TOWN OF TOLLAND, CONNECTICUT

Financial Policies, Procedures & Guidelines

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Adoption

The Town Administration and Town Council, on a regular basis but at a minimum every three years, shall conduct a review and make recommended revisions to the Town's Financial Policies, Procedures & Guidelines (this "Policy"), as appropriate, to the Town Council. This Policy and revisions hereto shall be approved by the Tolland Town Council.

Adopted by the Tolland Town Council
On June 26, 2007 and as amended

INVESTMENT POLICY

This Policy establishes guidelines for the investment of operating and capital and non-recurring expenditure funds. The Town of Tolland (Town) will consolidate cash balances from all funds to maximize investment earnings, except for cash in certain restricted and special funds. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

The Tolland Town Council authorizes the Town Finance Director or Town Manager to act as the investment officer and to invest all funds in accordance with this Policy unless otherwise prohibited. See Appendix I for listing of authorized personnel and Appendix III for listing of authorized financial institutions.

Standards of Care

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 investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviation from expectations are reported in a timely fashion in writing and appropriate action is taken to control adverse developments.

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 Town Manager or Town Council, as appropriate, any material financial interests in financial institutions with whom they conduct business. They shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio, particularly with regard to the time of purchase and sales.

Policy Purpose

The purpose of this document is to specify the policies and guidelines that provide for prudent and productive investment of funds.

I. <u>Investment of Operating Funds</u>

Investment Objectives

Investments shall be made in accordance with the following principles in order of priority:

1. Safety of principal
2. Liquidity of investment
3. Investment yield

Safety of Principal

Safety of principal, the primary objective, shall be pursued in a number of ways.

1. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to protect against credit risks and interest rate risk.

   a. The Town will minimize credit risk, the risk of loss due to the failure of the issuer, by: limiting investments to the safest types of securities, pre-qualifying the financial institutions and advisors with which the Town will do business and diversifying the investment portfolio.

   b. The Town will minimize interest risk, the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by: structuring investments to mature to meet cash requirements thereby avoiding the need to sell securities prior to maturity and investing operating funds primarily in shorter term securities, money market mutual funds or investment pools.

2. All transactions shall be handled on the basis of delivery vs. payment to a custodian bank. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

3. All repurchase agreements shall be fully collateralized, with a custodian bank receiving delivery of the collateral.

Liquidity

The investment portfolio shall be structured to meet all of the municipality's cash requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs. Furthermore, since all cash requirements cannot be anticipated, the portfolio should consist largely of securities with secondary markets and investments in local government investment pools and money market mutual funds, which offer same day liquidity.

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 municipality's liquidity requirements. Return of investment is of secondary importance compared to the safety and liquidity objectives listed above.

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-riskless investment transactions and, therefore, comprises a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with stated risk limitations and prudent investment principles.

Securities shall not be sold prior to maturity except a security with declining credit may be sold early to minimize loss of principal.

Operating Funds Investment Guidelines

All investments must be made in securities authorized by CGS 3-24f, 3-27f or in deposits authorized by CGS 7-401-402. See Appendix II for relevant investment statutes. To further clarify and limit allowable investments, the Town has adopted the following investment guidelines:

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

    a. U.S. government obligations, U.S. government agency obligations and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value.

    b. Indirect investment in U.S. government and agency securities, and repurchase agreements fully collateralized by such securities, through the purchase of shares or other interests in a custodial arrangement, pool or no-load, open-end investment company or trust registered or exempt under the Investment Company Act of 1940, whose portfolio consists solely of such securities, repurchase agreements and cash. The custodial arrangement, pool or investment company or trust must take delivery directly or though a custodian of all collateral, must be managed to maintain its shares at a constant net asset value, and investment company or trust shares must be purchased and redeemed through, or the custodian for the fund or pool must be, a Connecticut bank or a federally-chartered bank with its principal office in Connecticut, or an out-of-state bank having one or more branches in Connecticut and rated in one of the top two credit rating categories.

    c. The State Treasurer's Short-Term Investment Fund (STIF) established pursuant to CGS 3-27a.

    d. The State Treasurer's Tax-Exempt Proceeds Fund (TEPF) established pursuant to CGS 3-24a.

    e. Repurchase agreements fully collateralized with U.S. government and agency securities held by a third-party custodian bank. Reverse repurchase agreements are not permitted under this short-term investment Policy.

f. Certificates of deposit, demand deposits, any other evidences of deposit at financial institutions, banker's acceptances and commercial paper rated in the highest tier (A-1, P-1, F-1, D-1 or higher) by a nationally recognized rating agency.

g. Money market mutual funds regulated by the Securities Exchange Commission whose portfolios consist only of U.S. dollar-denominated securities.

2. The Town shall not invest in the following:

   a. Investments in shares of investment companies or trusts with fluctuating net asset values, while permitted by CGS 7-400, are not permitted under this Policy.

   b. Investments in "derivative" securities such as futures, swaps, options, interest-only or principal-only mortgage-backed securities, inverse floaters, COFI floaters, and range floaters may not be made. These types of securities can experience high price volatility with changing market conditions, and their market values may not return to par even at the time of an interest rate adjustment. These restrictions apply to direct investments as well as to investments through custodial arrangements. Thus, if a custodial arrangement, pool or fund includes securities prohibited by this paragraph, the municipality may not invest in shares or other interest in such custodial arrangement, pool or fund.

3. To the extent possible, the Town shall attempt to match its investments with anticipated cash flow requirements. The dollar-weighted average portfolio maturity (including interest rate reset periods) may not exceed one year; individual maturities may not exceed five years. See Section III, Investment of Capital and Non-Recurring Expenditure Funds (CNRE), herein for information on the investment of said reserve funds.

   A U.S. government or agency security with a variable interest rate that resets no less frequently than annually shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.

   In calculating the dollar-weighted average maturity of the overall portfolio, investments in custodial arrangements, pools or money market funds managed to maintain a constant net asset value due to their high degree of liquidity, should be factored in as having one-day maturities.

   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 on-going obligations.

4. The investment officer shall diversify the municipality's investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual issuers or maturities.

a. The authorized financial institutions listed in Appendix III herein shall be used by the investment officer in placing investments. The investment officer will routinely monitor the contents of the overall portfolio, the available markets and the relative values of competing instruments and will adjust the portfolio accordingly to assure diversification.

b. The Town shall only do business with qualified public depositories. Eligibility may be based on the recent certified Qualified Public Depository Qualification Form which is prepared by each institution. At a minimum, the investment officer shall conduct an annual evaluation of each institution's credit worthiness to determine whether it should be a qualified institution and included as an authorized financial institution listed in Appendix III herein. Annually, if needed, recommended additions or deletions to the listing of authorized financial institutions should be reviewed by the Town Council.

c. There is no limitation on the percentage of the overall portfolio that may be invested in: (1) U.S. government and agency obligations and in repurchase agreements fully collateralized by such securities, (2) STIF, (3) TEPF, or (4) an authorized custodial arrangement, pool or money market fund.

5. Delivery versus Payment -- all trades where applicable will be executed by Delivery Versus Payment to ensure that securities are deposited in an eligible financial institution. Prior to the release of funds securities will be held by a third-party custodian as evidenced by safekeeping records.

II. Investment of Pension Plan Funds

The Town does not have a defined benefit pension plan for Town employees. The Town is the administrator of a single employer, defined contribution pension plan. Town employees may also participate in a 457 plan. Consequently, the Town does not invest pension or retirement funds for Town employees.

III. Investment of Capital and Non-Recurring Expenditure Funds (CNRE)

1. The Town will maintain permissible CNRE Fund investments in accordance with CGS Section 7-362 as directed, with not more than 31% invested in equity securities and not less than 50% invested in U.S. Government obligations.

2. The Town will maintain permissible CNRE Fund investments in securities which are legal investments of Connecticut Bank assets in accordance with CGS Sections 7-400 and 36a-250, 36a-277, and 36a-278.

3. The Town will place all short-term securities in the CNRE Fund under the management of a single investment manager or the Town's custodian bank. The Town's investment manager will ensure that securities purchased have a maturity date of one year or less at the time of purchase.

4. The Town will ensure that CNRE Fund deposits, which are not invested in securities, are held in a Qualified Public Depository in accordance with CGS Section 36a-330, and that the depository is in compliance with the CGS Sections 36a-333 and 7-402 provisions regarding collateralization of public deposits and the maximum allowable deposit.

5. The Town has established the overall emphasis on providing income with a secondary emphasis of capital appreciation. The CNRE portfolio will invest in securities that produce above-average income, but will also have securities with growth potential over the long term, in both income and capital.

6. The Town sets as a primary objective for the “equity portion” of the reserve portfolio, to earn a return that corresponds with the S&P 500 Index over time.

7. The Town sets as a primary objective for the “fixed income portion” of the CNRE portfolio to earn a return that corresponds with the Lehman Intermediate Government/Corporation Index.

8. The Town will maintain no more than 5% of the market value of the fund invested in common stock and convertible securities in any one company at the time of purchase.

9. The Town will maintain no more than 10% of the market value of the fund invested in the common stock and convertible securities of companies in any one industry.

10. The Town will maintain at least 75% of the fixed income securities in those rated “A” or better by Moody’s Investor’s Service or Standard & Poor’s Corporation.

11. The Town shall employ an investment manager who will report to the Town on all transactions on a quarterly basis.

12. CNRE Reserve funds may be invested in securities exceeding five years if the maturity of such investments coincides as nearly as practicable with the expected use of funds. Investments in securities with maturities in excess of five years should be separately identified and discussed in quarterly investment reports.

Any investment held at the time of this Policy’s adoption that does not conform to the Policy shall be exempted from the requirements of the Policy so long as such investment is a permitted municipal investment under Connecticut statutes. At maturity or liquidation of such investment, all proceeds shall be reinvested only as provided by this Policy.

Adoption by: Tolland Town Council
Approved: June 27, 2000

DEBT MANAGEMENT POLICY

The Debt Management Policy provides the conceptual framework for the issuance and management of debt.

Policy Purpose

The purpose of this document is to provide a comprehensive and viable debt management policy which recognizes the infrastructure needs of the Town as well as the taxpayer's ability to pay while taking into account existing legal, economic, financial and debt market considerations.

Objective

Town debt will be issued for the purpose of funding capital projects as authorized and in compliance with State statutes and the Town Charter. The Town plans long and short-term issuance to finance its capital program based on its cash flow needs, sources of revenue, capital construction periods, available financing instruments and market conditions. The Debt Management Plan is structured to layer in debt issues for the ensuing ten years based on approved projects and anticipated needs.

This Policy establishes the standards regarding the timing and purpose for which debt may be issued, types and amounts of permissible debt, method of sale that may be used and structural features that may be incorporated in the Town's Debt Management Plan. The standards constitute realistic goals that the Town can expect to meet, and will guide, but not bind, debt management decisions. Advantages of a debt policy are as follows:

- Enhance the quality of decisions by imposing order and discipline and promoting consistency and continuity in decision making
- Rationalize the decision-making process
- Identify objectives for staff to implement
- Demonstrate a commitment to long-term financial planning objectives

Policy

1. *Borrowing authority* -- the Town shall have the power to incur indebtedness in according with the Town Charter, Section C9-16. The issuance of debt shall be authorized by resolution of the Town Council and adopted by referendum if any such debt issue exceeds 5% of the current tax levy. In the aggregate, debt authorizations in a fiscal year that do not exceed 5% of the current tax levy may be approved by the Town Council without referendum vote.

2. *Types of permissible debt* -- whenever possible, the Town will first attempt to fund capital projects with state and federal grants or other revenues. When such funds are insufficient, the Town may use dedicated revenues from Special Revenue Funds, development fees, and capital and non-recurring expenditure or general fund revenues to fund projects. If these are not appropriated, the Town will use bond financing. General obligation bonds will be issued to finance traditional public improvements. Revenue or limited obligation bonds may be used within statutory parameters to finance those special projects or programs which directly

support the Town's long-term economic development or housing interests or which service a limited constituency and are clearly self-supporting.

The Town may use short-term financing in the form of Bond Anticipation Notes ("BANS"). BANS may be used to provide interim cash flow, facilitate the timing of bond sales, finance less significant borrowing needs, avoid locking in high long-term interest rates during periods of market turmoil or to finance projects whose final cost is uncertain or is expected to be mitigated by grants and/or investment earnings. BANS are not to be used to defer the operating budget impact of bonded debt service or to speculate on market rates. BANS will be retired either through cash reserves or through the issuance of long-term bonds in accordance with the Town's debt management strategy and as market conditions permit.

A growing part of the public finance market is the use of interest rate swaps and other primary market derivatives by municipal bond issuers. Swaps in particular are often an integral part of a municipal bond issuer's risk management program. Such strategies should be undertaken with the goal of reducing risk and/or for the purpose of diversification. Any alternative method of financing, such as the use of swaptions, forwards, interest rate or debt derivative transactions, etc., if deemed appropriate, should be fully disclosed, reviewed and approved by the Town Council. Such financings should be based on formally approved management policies and procedures that simultaneously minimize the risks and maximize the rewards for such transaction.

Long-term capital leases or lease-purchase obligations may be used for copiers, computers, major equipment or rolling stock and other capital items when it is cost justifiable to do so.

3. *Purpose of debt* – the town will confine long-term borrowing to capital improvements or projects that cannot be financed with current revenues. The Town will not fund current operations from the proceeds of borrowed funds. Whenever appropriate the beneficiaries of a project or service will pay for it. For example, if a project is a general function of government that benefits the entire community, such as a school or library, the project will be paid for with general tax revenues or financed with general obligation bonds. Projects benefiting specific users, such as water and sewer facilities, will be issued as general obligation bonds by the Town, using its full faith and credit pledge. The revenues will be derived from user fees or charges and targeted taxes and assessments will be used to offset the general obligation debt service.

4. *Refunding debt* -- the Town will continually monitor its outstanding debt in relation to existing conditions in the debt market and will refund any outstanding debt when sufficient cost savings can be realized. The target threshold for net present value savings should be a minimum of 2%.

5. *Interest rates* -- the Town will attempt to issue debt that carries a fixed interest rate. However, it is recognized that certain circumstances may warrant the issuance of variable rate debt. In those instances, the Town should attempt to stabilize debt service payments through the use of an appropriate stabilization arrangement. Town Council approval is needed to issue variable rate debt.

   The Town will plan and schedule bond sales to obtain a true interest cost at or below the bond yield averages for comparable debt.

6. *Planning and structuring each bond sale* -- balanced consideration should be given to each of the following objectives: a) provide cash in advance to meet project expenses; b) retire debt in the shortest period of time which is fiscally prudent; c) finance projects for a period commensurate with the useful life of the asset; d) schedule new debt to coincide with the retirement of past debt to lessen the impact upon the mill rate; and e) minimize the impact of debt service payments on annual cash flow. Moreover, whenever possible, projects with an estimated cost of less than $100,000 shall not be financed with long-term debt.

7. *Federal regulations* -- the Town will a) adhere to the requirements of Rule 15c2-12(b)(5), promulgated by the Securities and Exchange Commission when issuing bonds and will provide to any nationally recognized municipal securities repository, or "NRMSIR", annual financial information and operating data and timely notices of material events with respect to the bonds; b) comply with and keep current with all Federal regulations for tax-exempt bonds, and c) comply with arbitrage regulations of the Internal Revenue Code of 1986, Section 148.

   The Town will comply with Federal reimbursement regulations for tax-exempt bond proceeds used to reimburse capital expenditures by: a) declaring reasonable intent in authorizing ordinances; b) issuing bonds within one year after the expenditure was paid or project was put into service, and c) qualifying expenditures as capital expenditures under general income tax principles.

8. *Transfers to CNRE* -- the balance of the annual debt service appropriation not expended for actual bonded debt service, debt issuance, or debt administration costs, shall be transferred automatically to the CNRE at the end of each fiscal year.

9. *Bond structure:*

   <u>Bond term</u> -- all capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements, but in no event to exceed 20 years (30 years for sewer projects) in accordance with Connecticut General Statutes.

   <u>Bank qualification</u> -- whenever possible, the Town will issue $10 million or less in tax-exempt securities per calendar year to receive the "Bank Qualified" status on the issue to minimize interest rates paid for bonded projects. (Bank Qualification allows commercial banks to deduct 80% of their interest cost of carrying tax-exempt bonds.)

   <u>Small Issuer exemption</u> -- whenever feasible, to qualify under the IRS arbitrage rebate exemption provision as a "Small Issuer", the Town will not issue more than $15 million in debt in any calendar year of which not more than $5 million of the issue may be for non-school construction expenditures.

   <u>Call provision</u> -- the Town seeks to minimize the cost from optional redemption call provisions, consistent with its desire to obtain the lowest possible interest rates on its bonds. The Town Manager and Finance Director will evaluate optional redemption provisions for each issue to assure that the Town does not pay unacceptable higher interest rates to obtain such advantageous calls.

Credit or liquidity enhancement -- the Town may seek to use credit or liquidity enhancements when such enhancement proves to be cost-effective or to improve or establish a credit rating on BANS or bond issues. Selection of enhancement providers is subject to a competitive bid process or at the option of the underwriter.

Debt service for bonds and notes paid each year shall not exceed 10% of the General Fund budget of the Town, excluding: a) tax anticipation notes and other indebtedness with a maturity of one year or less; b) bonds or other indebtedness of the Town payable from revenues for special tax districts; and c) self-supporting bonds or other debt.

10. *Method of sale* -- debt obligations are generally issued through competitive sale. Upon recommendation of the Town Manager and Finance Director, the Town Council will authorize the method of sale that is the most appropriate in light of financial, market, transaction-specific and issuer-related conditions.

    When certain conditions favorable for a competitive sale do not exist and when a negotiated sale will provide significant benefits to the Town that would not be achieved through a competitive sale, the Town may elect to sell its debt obligations through a private or negotiated sale, upon approval by the Town Council. The underwriting team for bonds and notes is selected through a competitive process, but the ultimate decision will be based upon the strength of the team's proposal, including qualifications and pricing. For long-term capital leases or lease-purchase obligations the Town will also seek to solicit competitive pricing whenever practicable.

Debt Affordability Measures

The Town Manager and Finance Director will analyze the Town's debt position and the various indicators of municipal credit relative to credit industry standards and the Town's own financial ability. They will examine the following statistical measures to determine debt capacity and compare these ratios to other towns, rating agency standards and the Town's historical ratios to determine debt affordability. In order to determine the Town's relative debt position, the Town uses the following measures:

1) Debt measured against the population on a per-capita basis to be capped at $3,800

2) General Fund bonded debt as a percent of full market value to be capped at 4%

3) General Fund debt service as a percent of total General Fund expenditures to be capped at 10%

4) Other measures the Town deems appropriate

An executive summary of the results will be submitted annually to the Town Council as part of the Debt Management Plan.

The Town's overall debt structure, including overlapping debt, should fall well within statutory limits and should decrease as rapidly as is financially feasible. Whenever feasible, the Town will maintain debt at levels equal to or below the median debt ratios used by investors (underwriters) and credit analysts when reviewing the Town's creditworthiness. The municipal medians will be updated annually when published by the State of Connecticut Office of Policy and Management or other recognized published medians.

Adoption by: Tolland Town Council
Approved: July 23, 1999
Revised: July 27, 2000 and August 2002

CAPITAL FINANCING POLICY

The Capital Financing Policy establishes the methodology for including a program or project in the five-year Capital Improvement Program (CIP), Capital Budget, and Debt Management Plan (DMP). In accordance with the Town Charter, the Town Manager shall prepare and submit to the Town Council a five-year capital program at least four months prior to the annual budget referendum. The Town Manager and Finance Director will prepare a DMP executive summary report for submission to the Town Council on an annual basis in conjunction with the CIP.

The Town's Charter obligates the Town Council to hold one or more public hearings on the CIP, publish in one or more newspapers the general summary of the capital program, and adopt the capital program with or without amendment after the public hearing for inclusion in the annual budget.

Policy Purpose

This Policy establishes the general financing goals and the specific elements that comprise a long-range financing strategy, including capital financing guidelines and the transfer of funds to the Capital and Non-Recurring Expenditure Fund (CNRE).

Capital Program Guidelines

1. The Town's CIP is a comprehensive multi-year capital plan that identifies and prioritizes expected needs based on the Town's strategic plan, establishes project scope and cost, details estimated amounts of funding from various sources, and projects future operating and maintenance costs.

2. The Town will develop a five-year CIP for capital improvements; the first year of which will be adopted annually by the Town Council as the Capital Budget. The CIP shall include those projects that will preserve and provide, in the most efficient manner, the infrastructure necessary to achieve the highest level of public services and quality of life possible within the available financial resources.

2. The Town will make all capital improvements in accordance with the Town Council's annually adopted CIP.

3. The Town will coordinate the development of the CIP with the development of the annual operating budget. Future operating costs associated with new capital projects will be projected and included in operating budget forecasts. The Town will not construct or acquire a public facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility.

4. The Town will maintain its assets at a level adequate to protect the Town's capital investment and minimize future maintenance and replacement costs.

5. The Town will identify the estimated cost and potential funding source or financing method for each capital project proposal before it is submitted to the Town Council for approval.

6. The Town Administration will monitor and manage capital project expenditures with all department managers on a monthly basis for each project in the annual Capital Budget.

7. The Office of the Town Manager will identify the optimum mix and financing sources for all capital projects, in conjunction with the adopted Debt Management Policy.

Capital Planning Guidelines

Objective -- the objective of these guidelines shall be to develop a set of guidelines to be used by Town and Education administrators in evaluating and proposing projects for inclusion in the Town's Capital Budget. The Town Manager shall, whenever possible, adhere to these guidelines when preparing and submitting the Capital Budget for Town Council review.

Definition of Capital Projects -- any project, to be included in the Town's CIP, should fall into one of the following three (3) program categories:

1) Any new or expanded physical facility, including preliminary design and related professional services.

2) Land or property acquisition.

3) Items of a non-recurring nature where the benefits are realized over a long period of time.

A project should also exhibit the following characteristics to be included in the CIP:

<u>Life Expectancy</u> -- the project's outcome, non-recurring in nature, should have a useful life of greater than eight years.

<u>Cost</u> -- cost should be a relatively high, non-operative expenditure for the Town; generally in excess of $10,000 for equipment or plant facility improvements.

Quantifying and Ranking of Capital Projects -- the Office of the Town Manager shall review all capital project submittals and weight them accordingly based on the criteria listed below.

CRITERIA	WEIGHTED POINTS
The project is mandated by State or Federal statute or approved through a binding local referendum.	0 to 25
The project ensures code compliance and/or improves public health and safety in Town.	0 to 25
The project can be definitively shown by an appropriate Town official to improve program effectiveness and efficiency.	0 to 20
The project can be definitively shown by an appropriate Town official to reduce operating and maintenance costs.	0 to 20
If implemented, the project will enhance community values and improve the Town's quality of life.	0 to 10
MAXIMUM POSSIBLE SCORE	100 POINTS

Department heads submitting capital projects for funding consideration are encouraged, but not required, to rank these projects based on the above weighting schedules. This will demonstrate to the Town Manager that some background work was undertaken to substantiate the validity of the project request.

Disqualified Projects -- the Town Manager will disqualify capital project submittals that do not conform to the above stated criteria. Examples of ineligible projects include, but are not limited to, the following:

1) Maintenance projects such as painting, mechanical repairs, building repairs, and other peripheral projects which are neither long-term in their nature nor non-recurring. (Examples: painting projects, grounds maintenance, furniture repairs, etc.)

2) Non-tangible projects including special consulting studies which, as an end-product, may recommend the development and implementation of certain capital projects, but in themselves are not capital projects. (Examples: space utilization reports, planning studies, engineering services, etc.)

Capital Financing Guidelines

1. *Minimize the reliance on long-term debt* -- whenever possible, capital costs should be financed by means other than borrowing and borrowings should be avoided for projects with a cost of less than $100,000. In addition to soliciting outside grant funding, the Town should utilize pay-as-you-go methods such as regular contributions from the General Fund, funds in the Capital and Non-Recurring Expenditure Fund (CNRE), down-payments from operating funds and inclusion of smaller projects in the Capital Budget.

2. *Capital financing strategy* -- the Town Manager and Finance Director will project the future impact of financing capital projects in accordance with the Town's Debt Management Policy and Town Charter (Section 9-16).

3. *Maintenance scheduling* -- the Town intends to set aside sufficient current revenues to finance ongoing maintenance needs and to provide periodic replacement and renewal consistent with its philosophy of keeping its capital facilities and infrastructure systems in good repair, to maximize a capital asset's useful life and to avoid unnecessary borrowing. It is the Town's policy to develop master plans for scheduling this maintenance.

4. *Credit ratings* -- the Town will, at all times, manage its debt and sustain its financial position in order to seek and maintain at a minimum a credit rating of AA for Fitch Ratings, AA- for Standard & Poor's, and A1 for Moody's Investors Service or the highest credit rating possible.

5. *CNRE* -- the CNRE fund was established effective July 1, 1999 to allow more flexibility in investments and to serve as a future source of pay-as-you-go financing of capital projects. The CNRE is an integral part of the Town's capital financing strategy. The Town seeks to grow the fund to a level deemed sufficient to fully fund recurring expenditures for replacing capital equipment and maintaining public facilities that do not meet the Town's general obligation bond issuance guidelines. If the fund is not at its target level, appropriations from the CNRE fund shall not exceed the interest income earned on invested CNRE proceeds.

   The fund may receive contributions from the sale of Town-owned buildings and property, transfers from the General Fund, unexpended balances of completed capital projects in the Capital Fund, and interest from CNRE Fund investments. The actual CNRE capital financing contributions will be determined through the annual Capital Budget process.

Unexpended balances from completed capital projects with a remaining balance may, by Town Council Resolution, be transferred to the CNRE Fund and added to the reserve fund as a future source of financing for projects.

Fund balances at the end of the fiscal year for the Board of Education budget may, by Town Council Resolution, be transferred to the CNRE Fund and added to the reserve fund as a future source of financing for Board of Education capital projects. Board of Education reserve funds may be appropriated in full, both principal and interest, as needed.

6. *Capital Projects Fund* -- the Capital Projects Fund is used to account for the financial resources used for the acquisition or construction of major capital facilities and capital infrastructure improvements. Revenues to the Capital Projects Fund will include proceeds from long- and short-term debt, grants, and transfers from other operating funds and the CNRE Fund. Interest income, which has traditionally remained in the Capital Projects Fund, may be deposited into the CNRE Fund.

7. A percentage of the CNRE unassigned fund balance shall be used as a financing source to the Capital Budget, as is appropriate each budget cycle.

Adoption by: Tolland Town Council
Approved: July 23, 1999
Revised: July 27, 2000 and August 2002

RESERVE/FUND BALANCE POLICY

The Town shall annually adopt a balanced budget in accordance with the Town Charter, Sections C9-1 through C9-10. The annual budget becomes effective when passed at the annual budget referendum. However, Section C9-10 does provide that in the event no budget for the ensuing fiscal year shall be adopted by June 15 in any year, the Tax Collector may then send out interim tax bills for the same amount as in the previous tax year. When the annual budget is finally adopted, the Tax Collector may adjust the second tax bill to conform to the new rate as voted by the Town Council or send out additional tax bills.

Any year-end operating surpluses will revert to fund balance for use in maintaining reserve levels set by policy.

Policy Purpose

This Policy will insure the Town maintains a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unanticipated one-time expenditures. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the Town and jeopardize the continuation of necessary public services. This policy will ensure that the Town maintains adequate fund balances and reserves in order to:

a. Provide sufficient cash flow for daily financial needs.
b. Provide for unforeseen expenditures related to emergencies.
c. Offset significant economic downturns or unanticipated revenue shortfalls, and
d. Secure and maintain investment grade bond ratings preferably AAA rating,

This policy and the procedures promulgated under it supersede all previous regulations regarding the Town's fund balance and reserve policies.

Fund type definitions. The following definitions will be used in reporting activity in governmental funds across the Town. The Town may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

The general fund is used to account for all financial resources not accounted for and reported in another fund.

Special revenue funds are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

Capital projects funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets. See also the Town's Capital Financing Policy for further guidance on the CNRE Fund Balance.

Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the District's purposes.

Fund balance reporting in governmental funds

Fund balance will be reported in governmental funds under the following categories depicting the relative strength constraints using the definitions provided by GASB 54:

Non-spendable fund balance – amounts that are not in a spendable form (such as inventory) or are legally or contractually required to be maintained in-tact (such as the corpus of an endowment fund).

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance – amounts that are available for any purpose; these amounts are reported only in the General Fund.

General Fund Balance Target

The level of **overall** fund balance the Town strives to maintain is an amount ranging from 10 to 17% of the General Fund operating budget for expenditures and outgoing transfers. This includes non-spendable, restricted, committed, assigned and unassigned funds. It is most preferred to reach a level as recommended by the Government Finance Officers Association Best Practice to maintain a balance of at least 2 months of operating revenues or expenditures which may be greater than 17%.

Minimum unassigned fund balance – The Town will maintain a minimum unassigned fund balance in its General Fund ranging from **10** percent to **15** percent of the General Fund operating budget for expenditures and outgoing transfers. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

Use of General Fund Balance

Fund balance may be used by the Town only in accordance with the Town Charter. Section C9-14 of the Charter provides that the Town Council, by resolution, may make appropriations to be funded by grants or gifts, and other additional and supplementary appropriations not to exceed an aggregate of the amount set within the Town Charter in any fiscal year. In addition, following a public hearing, the Town Council, by resolution, may make further additional and supplementary appropriations upon recommendation and certification of the Town Manager that there are available unappropriated funds in excess of the proposed additional appropriations. The decision of the Town Council to utilize fund balance shall be based upon the current economic conditions and the degree of budgetary uncertainty and exposure to be faced. The degree of risk must be evaluated not less than every three years as well as the decision as to the level of financial resources that will be maintained in the fund balance not only for contingencies but for any transitional budgetary shortfalls.

Caution should be taken when appropriating fund balance for recurring operating expenditures. If at any time the utilization of a fund balance to pay for operating expenditures is necessary to maintain the quality or level of current services, there should be a strategy to eliminate the future use of the fund balance for this purpose.

Replenishing deficiencies

If the fund balance is not at its target level, the annual operating budget or any mid-year revenue adjustments shall not be supported by any use of unassigned fund balance, except in the event of a public emergency as declared by the Town Council in accordance with Section C9-11 of the Town Charter. The Town will take appropriate action to restore its fund balance to its target balance as provided below.

- The Town will reduce recurring expenditures to eliminate any structural deficit or,
- The Town will increase revenues or pursue other funding sources, or
- Some combination of the two options above.

Minimum fund balance deficiencies shall be replenished within the following time periods:

- Deficiency resulting in a minimum fund balance between 9 percent and 10 percent shall be replenished over a period not to exceed one year.
- Deficiency resulting in a minimum fund balance between 7 percent and 9 percent shall be replenished over a period not to exceed three years.
- Deficiency resulting in a minimum fund balance of less than 7 percent shall be replenished over a period not to exceed five years.

Amended by Town Council - March 27, 2018

MULTI-YEAR FINANCIAL FORECASTING POLICY

The Town's practice of forecasting operating revenues and expenditures over five years is consistent with the Town's five-year capital budget plan. This practice enables the Town Administration and Town Council to anticipate potential budget stress that may result from projected revenue and expense imbalances, allowing them to take corrective action long before budgetary gaps develop into crises. Specifically, the Town Manager and Finance Director have developed and continue to modify annually a long-term trend analysis spreadsheet which serves as an internal document in preparing for budget deliberations. The trend analysis synthesizes several quantifiable variables, including Grand List growth, intergovernmental revenue projections, and forecasts in both municipal and educational operating expenses. The drafting of this trend analysis has helped the Town Manager's Office immensely in developing affordability benchmarks.

CAPITAL ASSET POLICY

Policy Purpose

The purpose of this Policy is to comply with the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Analysis – and Management Discussion and Analysis – for State and Local Governments" in order to provide for capitalizing assets and for estimating useful lives of those assets. The statement requires the disclosure of major classes of assets, beginning and end of year balances, acquisitions, sales/dispositions and current depreciation expense.

Capital assets are defined as follows:

- Land
- Land Improvements
- Easements
- Buildings
- Building Improvements
- Vehicles
- Machinery and Equipment
- Works of Art
- Infrastructure
- All other tangible and intangible assets

To be considered a capital asset for financial reporting purposes, an item must be at or above the capitalization threshold and therefore have an historical cost of $5,000 or more and have a useful life greater than one year. A total purchase for an amount greater than the threshold, which consists of multiple items each below the threshold, will not be capitalized. Improvements and additions must be significant in terms of increased capacity or efficiency. The capitalization threshold for building improvements and additions must be in an amount equal to or greater than $25,000. Infrastructure improvements and additions shall have a threshold greater than $50,000 except for storm drains and water lines, which should be greater than $25,000.

Capital assets must be reported using historical costs including capitalized interest and ancillary charges (freight and transportation charges, site preparation and professional fees) necessary to place the asset into its intended location and condition for use. Donated assets should be reported at estimated fair value at time of acquisition.

Infrastructure assets are long-lived capital assets that are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples include:

- Roads
- Bridges
- Dams
- Drainage Systems
- Water and Sewer Systems

Resurfacing of a road is considered to be road maintenance. To be capitalized, an improvement must expand capacity, such as changing a one-lane road to two or adding a turning lane.

Depreciable lives should be based on actual expected use by the Town, not by tax lives. An attempt should be made to set depreciable lives to coincide with the Town's capital replacement program. Capital assets have estimated useful lives extending beyond one year and are depreciated using the straight-line method. Depreciable lives for different classes of vehicles and equipment shall be based on recommendations by appropriate department heads.

Standard useful lives include:

- Land – Non-Depreciable
- Land Improvements – 20-30 years
- Roads – 30-50 years
- Sewer Lines and Water Lines – 50 years
- Bridges/Large Culverts – 30-50 years
- Dams – 50 years
- Buildings – 50-75 years
- Fire Equipment – 20-25 years
- Ambulances – 5 years
- Vehicles – 7-15 years
    - Autos, Light Trucks, Heavy Trucks
- Machinery and Equipment – 3-10 years
- Construction Equipment – 15-30 years
- Computer Equipment – 5 years

The Finance Director will ensure that the capital asset report will be updated annually to reflect improvements, additions, retirements and transfers and to reflect the new, annual capital asset balance for financial reporting purposes.

Day-to-day stewardship of personal property above the capitalization thresholds is the expressed responsibility of the operating department utilizing the property.

For maintenance of the capital asset accounting report, the operating departments have the responsibility to report improvements, additions, retirements and transfers in detail to the Finance Department. This detail is to be captured on the Fixed Asset Addition/Deletion Data Entry forms available in the Finance Department.

Assets below the capitalization thresholds but considered sensitive may include for example, radios, personal computers, laptop computers, printers, fax machines and small power tools that shall be inventoried and controlled at the department level.

Adoption by: Tolland Town Council
Approved: June 11, 2002

Town of Tolland & Tolland Board of Education
Utility Internal Service Policy - Agreement

1. The Town and the Board of Education shall maintain an established Utility Internal Service Fund (UISF) for the purpose of paying for all fees associated with (1) utilities, (2) ESCO Project Debt Service, (3) associated consultant fees, (4) future system improvements and (5) repairs. The utilities include but are not limited to propane, electricity, heating fuel, water and sewer. This fund is separate from the General Fund, and it shall be audited annually as any other Town funds by the Town's auditors. Revenue to this fund shall include contributions from the Board of Education and Town, investment earnings, utility rebates and any other miscellaneous funds that relate to this fund. Expenditures from the UISF will include charges from the various utility companies, payments for debt service on any approved Energy Improvement project, consultant fees, system management fees and any other associated fees incurred on behalf of the Town and Board of Education respectively shall be paid from this Fund. Any transfers from the UISF must comply with the goals as outlined in paragraph #5 of this policy.

2. The Town and Board of Education shall retain an energy consultant and/or assign staff to prepare budget estimates and determine utility savings. The consultant and/or staff shall review all ESCO energy contracts and verify the baseline budget and prepare a recommended budget including any potential changes for price escalation and other impacts in accordance with the energy contract measurement requirements. Based on that review, no later than October 31, the consultant and/or staff shall make a preliminary recommendation to the Town Manager and the Superintendent of Schools as to how much should be included in the budget estimate for the up-coming fiscal year for the Town and Board of Education separately. This information shall be provided by the Finance Director to the Town Manager and Superintendent of Schools. This recommended amount is subject to change prior to the final adoption of the annual budget appropriation if trend information is reflecting substantially different information from the original estimate provided. Any changes to the recommended amount will be provided by the Finance Director, energy consultant and/or assigned staff.

3. Except as provided herein and below, the Board of Education and Town shall include in its itemized budget estimate the amount recommended by the consultant/staff and as provided by the Finance Director to the Town Manager and the Superintendent of Schools.

4. After the Annual Budget Referendum is approved for the appropriation to the Town and the Board of Education for a given fiscal year, the Town and Board of Education shall transfer to the UISF an amount equal to its itemized budget estimate for utility costs for the year. At the end of each fiscal year, there shall be an accounting of the UISF by the Town's Finance Director. If the amount so transferred was more than the amount necessary to cover the Town's and Board of Education's utility costs, debt service and other associated costs for the year, the remaining amount shall remain in the UISF to help comply with the goals of paragraph #5 below. If the amount so transferred was less than the amount necessary to cover the Town's and the Board of Education's utility costs for the year, the Town Council and Board of Education shall make appropriate transfers, if any, to assure that all Town and Board of Education utility costs and ESCO Project Debt Service for the year are paid from the UISF.

5. The balance of the UISF shall be maintained for liability reserves at a level which will adequately fund the Town and Board of Education's potential exposure to excessive seasonal shifts in utility costs and to help pay for future system improvements and repairs. The goal of this reserve is to accumulate at a minimum an amount that is based on 10% of the previous year's annual costs utility expenditures in each area as determined by historical expenditure data. The balance in this reserve may fluctuate by the actual annual experience of the UISF or by direct appropriation approved by the Town Council and Board of Education. This reserve shall be reviewed by the Town Finance Director and Board of Education Business Manager and recommendations for funding levels will be made by them to the Town Council and Board of Education Manager and Superintendent of Schools as part of the utility budget estimate for

the next fiscal year. There shall be a quarterly review of the actual expenditures by the Town Finance Director, the Board of Education Business Manager, the energy consultant and/or assigned staff.

6. This agreement will be reviewed in one year and recommended changes, if any, will be presented to the Town Council at that time.

November 12, 2013	November 13, 2013
Town Council Approval Date	Board of Education Approval Date

APPENDIX I

LISTING OF AUTHORIZED PERSONNEL

Steven R. Werbner or Current
Town Manager

Lisa A. Hancock or Current
Director of Finance and Records

APPENDIX II

RELEVANT INVESTMENT STATUTES

Section 3-24a. Tax-Exempt Proceeds Fund created. The Treasurer is hereby authorized to incorporate a fund for the purpose of providing for the investment of the proceeds of state bonds, notes or other obligations, and to take all measures necessary to qualify such fund as a regulated investment company under Section 851(a) of the Internal Revenue Code of 1986, as amended. Such fund shall be known as the Tax-Exempt Proceeds Fund. The Treasurer may enter into such contracts as may be necessary or useful to the organization, establishment, operation and administration of the Tax-Exempt Proceeds Fund under all applicable state and federal laws and may contract with any person to provide such services to the Tax-Exempt Proceeds Fund as, in the discretion of the Treasurer, are necessary for the proper operation and administration of said fund. The Treasurer shall publish a notice in a newspaper published and of general circulation in Hartford when the Tax-Exempt Proceeds Fund has been effectively established as a regulated investment company under all such state and federal laws and shall mail a copy of such notice to the chief executive officer of each town, city and borough in the state. All costs of operating the Tax-Exempt Proceeds Fund, including the cost of personnel and contractual services, shall be paid by the Treasurer from said fund. All costs related to the organization and establishment of the Tax-Exempt Proceeds Fund, to the extent not payable from income of said fund, may be paid from other moneys of the state to be made available for such purpose.

Section 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.

Section 3-27a. Short Term Investment Fund. Payment of certain interest to board or boards of trustees. Participation certificates. There is hereby created a Short Term Investment Fund to be administered by the State Treasurer. The State Treasurer may sell participation certificates of the Short Term Investment Fund for investment to the General Fund, both funds, the Special Transportation Fund, the Local Bridge Revolving Fund, the Educational Excellence Trust Fund, the Residential Property Tax Revaluation Relief Fund, the Municipal Abandoned Vehicle Trust Fund, trust funds administered by the Treasurer and all such other funds the moneys of which by law the Treasurer is responsible for investing. Said participation certificates shall bear and pay such interest and be issued subject to such terms and conditions as shall be determined and established by the State Treasurer. The interest derived from the investment or reinvestment of funds of The University of Connecticut Operating Fund and The University of Connecticut Health Center Operating Fund, The University of Connecticut Research Foundation, The University of Connecticut Health Center Research Foundation, the Connecticut State University System Operating Fund, the Connecticut State University System

Research Foundation, and the Regional Community-Technical Colleges Operating Fund, as authorized by sections 10a-105, 10a-110a, 10a-130, 10a-99 and 10a-77, respectively, and the Board for State Academic Awards educational services account, as authorized by section 10a-143, shall be paid to each board or board of trustees respectively.

Section 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, 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.

Section 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 Commissioner of Banking; 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 state Commissioner of Banking.

(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 Commissioner of Banking.

Section 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.

Section 7-362. Investment of Capital and Nonrecurring Expenditure Fund. The budget-making authority may, from time to time, direct the treasurer to invest, such portion of such fund as in its opinion is advisable, provided: (1) Not more than thirty-one percent of the total amount invested shall be invested in equity securities; and (2) not less than fifty per cent of the total amount invested shall be invested in the stock or bonds or interest-bearing notes or obligations of the United States, or those for which the faith of the United States is pledged to provide for the payment of the principal and interest, including the bonds of the District of Columbia.

Section 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 him and belonging to such municipality, or otherwise held by him as such 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 his name as such 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 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 Commissioner of Banking 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 Commissioner of Banking may require by regulations which he 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 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 his 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 him from such depository.

Section 36a-33. Commissioner to prepare lists of banks. The commissioner shall annually prepare and submit to the State Treasurer a list of banks which have received a rating of needs to improve or of substantial noncompliance in connection with the community reinvestment performance evaluation prepared by the commissioner pursuant to subsection (b) of section 36a-32 or by a federal financial supervisory agency pursuant to federal CRA, whichever evaluation is made available most recently. No bank included in such list may receive deposits under the provisions of section 4-33 or 7-402. In preparing such list, the commissioner may rely on information received from a federal financial supervisory agency.

Protection of Public Deposits
Section 36a-330. Definitions.

(1) "Eligible collateral" means (A) United States treasury bills, notes and bonds, (B) United States government agency securities, (C) United States agency variable-rate securities, (D) mortgage pass-through or participation certificates or similar securities, (E) performing one-to-four-family residential mortgage loans that meet the following criteria: (i) The mortgage loan has a loan-to-value ratio which is less than or equal to eighty per cent for loans without private mortgage insurance, or a loan-to-value ratio which is less than or equal to ninety-five per cent for loans with private mortgage insurance; and (ii) the mortgage loan has a payment history of not more than one payment over thirty days in arrears during the past twelve consecutive months or, if the loan has a payment history of less than twelve months in duration, the loan meets the documentation requirements of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation; provided, in the case of a subsequent default under any such mortgage loan that continues uncured for more than sixty days, such loan shall no longer qualify as eligible collateral and shall be replaced by a performing mortgage loan that meets the criteria set forth in this subdivision, and (F) state and municipal bonds;

(2) "Financial institution" means a bank, Connecticut credit union, federal credit union or an out-of-state bank that maintains in this state a branch as defined in section 36a-410;

(3) "Loss" means issuance of an order of supervisory authority restraining a qualified public depository from making payments of deposit liabilities or the appointment of a receiver for a qualified public depository;

(4) "Public deposit" means (A) moneys of this state or of any governmental subdivision of this state or any commission, committee, board or officer thereof, any housing authority or any court of this state and (B) moneys held by the Judicial Department in a fiduciary capacity;

(5) "Qualified public depository" or "depository" means a bank, Connecticut credit union, federal credit union or an out-of-state bank that maintains in this state a branch, as defined in section 36a-410, which receives or holds public deposits and segregates eligible collateral for public deposits as described in section 36a-333.

Section 36a-333. Collateral requirements.

(a) To secure public deposits, each qualified public depository shall at all times maintain, segregated from its other assets as provided in subsection (b) of this section, eligible collateral in an amount at least equal to the following percentage of public deposits held by the depository:

(1) For any qualified public depository having a risk-based capital ratio of ten per cent or greater, a sum equal to ten per cent of all public deposits held by the depository; (2) for any qualified public depository having a risk-based capital ratio of less than ten per cent but greater than or equal to eight per cent, a sum equal to twenty-five per cent of all public deposits held by the depository; (3) for any qualified public depository having a risk-based capital ratio of less than eight per cent but greater than or equal to three per cent, a sum equal to one hundred per cent of all public deposits held by the depository; and (4) for any qualified public depository having a risk-based capital ratio of less than three per cent, and, notwithstanding the provisions of subdivisions (1) to (3), inclusive, of this subsection, for any qualified public depository which has been conducting business in this state for a period of less than two years except for a qualified public depository that is a successor institution to a qualified public depository which conducted business in this state for two years or more, a sum equal to one hundred and twenty per cent of all public deposits held by the depository; provided, the qualified public depository and the public depositor may agree on an amount of eligible collateral to be maintained by the depository that is greater than the minimum amounts required under subdivisions (1) to (4), inclusive, of this subsection. For purposes of this subsection, the amount of all public deposits held by the depository shall be determined based on either the public deposits reported on the most recent quarterly call report or the average of the public deposits reported on the four most recent quarterly call reports, whichever amount is greater.

(b) Each qualified public depository having a risk-based capital ratio of eight per cent or greater shall transfer eligible collateral maintained under subsection (a) of this section to its own trust department, provided such trust department is located in this state unless the commissioner approves otherwise, to the trust department of another financial institution, provided such eligible collateral shall be maintained in such other financial institution's trust department located in this state unless the commissioner approves otherwise, or to a federal reserve bank or federal home loan bank. Each qualified public depository having a risk-based capital ratio of less than eight per cent shall transfer eligible collateral maintained under subsection (a) of this section to the trust department of a financial institution that is not owned or controlled by the depository or by a holding company owning or controlling the depository, provided such eligible collateral shall be maintained in such other financial institution's trust department located in this state unless the commissioner approves otherwise, or to a federal reserve bank or federal home loan bank. Such transfers of eligible collateral shall be made in a manner prescribed by the commissioner. Eligible collateral shall be valued at market value or as determined by the commissioner if market value is not readily determinable, and the value of such eligible collateral shall be determined and adjusted on a quarterly basis.

(c) The depository shall have the right to make substitutions of eligible collateral at any time without notice. The depository shall provide written notice to its public depositors of any reduction in the amount of eligible collateral maintained under subsection (a) of this section.

(d) The income from the assets, which constitute segregated eligible collateral, shall belong to the depository without restriction.

APPENDIX III

LISTING OF AUTHORIZED FINANCIAL INSTITUTIONS

Bank of America

TD Banknorth

Citizen’s Bank

Key Bank

People’s Bank

Webster Bank

Farmington Savings Bank

United Bank

Savings Institute Bank and Trust

Santandar Bank

US Bank

Chase Bank

State of CT – Short Term Investment Fund (STIF)

ICMA RC for pension and OPEB Trust funds

APPENDIX IV

GLOSSARY OF TERMS

COFI (Cost of Funds Index) – A lagging interest rate reference index based on the cost of funds to 11th District (United States) savings and loan associations.

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.

Debt Ratios and Terms:

> *General Fund Balance as % of Revenues* – General Fund Balance (Assets-Liabilities)/Annual General Fund Revenues; an indicator of liquidity and financial health of the issuer.
>
> *Unassigned General Fund Balance as % of Revenues* – a measure of the municipal entity's most liquid reserves.
>
> *Direct Net Debt as % of Full Value* – total par value of the issuer's direct tax-supported debt obligations, including capital leases, divided by the full valuation of the tax base; an indicator of leverage.
>
> *Debt Burden* – direct and overlapping tax-supported debt for the issuer.
>
> *Total Full Value* – the estimated market value of all taxable properties within the jurisdiction; does not include tax-exempt entities such as universities.
>
> *Full Value Per Capita* – the Total Full Value divided by the most recent population; provides an indication of socio-economic levels within the municipal entity.

Derivative – A security that derives its face value from an underlying asset, group of assets, reference rate, or an index value. Some derivative instruments can be highly volatile and result in a loss of principal in changing interest rate environments.

Inverse Floater – A security that reacts inversely to the direction of interest rates. These securities can be very volatile and can lose value in a rising interest-rate environment.

Money Market Fund – An open-end 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.

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.

Present Value – today's value of a payment or a stream of payment amount due and payable at some specified future date, discounted by a compound interest rate. Often referred to as *time value of money*, meaning that today's value of cash flows is worth less than the sum of the cash flows to be received or saved over time.

Swap – The trading of one asset, or cash flows, for another. Sometimes used in active portfolio management to increase investment returns by swapping one type of security for another. Also used to manage risk; for example, swapping fixed interest rate payments for floating rate payments or vice versa.

Total Fund Balance – Total fund balance is the excess of fund assets and resources over fund liabilities.