



## Town of Palmer

# Financial Management Policies

Adopted	2/10/25
Revised	

### **INTRODUCTION**

The following financial management policies and guidelines set forth the broad framework for overall planning and management of the Town of Palmer’s financial resources. The policies are intended to be advisory in nature and serve as a point of reference for all policymakers, administrators and advisors. It is fully understood that the Town Council retains the full right to appropriate funds and incur debt at levels it deems appropriate, subject to statutory limits such as Proposition 2½.

The policies are designed to ensure the Town’s sound financial condition now and in the future. Sound financial condition may be defined as:

- Cash Solvency:                   The ability to pay bills in a timely fashion
- Budgetary Solvency:           The ability to annually balance the budget
- Long-Term Solvency:          The ability to pay future costs
- Service Level Solvency:      The ability to provide needed services

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

All the policies outlined throughout this document have a critical impact on the overall health of the Town and sustaining a consistent level of service and value for residents and businesses.

## **FISCAL POLICIES**

### **General Fund**

All current operating expenditures will be paid for with current operating revenues. The purpose of this policy is to maintain a financially sound operating position for the town by promoting Palmer's ability to: (1) balance its budget on a current basis; (2) maintain reserves for emergencies and one-time capital expenses; and (3) have sufficient liquidity to pay bills on time to avoid short-term borrowing costs. The town will avoid budgetary procedures that balance current expenditures at the expense of meeting future year's expenses, using reserves for ongoing operational expenses, postponing expenditures, utilizing future year's revenues or rolling over short-term debt.

Municipalities maintain reserves to provide budgetary flexibility for unexpected events, to withstand financial emergencies and to protect the municipality from the usual irregularity in revenue-expenditure patterns. The Government Finance Officers Association recommends that local governments maintain reserves (unreserved fund balance) of 5% – 15% of general fund revenues, depending on the needs of the community. Appendix 1 contains a review of different reserves.

Reserves are Generally Established in Three Categories:

- Contingency Reserves – a reserve for unforeseen events.
- Unrestricted Reserves – a reserve that can be used for any purpose.
- Restricted Reserves – a reserve dedicated for specific use at some future time.

Reasons for Creating and Maintaining Reserves:

- Operational Needs – These are contingency reserves, which are typically appropriated as part of the annual budget. The purpose is to meet unexpected increases in department operational costs such as legal fees, major equipment repairs, and anticipated increases in service costs.
- Catastrophic or Emergency Expenditures – These are contingency reserves which provide emergency funds for use in a major calamity such as a hurricane, uninsured loss or damage to a capital asset.
- Maintenance of Assets – These are restricted reserves used to replenish the continuing depreciation or replacement of buildings and equipment. In accordance with GASB 34, the Town is required to show the depreciation of certain fixed assets.
- Liquidity or Cash Flow – These are unrestricted reserves used to reduce the need for short-term borrowing, generate investment income and to maintain a strong credit rating.
- Unfunded Liabilities – These are restricted reserves used to fund an unfunded liability that has been incurred during the current or prior years, but which does not have to be paid until a future year, and for which adequate reserves have not been set aside. These liabilities may not be apparent in typical financial records in a way that makes their impact easy to assess. This type of

liability accumulates gradually over time and may go unnoticed until it has created severe financial problems. Unfunded liabilities are predominantly pension obligations and post-employment benefits (OBEB).

### **Waste Water Treatment Plant (WWTP)**

1. Rates and fees for the WWTP fund shall be set at a level to provide self-supporting operations.

The rate shall be reviewed annually to project revenues and expenditures for the next fiscal year, actuals to estimates of the current year, and projections for future years. Estimates of capital projects and debt service should be included to project the impact on rates. Grants will continuously be pursued to offset expenses to rate payers.

2. Betterments will be assessed for sewer extensions.

In line with section (1), sewer projects that are extensions on the existing system will be assessed to the property owner according to the betterment formula as described in the Town's Sewer Regulations.

3. Non-emergency main replacements should be scheduled to avoid major increases in rates.

The WWTP budget is self-supporting on a cash basis. Revenues are planned to cover operating budgets, indirect and overhead costs, and debt service payments. Depreciation is not funded; therefore, a carefully designed replacement plan is necessary to ensure a rate structure adequate to pay all costs including any new proposed long-term debt.

4. Annual debt service payments, not including debt issued in relation to extensions assessed as a betterment, should not exceed 40% of the operating revenues.

5. The WWTP reserve shall be reflected as fund balance and the Town will endeavor to maintain a balance of 35% of the operating budget of the Sewer Fund but no less than \$1,250,000 as an ongoing balance to be used for capital improvements and emergency expenditures.

### **Fiscal Reserves**

The Town's accumulation of prudent reserves is critically important to the fiscal health of the community for many reasons. Reserves are a resource to sustain a community during an economic downturn and may provide for cash flow needs until major revenues are received, reducing or eliminating the need for short-term borrowing. Rating agencies and investors also view reserves favorably as evidence of the community's financial flexibility. Specific purpose reserves are also a helpful way to identify a specific need of the community and produce a funding strategy to address it.

The Town will endeavor to establish and maintain the following reserves and at specific levels or for specific purposes:

A. Free Cash:

To generate an annual Free Cash Balance (which is part of the Unreserved Fund Balance) of at least 3% to 5% of the General Fund Operating Budget. To achieve this, the Town Manager will propose budgets with conservative revenue projections and department heads will carefully manage their appropriations to produce excess income and budget turn backs. To avoid fully depleting the Town's free cash in any year and provide a reserve in case of an unexpected reduction in a future years free cash estimates, a minimum of \$500,000 or 10% of the FY operating budget (whichever is greater) should be unappropriated. (Any appropriations of Free Cash require a majority vote of the Town Council.)

B. General Stabilization Fund:

To maintain a balance (which is part of the Unreserved Fund Balance) of at least 5% up to 10% of the General Fund Operating Budget. This fund is being invested under the guidelines of our investment policy attached. (Appropriations from the General Stabilization fund require a 2/3rds vote of Town Council.)

Use of Reserves:

To the maximum extent possible, the Town shall only appropriate reserves such as Free Cash and Stabilization Fund for one-time, non-recurring expenses such as unforeseen and unpredictable events, capital projects and equipment or for set asides for long term liabilities. It is understood that at times, reserves may have to be used to support the operating budget due to state aid reductions or other revenue and/or expenditure challenges. If such use of reserves is necessary in a fiscal year to maintain an adequate level of essential services, the Town should strategically plan on reducing and then eliminating the use of reserves in the coming fiscal years.

C. Special Purpose Stabilization Funds:

A city or town can create multiple stabilization funds and assign a different purpose to each. The creation of a special purpose stabilization fund requires a two-thirds vote of the Town Council per MGL C. 40 s 5b. (The Town Council may appropriate into a special stabilization fund by majority vote and may appropriate out of one by two-thirds vote.)

a. Capital Improvement Stabilization:

A reserve account is used to set aside money for capital projects. An annual appropriation to this fund enables Palmer to pay outright for moderate-range capital expenditures and thereby preserve debt capacity for major, higher-dollar purchases or projects. This approach balances debt with pay-as-you-go practices and protects against unforeseen costs. To achieve and maintain target balances sufficient to cover the Town's cash outlay for capital, the Town Council shall appropriate at least \$100,000 annually into the fund.

b. Duke Track Stabilization:

To achieve and maintain a balance to provide sufficient funds to cover maintenance, repairs, resurfacing, and subsequent replacement of the Duke Track, the Town

Council shall appropriate at least \$110,000 annually to the Duke Track Stabilization Fund. Appropriating annually to this fund will enable Palmer to maintain the recommended schedule of repairs without the need for borrowing funds and/or relying on future revenues or tapping into other reserves.

D. Reserve Fund:

Funded as a line item in the annual operating budget (cannot exceed 5% of the prior year tax levy) under the authority of the Town Council for any unexpected and unforeseen budget needs. (Any appropriation from this fund requires a majority vote of the Town Council.)

E. OPEB Trust Fund:

This fund was established under G.L. c. 32B, § 20 and 20A, and is in the custody of the Town Treasurer.

- a. The Town contributes to the Trust on an annual basis with an appropriation in the general fund budget. The allocation will increase by a minimum of \$5,000 annually until the liability is met.
- b. Future focus on investment in this fund is recommended once the Pension Unfunded Liability is paid off.
- c. Constant evaluation with recommendations to change the Other Post-Employment Benefits to determine if savings can result in reducing the OPEB Liability.
- d. The Investment Policy of the OPEB fund has been established and is included by reference herein.

## **CAPITAL PLANNING & DEBT SERVICE MANAGEMENT GUIDELINES**

The Town's willingness and ability to address its capital needs (infrastructure, facilities, equipment, etc.) is very important to the community's quality of life and fiscal stability. At the same time, the Town must maintain a sound debt structure and debt ratio to ensure that all debt obligations will be satisfied without sacrificing the quality of on-going operations and/or burdening future generations with large debt obligations. To that end, it is the policy of the Town to undertake the following:

- A. Capital Improvement Plan: In accordance with the Charter, the Town Manager must submit a Capital Improvements to the Council each fiscal year. Capital projects should have a value greater than \$15,000 and a useful life greater than 5 years. (Nothing precludes expenditures of less than \$15,000 from being included in the Capital Improvement Plan if deemed appropriate by the Town Manager) The Town shall establish and maintain a five (5) year capital improvements plan updated annually, develop capital financing strategies consistent with these policies, and integrate any new operating costs associated with capital projects into the annual operating budget.
- B. Annual Capital Funding: On an annual basis, departments submit a prioritized list of capital requests to the Capital Improvement Committee (CIC) and/or Town Manager. The requesting department meets with the CIC and/or Town Manager to review each submission. When applicable, the CIC recommends a list of capital projects within the budgetary guidelines set by the Town Manager. The Town Manager, working with the Finance Department, recommends a capital list for funding to the Town Council with the use of free cash use, borrowing or stabilization funds.
- C. Debt Service Guidelines: The Town will maintain a general fund debt service budget of no less than 2% and no more than 10% of the total annual operating budget. When general fund debt service is below 2% on a given fiscal year, the difference should be budgeted in the reserve fund to avoid major fluctuations in operating budgets.
- D. Debt Maturity Guidelines: The Town will strive to limit the average maturity of its debt. By adopting a conservative maturity schedule, the Town will not only reduce interest costs of its bonds but also recognize that capital needs will continue to be identified and recommended in the future.
- E. Debt Structure: The Town will structure debt service schedules with level principal in most cases thereby creating flexibility for future capital needs.
- F. Alternative Financing Strategies: The Town will continually pursue opportunities to acquire capital by means other than conventional borrowing such as grants, partnerships and low or no-interest loan programs such as Clean Water Trust and other State or federal agencies.
- G. Cash Flow: The Town will prepare and evaluate cash flow for each bonded project to borrow only those funds necessary, and to schedule debt payments over the course of the fiscal year.

H. Reconciliation & Record keeping: The Town will periodically reconcile debt-related records and determine if any unissued bond authorizations need to be rescinded by the Town Council.

I. Debt Issuance: The Town will work closely with its Financial Advisor and Bond Counsel to ensure that all legal requirements are met and that the lowest possible interest rate can be obtained. Every effort will be made to secure as high a bond rating as possible.

J. Refunding Opportunities: The Town will work with its Financial Advisor to seek any opportunities to refund or refinance current existing debt to save any money.

## **INVESTMENTS**

Massachusetts law requires that public funds be invested at the highest possible rate of interest reasonably available, taking into account 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 Town business.

- A. Safety: Investments shall be made in a manner to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. These risks shall be lessened by diversification and prudent selection of investment instruments and banking institutions. The Treasurer shall only invest in the “Legal List” investments established and provided annually under Massachusetts General Laws.
- B. Liquidity: The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
- C. Yield: Investments shall be made so as to achieve the best rate of return, taking first into account safety and liquidity.
- D. Deposits: The Treasurer shall be cognizant of and comply with statutes governing the deposit and investment of public funds. The Treasurer shall also be aware of current banks' credit ratings and invest only in those banking institutions with a good credit history.

Please see separate Investment Policy attached.

## **Appendix 1 Reserve Definitions**

Reserves are generally established in three categories:

1. Contingency Reserves- a reserve for unforeseen events.
2. Unrestricted Reserves- a reserve that can be used for any purpose.
3. Restricted Reserves- a reserve dedicated for a specific use at some future time.

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Reserve:                    Reserve Fund

Statutory Reference: MGL Chapter 40, § 6

Type of Reserve:        Contingency and Unrestricted

Uses:                      For extraordinary and unforeseen expenditures, as determined by the Town Manager and approved by the Town Council.

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Reserve:                    Free Cash

Balance:                  3%-5% of General Fund Operating Budget, \$500,000 or 10% of the FY operating budget should remain unappropriated.

Type of Reserve:        Unrestricted

Uses:                      To be used for one-time, non-recurring expenses, capital projects and equipment or for set asides for long term liabilities.

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Reserve:                    Stabilization Fund

Statutory Reference: MGL Chapter 40, § 5B

Balance:                  5%-10% of General Fund Operating Budget

Type of Reserve:        Contingency, Unrestricted, may be Restricted by vote of Town Council

Uses:                      Stabilization funds should only be used (1) For Capital Purchases requiring debt issuances when the balance of the fund exceeds 5%; (2) if State Aid payments are reduced creating a budget shortfall; or (3) for catastrophic or emergency events if the financial impact of the event is in excess of an amount which the Reserve Fund can fund.

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Reserve: Other Post-Employment Benefits Liability Trust Fund (OPEB) –  
Unfunded Liability

Annual Contribution: Increased by \$5,000 from the previous year.

Statutory Reference: MGL Chapter 32B § 20 & 20A

Type of Reserve: Restricted

Uses: To fund future post-employment benefits due to retirees.

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Reserve: Capital Stabilization Fund

Annual Contribution: \$100,000 minimum.

Statutory Reference: MGL Chapter 40, § 5B

Type of Reserve: Contingency, Restricted

Uses: To fund equipment replacement and facilities maintenance schedule

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Reserve: Duke Track Stabilization Fund

Statutory Reference: MGL Chapter 40, § 5B

Annual Contribution: \$110,000 minimum.

Type of Reserve: Contingency, Restricted

Uses: To fund maintenance, repairs, resurfacing, and replacement of the track.

**TOWN OF PALMER  
GENERAL FUNDS & LONG-TERM FUNDS  
INVESTMENT POLICY STATEMENT**

The primary purpose of this Investment Policy Statement (IPS) is to provide a clear understanding regarding the Town of Palmer (the “Town”) Long Term Funds and General Fund objectives, goals, risk tolerance, and investment guidelines established for the investment of town funds.

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

A. Scope

This section of the IPS applies only to short term operating funds such as general funds, special revenue funds, enterprise funds, bond proceeds and capital project funds. A separate Contributory Retirement Board, either local or county, is responsible for the investment of the pension funds.

B. Investment Instruments

Note: Public investments in Massachusetts are not protected through provisions in State law.

The Treasurer may invest in the following instruments:

- Massachusetts State pooled fund: Unlimited amounts (Pool is liquid) The Massachusetts Municipal Depository Trust (MMDT), an investment pool for state, local, county and other independent governmental authorities, is under the auspices of the State Treasurer. It invests in Bankers Acceptances, Commercial Paper of high quality, Bank Certificates of Deposit, Repurchase agreements (Repos), and U. S. Treasury Obligations. It has Federal Deposit Insurance Corporation (F.D.I.C.) pass-through insurance on the CD's up to the standard limits and takes delivery on the Repos and Treasuries. Under Government Accounting Standards Board Regulation

(GASB III), it is not considered an uncollateralized product.

- U. S. Treasuries that will be held to maturity: Unlimited amounts (Up to one-year maturity from date of purchase)
- U.S. Agency obligations that will be held to maturity. Unlimited amounts (Up to one-year maturity from date of purchase)
- Bank accounts or Certificates of Deposit (“CDs”) (Up to three years’ maturities from the date of purchase) which are fully collateralized through a third-party agreement: Unlimited Amounts
- Bank accounts and CDs (Up to three years’ maturities from the date of purchase) insured by F.D.I.C. up to the coverage limit. All bank accounts and CDs in one institution are considered in the aggregate for the insurance coverage limit. In some cases, Banking Institutions carry additional insurance, Depository Insurance Fund (D.I.F.): Contact banking representative for amounts of coverage.
- Unsecured bank deposits of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at Banks that do not fit the above categories. These investments are subject to the following limitations: No more than 5% of an institution's assets and no more than 25% of a municipality's cash may be comprised 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 town in the near future. For example, these payments may be for such items as debt service payment or regional school assessments. Their credit worthiness will be tracked by Veribanc, or other bank credit worthiness reporting systems. They will be diversified as much as possible. CDs will be purchased for no more than three years and will be reviewed frequently.
- Money Market Mutual Funds that are registered with the Securities and Exchange Commission that have received the highest possible rating from at least one nationally recognized statistical rating organization and

as otherwise referenced in the Massachusetts General Law Chapter 44 Section 55.

### C. Diversification

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities, as well as concentration in a specific institution. Except for U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies, and State pools (MMDT), no more than 25% of the Town's investments shall be invested in a single financial institution.

### D. Authorization

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

### E. Restrictions

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

- A 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.
- The treasurer shall not make a deposit in any bank, trust company or banking company with which he is, or for any time during the three years immediately preceding the date of any such deposit was, associated as an officer or employee.
- All securities shall have a maturity from date of purchase of one year or less, with the exception of bank certificates of deposits that have a three-year limit from the date of purchase.

- Purchases under an agreement with a trust company, national bank or Banking Company to repurchase at not less than original purchase price of said securities on a fixed date shall not exceed ninety days.

### F. Legal References

Massachusetts General Law Chapter 44, Section 55

Massachusetts General Law Chapter 44, Section 55A

Massachusetts General Law Chapter 44; Section 55B

## II. The Investment of Long Term Funds

### A. Scope

This section of the IPS applies only to funds that are designated as long term, i.e. trust funds, stabilization funds, cemetery perpetual care, Town preservation act and other funds the town may have set aside for long term use.

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

### B. Authority

Massachusetts General Law Chapter 44, section 54 pertains to the investment of Trust Funds, Chapter 40 Section 5B pertains to the investment of Stabilization Funds and, Chapter 44B section 7 pertains to the investments of Town Preservation Funds. All trust funds shall fall under the control of the town's Treasurer unless otherwise provided or directed by the donor.

If the trust fund results from a gift, grant or bequest from a private donor, and the private donor specifies how the trust shall be invested; the trust fund shall be invested in accordance with the terms of the gift, grant or bequest. If there is a conflict between such donor terms and this Section II, the donor terms shall govern, subject to the general principles of prudence set forth in the Policy.

### C. Investment Instruments

M.G.L. Chapter 44 section 54 states that money should be deposited into savings bank, trust companies incorporated under the laws of the Commonwealth, banking companies incorporated under the laws of the Commonwealth which are members of the Federal Deposit Insurance

Corporation, or national banks, or invested in participation units in a combined investment fund under section thirty-eight A of chapter twenty-nine, or in a paid-up shares and accounts of and in cooperative banks, or in shares of savings and loan associations or in share or savings deposits of federal savings and loan associations doing business in the commonwealth.

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

The Treasurer may invest in the following instruments:

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

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

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

#### D. Standards of Care

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

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

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

#### E. Diversification

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type

and issuer. The diversification concept should include prohibition against over concentration of maturities, as well as concentration in a specific institution, except for U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies.

#### F. Legal References

Massachusetts General Law Chapter 40,  
Section 5B  
Massachusetts General Law Chapter 44,  
Section 54  
Massachusetts General Law Chapter 44,  
Section 55A  
Massachusetts General Law Chapter 44,  
Section 55B  
Massachusetts General Law Chapter 44B,  
Section 7

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

#### III. General Provisions

##### A. Objective

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

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

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

place funds in banking institutions as stated in Section C of this IPS.

## B. Risk Tolerance

- Credit Risk

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

The Town will manage credit risk several ways. There will be no limit to the amount of United States Treasury and United States Government Agency obligations. In regard to other investments, the Town will only purchase investment grade securities with a high concentration in securities rated A or better. The Town may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund. The Town may

- Custodial Risk

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

The Town will review the financial institution’s financial statements and the background of the Advisor. The intent of this qualification is to limit the Town’s exposure to only those institutions with a proven financial strength, Capital adequacy of the firm, and overall affirmative reputation in the municipal industry. Further, all securities not held directly by the Town, will be held in the Town’s name and tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

- Concentration of Credit Risk

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

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

- Interest Rate Risk

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

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

- Foreign Currency Risk

“Foreign currency risk” is the risk that changes in foreign monetary exchange rates will

adversely affect the fair value of an investment or a deposit.

The Town will limit investment in any instrument exposed to foreign currency risk.

### C. 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 Finance Director any material financial interest in financial institutions that do business with the Town. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the Town’s investments.

#### D. Relationship with Financial Institutions

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

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

When using the Veribanc Rating Service the Treasurer may invest in such banks that show a green rating in a quarter. If a rating is yellow the Treasurer should contact the appropriate banking institution and request in writing an explanation of the change in rating and the expected time table for it to be changed to green. If for a second quarter such rating is not green, the Treasurer should consider removing all funds that are not collateralized, or carries some form of depositor's insurance. If a rating moves to red, all money should be immediately collateralized or covered by some form of depositor's insurance or be removed from the banking institution.

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

- Annual Financial statements
- If acting as a Registered Investment Advisor, copy of their most recent Form ADV Part II report
- Errors & Omissions insurance amounting to, at a minimum, the total fair market value of the Trust Fund Portfolio
- A statement that the Advisor has read the municipality's IPS and will comply with it on an annual basis
- Annual review all advisors through [www.finra.org](http://www.finra.org): Broker Check

#### E. Reporting Requirements

On a semi-annual basis, a report containing the following information will be prepared by the Treasurer and distributed to the Finance Director, as appropriate. The semi-annual report will include the following information, as a minimum requirement:

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

**TOWN OF PALMER  
OPEB TRUST  
INVESTMENT POLICY STATEMENT**

The primary purpose of this Investment Policy Statement (the “IPS”) is to provide a clear understanding regarding the Town of Palmer’s (the “Entity”) OPEB Trust’s (the “Trust”) investment objectives, performance goals, and risk tolerance.

**A. Scope**

This IPS applies to all funds that are separately designated as long-term OPEB funds for the Town or any of its separately identified enterprises. Any additional contributions to the Trust will be maintained in the same manner.

**B. Authority**

Massachusetts General Law Chapter 32B, Section 20 allows a city, town, district, county or municipal lighting plant to set up a special trust fund, the Other Post-Employment Benefits (OPEB) Liability Trust Fund. The governmental unit’s treasurer is the custodian of the fund or in the case of a light plant, an officer designated by the board. Investment of fund monies by the custodian must be consistent with the prudent person standard set forth in Massachusetts General Law Chapter 203C for private trust funds. Interest earned on the investment of fund monies belongs to the fund.

**C. Diversification**

The following asset classes can be included in the Trust in order to construct a diversified investment portfolio that is both prudent and appropriate given the Town’s actuarial assumed discount rate, target rate of return, investment objective, and risk tolerance. The investment parameters and asset allocation definitions that will govern the Investment Manager of the diversified portfolio are included in the addendums to this IPS.

**Equities**

The primary objective of the Trust’s equity allocation is to provide long-term total returns that are, at a minimum, consistent with appropriate broad market indexes through full market cycles.

The Investment Manager of the diversified portfolio can purchase and manage the equity allocation using individual equities, such as domestic common stocks, preferred stocks, and/or American-Depositary Receipts (ADRs).

The Investment Manager can also utilize other investments such as, mutual funds, exchange traded funds, closed-end funds, etc. Total equity exposure is able to include, both domestic and international equities, both developed and emerging countries and geographic regions, as well as large-, mid-, and small-market capitalization weighted companies. Direct holdings of common stock, preferred stock, and/or ADRs in any one company should not exceed 5% of the market value of the invested portfolio.

Investing directly in real estate, private placements, letter stock, or initial public offerings is strictly prohibited. The Investment Manager of the diversified portfolio shall not engage directly in margin transactions, short sales, or any other leveraged or inverse investment vehicles. Mutual funds, exchange-traded funds, and closed-end

funds, however, may engage in margin, leverage, and/or short sales. Investing directly in unit-investment trusts (UITs) and business development companies (BDCs) are strictly prohibited.

### **Fixed Income**

The primary objectives of the Trust's fixed income allocation are to preserve capital and generate a reasonable level of cash flow. The secondary objective is to provide price returns that exhibit lower correlation to the broad global equity markets in order to reduce the overall risk of the portfolio.

The Investment Manager of the diversified portfolio can purchase and manage the fixed income allocation using individual bonds that are United States Dollar denominated only. Issuer selection can include domestic corporate bonds and any obligations of the United States Government and/or its agencies.

The Investment Manager can also utilize other investment vehicles such as, mutual funds, exchange traded funds, closed-end funds, etc. Total fixed income exposure is able to include, both domestic and international bonds, both developed and emerging countries and geographic regions. Direct holdings of individual corporate bonds in any one company should not exceed 5% of the market value of the invested portfolio; however, this is not applicable to the United States Government and/or its agencies. Lower-quality investments may only be held through diversified vehicles, such as mutual funds or exchange-traded funds.

Investing directly in real estate, mortgages, collateral or non-collateral loans, private placements, fixed income or interest rate futures, or any other specialized fixed income ventures is strictly prohibited. Investing directly in unit-investment trusts (UITs) and business development companies (BDCs) are strictly prohibited.

### **Alternative Investments**

The primary objective of the Trust's alternative allocation is to provide long-term capital appreciation that is less correlated to broad global equity and fixed income indexes.

The Investment Manager of the diversified portfolio can only purchase those strategies that are deemed to be alternative through daily-liquid diversified investment vehicles such as, mutual funds, exchange-traded funds, closed-end funds, etc. The only exceptions to the daily liquidity rule are private equity and real estate exposures and investment strategies. Private equity vehicles may also hold private debt as part of a diversified strategy.

Investing directly in unit-investment trusts (UITs) and business development companies (BDCs) are strictly prohibited.

### **Cash and Cash Equivalents**

Cash will be maintained to provide periodic cash distributions, when necessary. Cash will not normally be held as a strategic investment asset, although the Investment Manager may seek to allow cash to build to the maximum level in times of market uncertainty.

## D. Specific Risks

### **Credit Risk**

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

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

In regard to fixed-income investments, the Town will only purchase investment grade securities. Lower-quality investments may only be held through diversified vehicles, such as mutual funds or exchange-traded funds. Investments in fixed income securities will be made primarily for income and capital preservation.

### **Custodial Risk**

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

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

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

### **Concentration of Credit Risk**

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

The Town will minimize Concentration of Credit Risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. As stated above, securities of a single corporate issuer (with the exception of the United States Government and its Agencies) will not exceed 5% of the portfolio value.

### **Interest Rate Risk**

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

The Town will manage interest rate risk by managing duration, as a measure of interest rate sensitivity, in the Trust.

### *Foreign Currency Risk*

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

The Town will, as much as feasible, mitigate foreign currency risk.

### E. Standards of Care

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

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

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

### F. 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. The Treasurer shall disclose to the Town Manager any material financial interest in financial institutions that do business with the Town. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the Town's investments.

### G. Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to their financial soundness and stability. Brokers should be recognized, reputable dealers. All cash and securities shall be held in either a bank that is allowable for the deposit of public funds, provided funds on deposit are insured by the Federal Deposit Insurance Corporation (FDIC), or in an Investment Brokerage Account that is insured by the Securities Investor Protection Corporation (SIPC). If a banking institution is selected as manager, the Town will subscribe to Veribanc<sup>®</sup>, a recognized bank rating service.

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

- Annual financial statements
- If acting as a Registered Investment Adviser, Form ADV Part II report
- Errors & Omissions insurance amounting to, at a minimum, the total fair market value of the Trust Funds Portfolio.
- A statement that the Advisor has read the Town’s IPS and will comply with it on an annual basis

- Annual review all advisors through [www.finra.org](http://www.finra.org): Broker Check

#### H. Reporting Requirements

On a Semi-Annual basis, a report containing the following information will be prepared by the Treasurer and distributed to the Town Manager, as appropriate. The Semi-Annual report will include the following information, as a minimum requirement:

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

#### I. Performance Measurement and Evaluation

- The individual and custom benchmarks that will be monitored for performance reporting and analysis of the Trust's portfolio are stated and described in the addendums to this IPS.
- It is expected that the respective asset classes of the Trust's diversified portfolio will outperform their respective benchmarks, net of fees and expenses, on a long term (market cycle) basis.

#### K. Supervision

- The Treasurer will meet with the investment manager(s) as frequently as semi-annually to monitor the performance of the funds and the investment manager(s) compliance with these guidelines. The Treasurer will receive and review portfolio management reports semi-annually.
- The Treasurer will review this Investment Policy Statement at least once a year to ensure that it remains appropriate and complete.
- The Treasurer has the option to review the management of funds to consider going out to bid periodically.

#### L. Legal References

- Massachusetts General Law Chapter 32B, Section 20
- Massachusetts General Law Chapter 203C, Section 1 through 11

ADDENDUM #1  
INVESTMENT PARAMETERS

The information contained herein shall dictate the long-term asset allocation targets as well as minimum and maximum parameters, when applicable, that will govern the management of the investable portion of the Trust. The methodology for determining specific security and investment strategy definitions is detailed in Addendum #2.

<i>Category</i>	<i>Min</i>	<i>Target</i>	<i>Max</i>
Equity	38%	48%	58%
Domestic Equity	19%	29%	39%
International Equity	9%	19%	29%
Balanced	0%	0%	10%
Fixed Income	22%	32%	42%
Domestic Bonds	16%	26%	36%
International Bonds	0%	6%	16%
Alternatives	10%	20%	30%
Other Alternatives	0%	10%	20%
Private Equity	0%	6%	10%
Real Estate	0%	4%	10%
Cash	0%	0%	10%
Total	---	100%	---

ADDENDUM #2  
ASSET ALLOCATION DEFINITIONS

<i>Asset Class</i>	<i>Morningstar Category</i>	
Domestic Equity	Allocation 85%+ Equity Communications Consumer Cyclical Consumer Defensive Convertibles Energy Financial Health Industrials Large-Cap Blend Large-Cap Growth Large-Cap Value	Mid-Cap Blend Mid-Cap Growth Mid-Cap Value Natural Resources Real Estate Sector Fund Small-Cap Blend Small-Cap Growth Small-Cap Value Technology Utilities
International Equity	Emerging Markets Europe Foreign Large-Cap Blend Foreign Large-Cap Growth Foreign Large-Cap Value Foreign Small/Mid Blend Foreign Small/Mid Growth Foreign Small/Mid Value Global Real Estate	India Infrastructure Japan Latin America Pacific/Asia Pacific/Asia ex-Japan World Large Stock World Small/Mid Stock
Balanced	Allocation 15% to 30% Equity Allocation 30% to 50% Equity Allocation 50% to 70% Equity Allocation 70% to 85% Equity	Retirement Income Tactical Allocation Target Date World Allocation
Domestic Bond	Bank Loans Convertibles High-Yield Bond High-Yield Muni Inflation Protected Bond Intermediate Core Bond Intermediate Core-Plus Bond Intermediate Gov't Bond Long-Term Bond Long-Term Gov't Bond Multisector Bond Muni National Intermediate	Muni National Long-Term Muni National Short-Term Muni Single State Muni Target Maturity Nontraditional Bond Preferred Stock Short-Term Bond Short-Term Gov't Bond Stable Value Ultrashort Bond Target Maturity
International Bond	Emerging Markets Bond Emerging Markets Local Currency	World Bond World Bond-USD Hedged
Alternatives	Bear Market Business Development Company Commodities Currency Direct Real Estate Hedge Funds Long/Short Credit Long/Short Equity Managed Futures	Market Neutral Multi-Alternative Options Based Precious Metals Private Debt Private Equity Structured Notes & Annuities Trading/Tactical

**ADDENDUM #3  
PERFORMANCE REPORTING**

**Portfolio Level Comparative Benchmarks**

**Policy Benchmarks**

**Risk Profile Benchmarks**

<i>Broad Asset Class</i>	<i>Benchmark Name</i>	<i>Percentage</i>
Equity	MSCI ACWI IMI	48%
Fixed Income	Bloomberg Barclays US Universal Bond	32%
Alternatives	HFRX Global Hedge Fund (USD)	20%
Total		100%

<i>Broad Asset Class</i>	<i>Benchmark Name</i>	<i>Percentage</i>
Equity	MSCI ACWI IMI	60%
Fixed Income	Bloomberg Barclays US Universal Bond	40%
Alternatives	---	---
Total		100%

**Asset Class Level Comparative Benchmarks**

<i>Asset Class</i>	<i>Benchmark Name</i>
Domestic Equity	MSCI USA IMI
International Equity	MSCI ACWI ex USA IMI
Domestic Bond	Bloomberg Barclays US Universal Bond
International Bond	Bloomberg Barclays Global Aggregate Bond ex USD (Hedged)
Alternatives	HFRX Global Hedge Fund (USD)
Cash	US Treasury Bills

<i>Benchmark Name</i>	<i>Description</i>
MSCI ACWI IMI	captures large, mid, and small cap representation across Developed and Emerging Markets countries. The index covers approximately 99% of the global investable equity market.
MSCI USA IMI	captures large, mid, and small cap representation of the United States. The index covers approximately 99% of the free float-adjusted US investable equity market.
MSCI ACWI ex USA IMI	captures large, mid, and small representation across Developed (excluding the US) and Emerging Markets countries. The index covers approximately 99% of the global investable equity market outside of the United States.
Bloomberg Barclays US Universal Bond	consists of income securities issued in US Dollars, including US government and investment grade debt, non-investment grade debt, asset-backed and mortgage-backed securities, Eurobonds, 144A securities and emerging market debt with maturities of at least one year.
Bloomberg Barclays Global Aggregate Bond ex USD (Hedged)	a measure of global investment grade debt from local currency markets (excluding the US). This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.
HFRX Global Hedge Fund (USD)	is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.
US Treasury Bills	represents the monthly return equivalents of yield averages, which are not marked to market; this index is an average of the last three three-month Treasury Bill issues.