

COUNTY COUNCIL OF PRINCE GEORGE'S COUNTY, MARYLAND

1995 Legislative Session

Resolution No. CR-52-1995

Proposed by Chairwoman MacKinnon (by request - County Executive)

Introduced by Council Members MacKinnon and Bailey

Co-Sponsors _____

Date of Introduction September 5, 1995

RESOLUTION

A RESOLUTION concerning

Investment Policy *

For the purpose of approving a policy for the investment of all unexpended or surplus funds of the County.

WHEREAS, the Maryland General Assembly passed legislation during the 1995 session to strengthen Maryland's state and local government investment practices; and

WHEREAS, House Bill 913 and Senate Bill 86 were signed into law by the Governor on May 8, 1995 and they became effective on July 1, and June 1, 1995; and

WHEREAS, House Bill 913 imposes new guidelines for the investment of all public funds; and

WHEREAS, Senate Bill 86 requires that local governments adopt investment policies that comply with the new legislation; and

WHEREAS, the State Treasurer issued draft investment regulations on June 9, 1995 for use by local governments in developing their investment policies; and

WHEREAS, the new legislation and regulations require that local government investment policies be approved by the governing body and submitted to the State Treasurer by October 1, 1995; and

WHEREAS, the Director of Finance who is responsible for conducting investment transactions has prepared the investment policy of Prince George's County, Maryland, in accordance with House Bill 913, Senate Bill 86, and the State Treasurer's draft regulations for review and approval by the County Council;

* See attached Statement of Law change (9/98).

1 NOW, THEREFORE, BE IT RESOLVED by the County Council of Prince George's
2 County, Maryland, that the attached Investment Policy applicable to the investment of all
3 unexpended or surplus funds of the County is hereby approved.

4 BE IT FURTHER RESOLVED that a copy of the County Executive's Semi-Annual
5 report to the State Treasurer shall be filed with the Clerk of the Council on or before January
6 30 and July 30 of each year.

7 Adopted this 12th day of September , 1995.

8 COUNTY COUNCIL OF PRINCE
9 GEORGE'S COUNTY, MARYLAND

10
11 BY: Anne T. MacKinnon
12 Anne T. MacKinnon
13 Chairwoman

14 ATTEST:

15
16 Joyce T. Sweeney
17 Joyce T. Sweeney
18 Clerk of the Council
19
20
21
22
23
24
25
26
27
28
29
30

Prince George's County, Maryland

Investment Policy**1.1 Scope**

This policy applies to the investment of all unexpended or surplus funds of the County. These funds are accounted for in the County's Comprehensive Annual Financial Report and include:

- (a) General Fund;
- (b) Special Revenue Funds;
- (c) Capital Project Funds;
- (d) Enterprise Funds;
- (e) Debt Service Funds;
- (f) Internal Service Funds;
- (g) Trust And Agency Funds; and
- (h) Any new funds as provided by County legislation, unless specifically exempted.

This policy does not cover the investment activities of: Pension Funds, which are administered by separate trustees; certain Trust Funds, which are controlled by trust agreements; and certain separate corporate entities, which are considered to be component units of the County for financial reporting purposes; however, the Board of Education of Prince George's County and the Prince George's County Memorial Library System are required by Maryland law to comply with the County's adopted investment policy.

1.2 Definitions

- (a) ANNUAL FINANCIAL AUDIT - The annual audit performed by independent auditors on the financial statements of the County on which they express an opinion based on their audit.
- (b) BANKS - Institutions that are incorporated or authorized to operate under federal law as a bank or incorporated under the laws of the State of Maryland as a State

bank, trust company, or savings bank.

- (c) **FINANCIAL INSTITUTIONS** - Any bank or any brokerage firm registered with the United States Securities and Exchange Commission (SEC).
- (d) **INDEPENDENT AUDITOR** - The certified public accounting firm retained by the County to perform the annual financial audit of the financial statements.
- (e) **INVESTMENT OFFICIALS** - The Director, Office of Finance, and the employees of the Office of Finance to whom the Director has in writing delegated the authority to conduct investment transactions including electronic transfers of funds.
- (f) **MASTER REPURCHASE AGREEMENT** - A legal agreement standardized by the Public Securities Association (PSA) with amendments developed by the County in order to further protect the County's interests and signed by both the County and the counterparty (broker or bank) to the transaction.
- (g) **PURCHASING POWER** - Retaining the purchasing ability of the County's funds by earning interest income at a rate that meets or exceeds the annual Consumer Price Index as published by the United States Bureau of Labor Statistics.

1.3 **Objectives**

The primary objectives for the management of the County's funds are:

- (a) The protection of investment principal in the overall portfolio. To attain this objective, diversification, third-party collateralization and safekeeping, and delivery-versus-payment will be required.
- (b) Sufficient liquidity to meet all cash flow requirements which might be reasonably anticipated.

The secondary objective is to maximize investment return consistent with risk limitations and prudent investment policies described in this policy.

1.4 **Authority**

- (a) In accordance with the Annotated Code of Maryland, Article 95, Section 22, and the Charter of Prince George's County, Maryland, Sections 101-103 and Section 2 Schedule of Legislation, the responsibility for conducting investment transactions rests with the Director, Office of Finance (the Director). The Director may delegate, in writing, to the investment officials of the Office of Finance the authority to conduct investment transactions.

- (b) The Director shall establish written procedures for the operation of the County's investment programs, consistent with this investment policy.

1.5 Prudent Person Rule

The standard of prudence to be applied by the investment officials shall be the "Prudent Person Rule", which states, "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 Prudent Person Rule shall be applied in the context of managing the overall portfolio.

Investment officials acting in accordance with written procedures and the investment policy and exercising due diligence shall not be held personally responsible for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

1.6 Ethics and Conflicts of Interest

Investment officials 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. Investment officials shall subordinate their personal investment transactions to those of the County, particularly with regard to the time of purchases and sales. Investment officials shall comply with the code of ethics requirements as specified in the Prince George's County Code, Sections 2-289 through 2-294.

1.7 Investment Strategy

The Director shall hold periodic investment strategy meetings with the other investment officials and document the resulting investment strategy approved to meet the objectives of this investment policy and to maintain the purchasing power of the investment portfolio.

1.8 Authorized Investments

The Director may invest County funds in the following investments:

- (a) U.S. Government Securities - These securities include obligations for which the United States has pledged its full faith and credit for the payment of principal and

interest.

- (b) U.S. Agency Securities - Obligations that a federal agency or a federal instrumentality issues in accordance with an Act of Congress.
- (c) Repurchase Agreements - Entered into with financial institutions that sign master repurchase agreements, and that maintain collateralization of at least 102% of the principal amount, and comply with other safekeeping and collateral requirements.
- (d) Certificates of Deposit and Time Deposits - Banks and savings and loan associations that are chartered to operate in Maryland, maintain collateralization that equals or exceeds the amount of the deposit not federally insured and comply with other safekeeping and collateral requirements.
- (e) Bankers' Acceptances - Issued by a bank with a short-term debt rating in the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by either the SEC or the State Treasurer.
- (f) Commercial Paper - Commercial paper issued by a company with a short-term debt rating in the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the SEC.
- (g) Pooled Investments
 - (i) Any investment portfolio created under the Maryland Local Government Investment Pool defined under Article 95, Section 22G of the Annotated Code of Maryland that is administered by the State Treasurer.
 - * (ii) Money Market Mutual Funds registered with the SEC under the Investment Company Act of 1940, 14 U.S.C. Section 80(A), as amended, and operated in accordance with Rule 2A-7 of the Investment Company Act of 1940, 17 C.F.R. Section 270.2A-7, as amended, and that have received the highest possible rating from at least one nationally recognized statistical rating organization as designated by the SEC.
 - (iii) Any open-end or closed-end management type investment company or investment trust registered under the provisions of the Federal Investment Company Act of 1940, 15 U.S.C. Section 80A-1, as amended, the portfolio of which is limited to direct obligations of the United States government and to repurchased agreements fully collateralized by United States government obligations; and takes delivery of that collateral, either directly or through an authorized custodian.
- (h) Municipal Bonds and Municipal Mutual Funds - The Director may invest unexpended bond sale proceeds and other funds subject to arbitrage rebate in tax-exempt bonds, notes, or other obligations of investment grade quality, as established

* See attached Statement of Law Change.

by at least one nationally recognized statistical rating organization as designated by the SEC, issued by or on the behalf of any state or political subdivision or through a trust or fund that restricts investments of the trust or fund to obligations of investment grade quality.

1.9 Authorized Dealers and Financial Institutions

The Director shall develop and maintain a listing of financial institutions which are approved for investment purposes based on the following criteria:

- (a) Repurchase Agreements - The County may purchase repurchase agreements from primary government dealers, other securities dealers, and dealer banks which are on the approved list of financial institutions. Approval for the list will be based on having a short-term or long-term debt rating of investment grade by at least one nationally recognized statistical rating organization as designated by the SEC.
- (b) Certificates of Deposit and Time Deposits - The County may purchase certificates of deposit and time deposits from national or state-chartered banks and savings and loans located in Maryland that have a short-term or long-term credit rating of investment grade by at least one nationally recognized statistical rating organization as designated by the SEC or have equity in excess of assets of 5.0%.
- (c) Pooled Investments - The County may invest in any pooled investment that qualifies under Section 1.8 (g).
- (d) Other Investments Listed in Section 1.8 of This Policy - The County may purchase all other investments, excluding repurchase agreements, certificates of deposit, time deposits, and pooled investments, from the financial institutions approved in Section 1.9 (a) or which qualify under SEC Rule 15C3-1 (uniform net capital rule) or meet Federal Deposit Insurance Corporation (FDIC) and other regulatory capital guidelines for adequate capitalization. If they do not have an investment grade rating as required by Section 1.9 (a), banks are also required to have equity in excess of assets of 3.0%, and other financial institutions must have equity in excess of assets of 1.5%. Investments may be purchased directly from the issuer of the investment if the investment meets credit quality standards and is included on the approved list of investments.

1.10 Competitive Bidding

Investments shall be awarded on a competitive bid basis to the institution whose percentage yield produces the greatest interest income to the County and complies with safekeeping requirements and investment limitations. Investments can be awarded on a non-competitive basis when the investment security is a new issue that can only be purchased from one source or can be purchased at the same yield from any source.

Competitive bidding is not required for pooled investments. Market information systems may be used to assess the market and determine that an offering is above the market for a comparable maturity and investment type when a situation makes competitive bidding impractical.

1.11 Investment Limitations

- (a) Maturity - Investment maturities shall be adequate to cover anticipated cash flow requirements. The majority of the investments shall be for a maximum maturity of one (1) year except for the investment of bond proceeds which may be invested up to three (3) years. However, a portion of the portfolio may contain investments with longer maturities without jeopardizing adequate safety and liquidity standards of the portfolio and at the same time increasing the overall yield of the portfolio. These investments will be limited to U. S. Government and U. S. Agency securities.

The method for determining the portion of the portfolio that can be invested in long-term investments will be to analyze the investment portfolio for the last three years. Determine the investment balance low point for each of those years, and then compute the average for those three years. The maximum level of long-term investments will be approximately 50% of this average. This will be a rolling process to be performed at the end of each fiscal year. If the amount of long-term investments exceeds the 50% maximum, then no new investments can be purchased in the coming fiscal year.

In addition, funds may be invested for periods longer than the limitations listed above; provided that, the investment of specific funds are made to not exceed the date in which it is reasonably expected that such funds will be disbursed and the investments are limited to U. S. Government and U. S. Agency securities.

- (b) Bankers' Acceptances shall not exceed a six month maturity and shall meet eligibility requirements of the Federal Reserve System.
- (c) Security Type - Based on credit quality risks of investment instrument classes maximum percentages of the portfolio have been established. These percentages may be overridden to satisfy the liquidity requirement in Section 1.11 (g). These percentages apply at the time the investment is purchased.

	<u>Maximum</u>
U. S. Government Securities	100%
U. S. Agency Securities	90%
Repurchase Agreements	80%
Certificates of Deposit and Time Deposits	80%
Bankers' Acceptances	50%
Commercial Paper	5%
Pooled Investments	100%
Municipal Securities and Municipal Money Market Funds (bond proceeds)	100%

- (d) Type of institution (Individual institution's maximum percent limitation of the portfolio at time of investment purchase).
- (i) U.S. banks and savings and loan associations for Bankers' Acceptances, Certificates of Deposit, Time Deposits and Repurchase Agreements are limited to a maximum dollar value of 30% of the total investment portfolio. This limit may be overridden for the overnight investment of funds remaining at the end of the day with the primary collection and disbursement banks.
 - (ii) Foreign banks for Bankers' Acceptances are limited to a maximum dollar value of 5% of the total investment portfolio.
 - (iii) Brokers/dealers for Repurchase Agreements are limited to a maximum dollar value of 30% of the total investment portfolio.
 - (iv) Commercial paper issuers are limited to a maximum dollar value of 5% of the total investment portfolio.

- (e) Total investments in a financial institution shall not exceed 25% of that institution's equity (stockholders' equity, partners' equity, etc.)
- (f) Pooled Investment Size - The total investment in a pooled investment shall not exceed more than 25% of the fund's net assets.
- (g) Liquidity - A minimum of \$25 million of the County's portfolio excluding bond proceeds shall be in liquid investments consisting of any of the following:
 - (i) Bankers' Acceptances
 - (ii) U.S. Government & Agency Securities
 - (iii) Pooled Investments allowing same day withdrawals
 - (iv) Overnight Repurchase Agreements
 - (v) Other authorized investments maturing in one day.

Other entities conforming to this policy should determine an appropriate liquidity level based on the size of the portfolio and the anticipated cash flow requirements of the entity.

- (h) Reverse Repurchase Agreements - The County shall not leverage (borrow money for the sole purpose of investment) the portfolio through the use of reverse repurchase agreements. The County may enter into reverse repurchase agreements for the purpose of providing liquidity for unanticipated cash requirements provided that a Master Repurchase Agreement has been signed with a financial institution which has been authorized under Section 1.9(a).
- (i) Derivatives - The County shall not invest in derivative securities that have high price volatility, lack liquidity and are speculative in nature. The County shall not use derivatives to hedge the investment portfolio. Any derivative that is purchased shall have its interest rate derived from indexes or instruments based upon U.S. Government or U.S. agency securities that are applicable to the conservative investment activities of the County.

1.12 Collateralization

- (a) Collateral shall be maintained in excess of Federal insurance coverage for all County bank accounts, certificates of deposit and time deposits. Acceptable collateral is specified under Section 6-202 of Title 6 of the State Finance and Procurement Article of the Annotated Code of Maryland.
- (b) Collateralization is required for all repurchase agreements of at least 102% of the

principal amount. Acceptable collateral shall consist of obligations of the United States, its agencies or instrumentalities as specified under Sections 1.8 (a) and (b).

- (c) The collateral shall be held by an independent third party as specified under Section 1.13.

1.13 Safekeeping and Custody

- (a) The Director will appoint independent third-party custodians. A current custodial agreement is required between the County and the Custodian. All security transactions, including collateral for repurchase agreements, shall be executed on a delivery-versus-payment basis except pooled investments, certificates of deposit and time deposits.
- (b) The Custodian may not be a counterparty to the transaction; unless the custodian is the County's primary bank and the securities purchased from the bank, including collateral for repurchase agreements, certificates of deposit and time deposits, are held in the County's name and account.
- (c) The Federal Reserve Bank of Richmond functioning under the rules in Operating Circular Nos. 16 and 19, may be used as a custodian for pledged collateral on deposits and certificates of deposit.
- (d) After careful review of reinvestment guidelines, practices, procedures, and agreements of the Custodian, the County may participate in a security lending program.

1.14 Reporting

- (a) Monthly Investment Policy Compliance Reports reflective of the investment activity will be submitted by the investment officials to the Director for review and approval.
- (b) On a semiannual basis, on or before January 15 and July 15 of each year, the investment officials shall complete and the Director shall certify investment activity of the County on the form adopted by the State Treasurer to report all investments of the County on the close of the final day of the immediately preceding half of the fiscal year. The form shall be submitted to the County Executive. He shall review and certify the form on or before January 30 and July 30 of each year and promptly mail a copy of the completed certified form to the State Treasurer.
- (c) The County shall mark-to-market the portfolio semiannually for reporting purposes and portfolio evaluation. The market values shall be obtained from a reputable and independent source.

1.15 Internal Controls

The Director shall establish a system of internal controls, which shall be documented in writing. An independent auditor, as part of the annual financial audit will review the investment program.

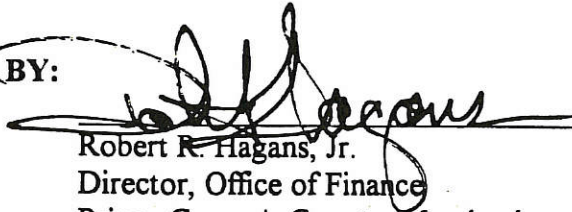
1.16 Performance Standards

Based on this conservative investment policy concerning the authorized investments and the maturity and liquidity constraints, the County will measure performance against an appropriate benchmark that corresponds to the composition of the investment portfolio.

1.17 Investment Policy Adoption

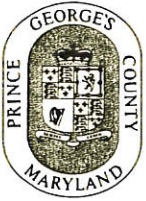
The investment policy is approved by the Director, Office of Finance and adopted by resolution by the County Council and filed with the State Treasurer's Office. The Director may institute changes in these policies at any time as long as the changes are in compliance with the Annotated Code of Maryland and the Prince George's County, Maryland Code and are adopted by the County Council and filed with the State Treasurer's Office. These changes should be distributed to the investment officials assigned the investment responsibilities. Any legislative changes will supersede this document.

APPROVED BY:


Robert R. Hagens, Jr.
Director, Office of Finance
Prince George's County, Maryland

9/12/95
Date

i:\invpol



Wayne K. Curry
County Executive

THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Finance
Administration

STATEMENT OF LAW CHANGE INVESTMENT POLICY

LEGISLATIVE CHANGE:

Remove the wording of Section 1.8(g)(ii) and replace with the following:

“Money market mutual funds registered with the SEC under the Investment Company Act of 1940, 15 U.S.C. Section 80(a), as amended, and operated in accordance with Rule 2A-7 of the Investment Company Act of 1940, 17 C.F.R. Section 270.2A-7, as amended, and that contain only securities described in 1.8 (a), (b) and (c).”

HISTORY:

Per Section 1.17 of the Prince George's County, Maryland, Investment Policy, “Any legislative changes will supersede this document.” During the 1998 session, the Maryland General Assembly amended the State Finance and Procurement Article 6-222, the law governing permissible investments for the State Treasurer and all other public investors in the State which becomes effective October 1, 1998. The amended section of the law affected investment in money market funds.

In 1995 the Maryland General Assembly passed legislation which allowed the State Treasurer and all other public investors in the State to invest in “prime” money market funds which had the highest possible rating from at least one nationally recognized statistical rating organization. These funds may purchase a wide range of money market securities such as commercial paper, banker's acceptances, and bank notes. The County's Investment Policy was being written at that time and incorporated the 1995 legislation. In 1997 the Maryland General Assembly passed legislation which removed the rating requirement for “prime” money market funds. The Office of Finance did not change the Investment Policy to incorporate the loosening or expansion of money market fund investments represented by this legislation. As this was less restrictive than the Council approved policy, an amended policy would be required and a new Resolution of approval from the Council.

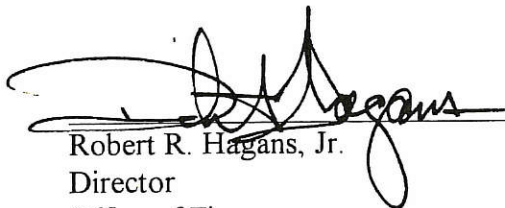
The new 1998 legislation is more restrictive and requires that the money market fund invest only in U.S. treasuries, federal agencies, federal instrumentalities and repurchase agreements collateralized by those securities. As this change is more restrictive than the

14741 Gov. Oden Bowie Drive, Room 3200, Upper Marlboro, MD 20772
(301) 952-5025
TDD (301) 925-5167

Statement of Law Change

Page 2

investments approved by Resolution of the County Council, the change to the Investment Policy is duly noted as a legislative change and reintroduction of the policy for Council approval is not required.



Robert R. Hagans, Jr.
Director
Office of Finance

9/20/98

Date