority may, at any time, in writing, revoke such designation and may designate one or more other depositories. Prior to the designation by such authority of a depository, the person making such request may, within the limitations of this section, deposit public funds in any depository permitted under subsection (a) of this section. All deposits of public funds shall be in the name of the municipality or in the official name of the fund, person or trustee. The interest or pecuniary consideration such depository allows for or upon such deposit of public funds shall belong to and accrue to the benefit of the municipality or to the corpus of the fund held in trust.

(c) If the laws of this state have, in all other respects, been complied with, any person acting on behalf of, or as custodian or trustee for, any municipality, who deposits public funds in any depository shall, because of failure, insolvency, receivership, forced closing or restricted

operation of such depository, or a bank and credit union holiday or banking emergency proclaimed under the provisions of the laws of the United States or of this state, be relieved of personal responsibility for public funds so deposited and the surety or sureties upon the bond of such person shall be likewise relieved to the same extent as such person. The provisions of this section shall not be construed to relieve any such person or such person's surety or sureties from the obligation to account for the whole or such part of public funds so deposited as and when the same may be obtained by such person from such depository.

(1949 Rev., S. 832; 1955, S. 370d; 1957, P.A. 240; 1959, P.A. 152, S. 16; 1967, P.A. 517, S. 14; P.A. 73-609, S. 3, 4; P.A. 75-77; 75-256, S. 3, 5; P.A. 78-121, S. 4, 113; P.A. 80-183, S. 1, 3; P.A. 81-193, S. 12, 16; P.A. 82-239, S. 3, 7; P.A. 83-438, S. 2, 8; P.A. 87-9, S. 2, 3; P.A. 91-245, S. 10; P.A. 94-190, S. 5; P.A. 95-282, S. 3, 11; P.A. 96-244, S. 38, 63; P.A. 00-6, S. 3; P.A. 03-84, S. 7.)

History: 1959 act deleted references to county funds; 1967 act increased deposit limit to 75% of bank's assets; P.A. 73-609 deleted provision allowing investment in building or savings and loan association to the extent insured by Federal insurance corporation and placed \$75,000 limit in its stead and added provision regarding payments made to building or savings and loan associations by official acting in fiduciary capacity; P.A. 75-77 increased investment limit in building or savings and loan associations to \$100,000; P.A. 75-256 included mutual savings banks in same category as national or state bank and trust companies, removing provision making them subject to limitations imposed by Sec. 36-104, and included general loss reserve in listing of bank assets; P.A. 78-121 deleted reference "building or" with regard to "building or savings and loan associations", deleted reference to share accounts and included "deposit accounts", effective January 1, 1979; P.A. 80-183 allowed investments in federal savings and loan associations, required that investments in savings and loan associations which exceed amount insured by Federal Savings and Loan Insurance Corporation be fully collateralized and included federal and other savings and loan associations in 75% limit; P.A. 81-193 replaced references to a mutual savings bank, national or state bank and trust company, savings and loan association or federal savings and loan association with "any qualified public depository, as defined in section 36-382" and deleted the limitation of \$100,000 on deposits except for a deposit in a savings bank; P.A. 82-239 removed the obsolete reference to the town deposit fund; P.A. 83-438 eliminated the \$100,000 maximum on public funds which may be deposited in a savings bank, added disclosure requirements for all qualified public depositories accepting public deposits and precluded any depository whose ratio of net worth to assets falls below 3% from accepting additional public deposits; (Reviser's note: Pursuant to P.A. 87-9 "banking commissioner" was changed editorially by the Revisers to "commissioner of banking"); P.A. 91-245 substituted total capital as determined in accordance with applicable regulations for capital, general loss reserve, surplus and undivided profits, deleted prohibition on acceptance of additional public deposits by depositories whose ratio of net worth to assets falls below 3%, and made a technical change; P.A. 94-190 authorized municipal funds to be deposited in "any bank authorized pursuant to section 3-24 to receive state funds"; P.A. 95-282 divided the section into Subsecs., amended Subsec. (a) to limit deposits to the Federal Deposit Insurance Corporation limit in out-of-state banks that are not qualified public depositories and made technical change and added Subsec. (b) re designation of depositories and Subsec. (c) re liability of persons depositing funds, effective July 6, 1995, provided "any designation of a depository of public funds of the state or any municipality or regional school district, and any prescription of the method of supervision of the investment and reinvestment of trust funds of a municipality, made in accordance with the applicable provisions of sections 4-33, 7-401, 7-402, 7-403, subsection (c) of section 10-52 or subsection (d) of section 10-56 in effect on or before July 6, 1995, shall

remain in effect until rescinded or otherwise modified in accordance with the provisions of public act 95-282" (Revisers note: (1) The reference to "section 10-52" appears to be a clerical error since Subsec. (c) of Sec. 10-51 was amended by Sec. 5 of P.A. 95-282; and (2) the Revisers changed the reference in Subsec. (c) from "any person acting in behalf of," to "any person acting on behalf of," for consistency with statutory usage); P.A. 96-244 revised effective date section of P.A. 95-282 but without affecting this section; P.A. 00-6 replaced "bank holiday" with "bank and credit union holiday" and made technical changes for the purposes of gender neutrality in Subsec. (c); P.A. 03-84 amended Subsec. (a) by changing "Commissioner of Banking" to "Banking Commissioner" and making technical changes, effective June 3, 2003.

See Secs. 3-24 and 4-33 re deposit of funds by State Treasurer and by other public officials, respectively.

Sec. 7-403. Deposit of funds in custodian account. Any municipality which has accepted, assumed or received or which holds or manages any trust fund under the provisions of section 7-148 or 11-20 or other provisions of the general statutes may place such funds in a custodian account with the trust department of any qualified public depository which has been designated as a depository of funds of such municipality under the provisions of section 7-402 and may prescribe the method of supervision of the investment and reinvestment of such funds. Such action shall be by vote of (1) the board of selectmen in a town that does not have a charter, special act or home rule ordinance relating to its government; (2) the council, board of aldermen, representative town meeting, board of selectmen or other elected legislative body described in a charter, special act or home rule ordinance relating to the government in a city, consolidated town and city, consolidated town and borough or a town having a charter, special act or home rule ordinance relating to its government; (3) the regional board of education in a regional school district; (4) the board of burgesses or other elected legislative body in a borough; or (5) the district, committee or other elected legislative body in a district, metropolitan district or other municipal corporation. Any gift, devise or bequest to any official, board, commission or agency of any municipality in trust for the benefit of such municipality, or any agency thereof, shall, except as otherwise provided by law, be construed to be a gift, devise or bequest to such town as trustee.

(1955, S. 372d; 1957, P.A. 13, S. 40; P.A. 95-282, S. 4, 11; P.A. 96-244, S. 38, 63.)

History: P.A. 95-403 added provision enumerating authorities responsible for the vote prescribing supervision of investment and reinvestment of funds, effective July 6, 1995, provided "any designation of a depository of public funds of the state or any municipality or regional school district, and any prescription of the method of supervision of the investment and reinvestment of trust funds of a municipality, made in accordance with the applicable provisions of sections 4-33, 7-401, 7-402, 7-403, subsection (c) of section 10-52 or subsection (d) of section 10-56 in effect on or before July 6, 1995, shall remain in effect until rescinded or otherwise modified in accordance with the provisions of public act 95-282" (Revisers note: The reference to "Sec. 10-52" appears to be a clerical error since Subsec. (c) of Sec. 10-51 was amended by Sec. 5 of P.A. 95-282); P.A. 96-244 revised effective date section of P.A. 95-282 but without affecting this section; (Reviser's Note: In 1999, the word "aldermen" was substituted for the word "alderman" in Subdiv. (2) to correct an inaccurate reference).

Sec. 7-403a. Loss and retiree benefits reserve fund. (a) Upon the recommendation of the chief executive officer of a municipality and approval of the budget-making authority of the municipality, the legislative body of any municipality, as defined in section 7-369, may, by a majority vote, create a loss and retiree benefits reserve fund. The provisions of subsection (a) of section 7-450, regarding the establishment of postemployment health and life benefit systems, shall not affect the provisions of this section.

(b) Upon the recommendation of the chief executive officer and approval of the budget-making authority and the legislative body, there shall be paid into such reserve fund (1) amounts authorized to be transferred thereto from the general fund cash surplus available at the end of any fiscal year, (2) amounts raised by the annual levy of a tax for the benefit of such fund, and for no other purpose, provided such tax shall be levied and collected in the same manner and at the same time as the regular annual taxes of the municipality, or (3) with respect to a reserve fund for property or casualty losses, the proceeds of bonds, notes or other obligations issued pursuant to subsection (b) of section 7-374b.

(c) The budget-making authority may, from time to time, direct the treasurer to invest such portion of such reserve fund as in its opinion is advisable, provided: (1) Not more than forty per cent, or with respect to a reserve fund for retiree benefits for which the budget-making authority has adopted an asset allocation and investment policy, fifty per cent, of the total amount of the reserve fund shall be invested in equity securities, and (2) any portion of such reserve fund not so invested may be invested in: (A) Bonds or obligations of, or guaranteed by, the state or the United States, or agencies or instrumentalities of the United States, (B) certificates of deposit, commercial paper, savings accounts and bank acceptances, (C) the obligations of any state of the United States or any political subdivision thereof or the obligations of any instrumentality, authority or agency of any state or political subdivision thereof, provided at the time of investment such obligations are rated within the top rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner, and applicable to such obligations, (D) the obligations of any regional school district in this state, of any municipality in this state or any metropolitan district in this state, provided at the time of investment such obligations of such government entity are rated within one of the top two rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner, and applicable to such obligations, (E) in any fund in which a trustee may invest pursuant to section 36a-353, (F) in investment agreements with financial institutions whose long-term obligations are rated within the top two rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner or whose short-term obligations are rated within the top rating category of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner, or (G) investment agreements fully secured by obligations of, or guaranteed by, the United States or agencies or instrumentalities of the United States.

(d) The treasurer shall submit annually a complete and detailed report of the condition of such fund to the chief executive officer, the budget-making authority and the legislative body and such report shall be made a part of the annual report of the municipality.

(e) Upon the recommendation of the chief executive officer and the budget-making authority and approval by the legislative body, (1) any part or the whole of such fund may be used and

appropriated to pay only for property or casualty losses and employee retirement benefits, and expenses related thereto, including court costs and attorneys' fees, incurred by the municipality, or (2) any part or the whole of such fund may be transferred to a trust established to hold and invest the assets of a pension, retirement or other postemployment health and life benefit system of the municipality. Any unexpended portion of such appropriation remaining after such payment, together with all interest accruing on the balance in the fund, shall revert to and be credited to such reserve fund. For the purposes of this section, "property or casualty losses and employee retirement benefits" shall include, but not be limited to, (A) motor vehicle liability, physical damage and collision, (B) loss or damage to, or legal liability for, real or personal property, (C) legal liability for personal injuries or deaths, including but not limited to, workers' compensation and heart and hypertension, and (D) retiree health and life benefits.

(f) Such fund may be discontinued, after recommendation by the chief executive officer and the budget-making authority to the legislative body and upon approval of such body, and to the extent there is any remaining portion of such fund, the fund shall be converted into, or added to, a sinking fund to provide for the retirement of the bonded indebtedness of the municipality. If the municipality has no bonded indebtedness, such fund shall be transferred to the general fund of the municipality.

(P.A. 86-350, S. 25, 28; P.A. 92-172, S. 2; P.A. 93-46, S. 1; P.A. 04-116, S. 1; P.A. 05-202, S. 1; P.A. 06-79, S. 3.)

History: P.A. 92-172 amended Subsec. (a) renaming the fund the "loss and retiree benefits reserve fund" and amended Subsec. (e) to allow payments for employee retirement benefits and to define "property or employee losses and employee retirement benefits" and made technical changes for consistency in Subsecs. (b), (c), (d) and (f); P.A. 93-46 amended Subsec. (c) to clarify the portion of reserve funds which a municipality may invest in equity securities; P.A. 04-116 amended Subsec. (c) to increase portion of funds which a municipality may invest in equity securities from 13% to 40%, effective May 21, 2004; P.A. 05-202 amended Subsec. (a) by providing that section is not affected by Sec. 7-450(a) re establishment of postemployment health and life benefit systems; P.A. 06-79 amended Subsec. (b)(3) to insert reference to reserve fund for property or casualty losses, amended Subsec. (c)(1) to add limit to investment with respect to a reserve fund for retiree benefits and replace "amount invested" with "amount of the reserve fund" and make a technical change and Subsec. (c)(2) to replace former investment options with investment options identified in new Subparas. (A) to (G), inclusive, amended Subsec. (e) to designate existing provision re use of fund as new Subdiv. (1), add new Subdiv. (2) re transfer to a trust and redesignate existing Subdivs. (1) to (4) as Subparas. (A) to (D), and amended Subsec. (f) to insert "to the extent there is any remaining portion of such fund", effective July 1, 2006.

Sec. 3-24f. Purchase of investments in Tax-Exempt Proceeds Fund by other state instrumentalities. Participation certificates or securities of the Tax-Exempt Proceeds Fund issued by the Treasurer under the provisions of sections 3-24a to 3-24h, inclusive, are hereby made legal investments for the Connecticut Housing Finance Authority, the Connecticut Resources Recovery Authority, the Connecticut Development Authority, the Connecticut Health and Educational Facilities Authority, the Connecticut Student Loan Foundation, all municipalities within the state, and all other authorities, agencies, instrumentalities and political subdivisions of the state or of any municipality within the state.

(P.A. 88-258, S. 6, 9; P.A. 94-8, S. 6.)

History: P.A. 94-8 changed fund name to Tax-Exempt Proceeds Fund from Tax-Exempt Fund.

Sec. 3-27f. Investment by Treasurer in participation certificates. Legal investments.

Notwithstanding any other provisions of the general statutes or elsewhere to the contrary, the Treasurer may invest in participation certificates of the Short Term Investment Fund for the General Fund, any bond funds, the Special Transportation Fund, the Local Bridge Revolving Fund, the Municipal Abandoned Vehicle Trust Fund, the Special Abandoned Property Fund, any trust funds administered by the Treasurer, and all such other funds which by law the Treasurer is responsible for investing. Participation certificates of the Short Term Investment Fund issued by the Treasurer under the provisions of sections 3-27a to 3-27i, inclusive, are hereby made legal investments for the Connecticut Housing Finance Authority, Connecticut Student Loan Foundation and all agencies, instrumentalities and political subdivisions of the state.

(1972, P.A. 236, S. 6; P.A. 74-342, S. 10, 43; P.A. 75-568, S. 2, 45; P.A. 78-236, S. 13, 20; June Sp. Sess. P.A. 83-30, S. 6, 8; P.A. 84-254, S. 15, 62; P.A. 86-395, S. 4, 10; P.A. 87-377, S. 3, 5; P.A. 88-270, S. 3, 8; P.A. 04-216, S. 60.)

History: P.A. 74-342 replaced highway fund with transportation fund; P.A. 75-568 deleted reference to transportation fund which was merged with general fund; P.A. 78-236 replaced combined investment pool with Short Term Investment Fund; June Sp. Sess. P.A. 83-30 authorized treasurer to invest in participation certificates of Short Term Investment Fund for Special Transportation Fund; P.A. 84-254 authorized treasurer to invest in participation certificates of the Short Term Investment Fund for the Local Bridge Revolving Fund; P.A. 86-395 authorized treasurer to invest in participation certificates of Short Term Investment Fund for Rental Housing Assistance Trust Fund, effective June 9, 1986, and applicable to income years of business firms commencing on or after January 1, 1986, but not later than January 1, 1988; P.A. 87-377 removed reference to repealed Rental Housing Assistance Trust Fund; P.A. 88-270 authorized treasurer to invest in participation certificates of the Short Term Investment Fund for the Municipal Abandoned Vehicle Trust Fund; P.A. 04-216 added the Special Abandoned Property Fund to the list of funds in whose participation certificates the Treasurer may invest, effective May 6, 2004.

Glossary of Investment Terms

Agency Securities - The securities issued by U.S. Government agencies, such as the Federal Home Loan Bank. These securities have high credit ratings but are *not* backed by the full faith and credit of the U.S. Government.

Basis Point (bp) - The smallest measure used in quoting yields or returns. One basis point is 0.01% of yield, 100 basis points equals 1%. A yield that changed

from 4.75% to 5.50% increased by 75 basis points.

Benchmark - A standard unit used as the basis of comparison; a universal unit that is identified with sufficient detail so that other similar classifications can be compared as being above, below, or comparable to the benchmark.

Bid - The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

Book entry - A system of recording securities ownership through electronic accounts.

Broker - A broker brings buyers and sellers together for a commission.

Certificates of Deposit (CDs) - A debt instrument issued by banks usually paying interest with maturities ranging from seven days to several years.

Collateral - Underlying securities that are pledged to secure deposits of public funds. Also used in conjunction with repurchase agreements to protect the entity from default by the counter party.

Current Yield - The relationship between the annual coupon interest rate and the market price of a fixed-income security. In calculating current yield, only the coupon interest payments are considered; no consideration is given to capital gain/loss or interest on interest.

Custody - The service of an organization, usually a financial institution, of holding (and reporting) a customers securities for safekeeping. The financial institution is known as the custodian.

Dealer - A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his or her own account.

Delivery versus Payment (DVP) - A settlement procedure where payment for a securities purchase is made simultaneously with the transfer of the purchased securities. The same procedure applies for a securities sale; the securities are transferred as payment is made.

Discount Securities - Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S.

Treasury Bills.

Discount - The amount by which a bond sells under its par (face) value.

Diversification - Dividing investment funds among a variety of securities, offering independent returns, to reduce risk inherent in particular securities.

Federal Deposit Insurance Corporation (FDIC) - A federal agency that insures bank deposits - currently up to \$250,000 per depositor.

Federal Funds Rate - The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates since it is set daily by the market.

LIBOR (London Inter-Bank Offered Rate) - The primary fixed income index referenced rates used in the Euromarkets. Most international floating rates are quoted as LIBOR plus or minus a spread.

Liquidity - A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

Market Value - The price at which buyers and sellers trade similar items in an open marketplace.

Master Repurchase Agreement - A written contract covering all future transactions between the parties to repurchase/reverse repurchase agreements that establish each party's right in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Maturity Date - The date on which the principal amount of a bond or other debt instrument becomes payable or due.

Money Market Fund - An open-ended mutual fund that invests in commercial paper, bankers acceptances, repurchase agreements, government securities, certificates of deposit, and other highly liquid and safe securities and pays money market rates of interest. The funds net asset value remains a constant \$1/share - only the interest rate goes up or down.

Money Market - The market in which short-term debt instruments (bills, commercial paper, banker's acceptances, etc.) are issued and traded.

Net Asset Value (NAV) - The total assets minus liabilities, including any gains or losses on investments or currencies, and any accrued income or expense, used in account valuation.

Offer - The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

Par Value - The stated or face value of a bond. Specifies the payment amount at maturity.

Passive Investment Management - An investment strategy where securities are bought with the intention of holding them to maturity or investments in benchmark products designed to yield a market rate of return.

Rate of Return - The amount of income received from an investment, expressed as a percentage. A *market rate of return* is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

Repurchase Agreements (Repos) - An agreement to purchase securities from an entity for a specified amount of cash and to resell the securities to the entity at an agreed upon price and time. Repos are widely used as a money market instrument.

S&P Ratings -

AAA - The debt having the highest rating assigned by Standard & Poor's. It has the highest capacity to pay interest and its ability to repay principal is extremely strong. Securities rated AAA are referred to as gilt-edged.

AA - This debt, which is the lowest rating assignable to investment grade securities, is regarded as having an adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.- The debt having a very strong capacity to pay interest and repay principal and differs from the higher rated issues only in small degree.

A - This debt has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of change in circumstances and economic conditions than debt in higher rated categories.

BBB - This debt, which is the lowest rating assignable to investment grade securities, is regarded as having an adequate capacity to pay interest and repay principal.

BB, B, CCC, and CC - These ratings are regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance to the terms of the obligation.

C - This is reserved for income bonds on which no interest is being paid.

D - This rating is for debt which is in default. No interest or principal payments are being made.

Safekeeping - A procedure where securities are held by a third party acting as custodian for a fee.

Thomson Bank Watch - Rating agency for banks. Thomson's ratings on short-term securities span from TBW-1 through TBW-4. Long-term instruments are rated A through E.

Total Return - Interest income plus capital gains (or minus losses) on an investment.

Treasury bill (T-Bill) - Short-term, highly liquid government securities issued at a discount from the face value and returning the face amount at maturity.

Treasury Bond or Note - Debt obligations of the federal government that make semiannual coupon payments and are sold at or near par value in denominations of \$1,000 or more.

Variable Rate Note - Floating rate notes with a coupon rate adjusted at set intervals, such as daily, weekly or monthly based on different interest rate indices, such as LIBOR, Fed Funds, and Treasury Bills.

Yield - The rate of annual income return on an investment, expressed as a percentage. Income Yield is obtained by dividing the current dollar income by the current market price or the security. Net Yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

