

**TOWN OF LA PLATA  
LA PLATA, MARYLAND**

**INVESTMENT POLICY  
March 24, 2009**

**I. POLICY**

It is the policy of the Town of La Plata, Maryland (hereinafter referred to as “the Town”) to invest public funds in a manner which will conform to all State of Maryland and Town statutes governing the investment of public funds while meeting its daily cash flow demands.

**II. SCOPE**

This investment policy applies to all financial assets of the Town. These funds are accounted for in the Town’s Comprehensive Annual Financial Report and include:

- A. General Fund
- B. Capital Projects Fund
- C. Water and Sewer Fund
- D. Sanitation Fund
- E. Any new funds as provided by ordinance.

**III. PRUDENCE**

A. The standard of prudence to be applied by the authorized officials shall be the “prudent person” rule, which states, “Investments shall be made with judgment and care, under circumstances then prevailing, which person 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.

B. Authorized 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 any such adverse developments.

#### IV. OBJECTIVE

The primary objectives, in priority order, of the Town's investment activities shall be:

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

B. **Liquidity:** The Town's investment portfolio will remain sufficiently liquid to enable the Town to meet all operating requirements which might be reasonably anticipated.

C. **Return on investment:** The objective in any investment will be to obtain maximum yield relative to risk and desired liquidity. Yield will be of secondary importance in the consideration of potential investments to safety and liquidity.

#### V. DELEGATION OF AUTHORITY

A. Authority to manage the Town's investment program is derived from state law (Article 95 and Title 6 of the State Finance and Procurement Article of the *Annotated Code of Maryland*) and is delegated to the Town Treasurer with the Town Manager designated as backup should the Treasurer not be able to perform his/her investment duties.

B. The Town Treasurer shall be responsible for all of the Town's investment transactions. The Treasurer may delegate their authority to others but such designations must be explicit and in writing and be approved by the Mayor and Council.

C. The Town Treasurer shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this investment policy. The procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the town

#### VI. ETHICS AND CONFLICTS OF INTEREST

The Town Treasurer shall report to the Town Council any financial interests which he/she may have in the institutions providing financial services to the Town.

#### VII. AUTHORIZED INSTITUTIONS

The Town Treasurer is authorized to invest Town funds in any of the following types of institutions, subject to the provisions of this policy:

##### Banks

- Any FDIC insured institution incorporated under the laws of any state as a State bank, trust company or savings bank;
- Any FDIC insured institution incorporated under the laws of this State or of the United States as a savings and loan association, or;
- Any FDIC Insured institution incorporated under federal law as a bank.

Banks should have a Bauer Financial Rating of 3 & 1/2 stars or better or a Veribanc rating of yellow and a two stars or higher at the time an investment is made. Bank's ratings should be reviewed at least semi-annually to assure on-going compliance. To the extent that it is practical, the Town should strive to invest with institutions with a presence in the local community.

#### Security Brokers/Dealers

- Any broker/dealer registered to do business in the State of Maryland that meets the following criteria:
  - 1) "Primary" dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
  - 2) Registered as a dealer under the Securities Exchange Act of 1934;
  - 3) Member of the Financial Industry Regulatory Authority (FINRA);
  - 4) Engaged in the business of effecting transactions in U.S. government and federal agency obligations for at least five (5) consecutive years.

Prior to initiating transactions with any broker/dealer, the Treasurer must obtain documentation from the broker/dealer demonstrating their compliance with the specified requirements, along with copies of their audited financial statements and regulatory reports on their financial condition. Based on his/her review of the documents provided, the Treasurer will determine if the broker/dealer is financially strong enough and credit worthy enough to entrust with Town funds. The broker/dealer shall be required to provide updated reports annually thereafter.

Broker/dealers will be selected on the basis of their qualifications, expertise in public investments and their ability to provide service to the Town's account.

### **VIII. AUTHORIZED AND SUITABLE INVESTMENTS**

The Treasurer is authorized to invest in the following types of securities:

- U.S. Treasury obligations: United States Treasury Bills, Notes, Bonds, Strips or any other obligation or security issued by or backed by the full faith and credit of the United States Treasury. with a final
- Federal Agency Securities: Bonds, notes, certificates of indebtedness or other obligations
- Federal Instrumentality Securities: Debentures, discount notes, step-up and callable securities with issued by the following: Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB), Federal Agriculture Mortgage Corporation; and Student Loan Marketing Association
- Money Market Mutual Funds: Shares in open-end, no-load investment funds provided such funds are registered under the Federal Investment Company Act of 1940 provided that the fund is rated at least AAAM by Standard & Poor's, Aaa by Moody's, or AAA/V1+ by Fitch. The mutual fund must comply with the diversification, quality and maturity requirements of Rule 2(a)-7, or any successor rule, of the United States Securities and Exchange Commission.

- Money Market Deposit Accounts
- Certificates of Deposit
- Maryland Local Government Investment Pool (MLGIP)

It is the intent of the Town that all purchased securities be perfected in the name of the Town of La Plata.

The Treasurer shall be restricted to investing in securities that mature within one year of the date of purchase.

## **IX. DIVERSIFICATION OF INVESTMENTS**

Investments within the portfolio shall be diversified to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. The asset allocation in the portfolio should be flexible depending upon the outlook for the economy, the securities market, and the Town's anticipated cash flow needs.

The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each eligible security shall be as follows:

U.S. Treasury Obligations	100%
Federal Agency Securities	100%
Federal Instrumentality Securities	70%
Money Market Mutual Funds	70%
Money Market Deposit Accounts	70%
Certificates of Deposit	70%
MLGIP	70%

Within the broad investment categories defined above, the following maximum investment levels shall be imposed to limit the risks associated with concentrating the Town's investments in any single issuer/depository:

U.S. Treasury	100%
Federal Agency Securities	40%
Federal Instrumentality	40%
Each Money Market Mutual Fund	50%
Each Money Market Deposit Account	50%

## **X. BORROWING**

The Town may not borrow solely for the purpose of investment and may not invest in a manner inconsistent with the Investment Policy.

## **XI. COLLATERALIZATION**

### Amount

ALL deposits in excess of the Federal Deposit Insurance Corporation (FDIC) insurance coverage limits, in any Bank, shall be collateralized at a level of at least 102% of the market value of the principal and any accrued interest thereon.

### Acceptable collateral

The following financial instruments are acceptable collateral: U.S. obligations; federal agency securities, or; federal instrumentality securities.

### Custody

All required collateral shall be pledged to the Town of La Plata and may be held in an account at the depository institution or in a custodial account. Custodial accounts may be located at:

- any institution licensed in the State as a bank;
- a federal reserve bank; or
- any national banking association that is approved by the Comptroller of the Currency to conduct banking business in the State.

### Documentation

The depository institution shall document the collateralization of the Town's deposits in excess of the FDIC insurance coverage limits and provide copies of such documentation to the Town at least monthly and more frequently if so requested by the Town.

Subject to the requirements of this policy, a financial institution may change its collateral from time to time.

## **XII. SAFEKEEPING AND CUSTODY**

Certificates of Deposits are to be held by the Town Treasurer.

All other investment securities, except for shares of money market mutual funds, shall be delivered by book entry or physical delivery and will be held in third-party safekeeping by a town approved custodian bank, its correspondent bank or the Depository Trust Company (DTC).

The Town Treasurer shall approve one or more financial institutions to provide safekeeping and custodial services for the Town. Custodian banks shall be selected on the basis of their ability to provide service to the Town's account and the competitive pricing of their safekeeping related services.

A safekeeping agreement shall be executed with each custodian bank prior to that bank's engaging in safekeeping services.

All Fed wireable book entry securities owned by the Town shall be evidenced by a safekeeping receipt issued to the Town by the custodian bank stating that the securities are held in the Federal Reserve system in a customer account for the custodian bank which names the city as "customer."

All DTC eligible securities shall be held in the custodian bank's Depository Trust

**XIII. INTERNAL CONTROLS**

The Town Treasurer shall establish a system of internal controls, which shall be documented in writing and approved by the Town Council. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Town who are authorized by the Town Council to perform investment functions. An audit of the internal controls of the investment operation is part of the annual financial audit conducted by an outside independent audit company.

**XIV. REPORTING REQUIREMENTS**

The Town Treasurer shall generate monthly report for management purposes. In addition, the Town Council will be provided monthly reports which will include data on investment instruments being held, as well as any narrative necessary for clarification.

**XV. INVESTMENT POLICY ADOPTION**

The Town Treasurer may institute changes in these policies at any time as long as the changes are in compliance with the *Annotated Code of Maryland* and presented in written form to and approved by the Town Council. Exceptions to these policies may be made by securing the written approval of the Town Treasurer and ratification by a majority vote of the Town Council.

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Robert W. Oliphant, Town Treasurer

**Adopted by Resolution 09-2 this 24<sup>th</sup> day of March 2009.**

**SEAL:**

**COUNCIL OF THE TOWN OF LA PLATA**

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Roy G. Hale, Mayor

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James Goldsmith, Councilman

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Scot D. Lucas, Councilman

ATTEST:

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Paretta D. Mudd, Councilwoman

\_\_\_\_\_  
Judith T. Frazier, Town Clerk

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Vic E. Newman, Councilman

Date: \_\_\_\_\_