

CHAPTER 21

INVESTMENT POLICY AND PROCEDURES TOWN OF WILLIAMSPORT WASHINGTON COUNTY, MARYLAND

SECTION 1. POLICY

It is the policy of the Town of Williamsport to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Town and conforming to all state and local Ordinances governing the investment of public funds.

SECTION 2. SCOPE

The 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 all Town funds.

SECTION 3. STANDARDS OF CARE

1. **Prudence.** Investments shall be made with judgment, care, prudence, and skill – 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 this capital as well as the probable income to be derived.
2. 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 the investment policy and exercising due diligence shall be relieved of personal responsibility 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.

SECTION 4. OBJECTIVES

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

1. **Safe Investments.** Safety of principal and, in particular, safe investments, 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. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

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

3. **Returns on Investments**. The Town's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the Town's investment risk constraints and the cash flow characteristics of the portfolio.

SECTION 5. DELEGATION OF AUTHORITY: MANAGEMENT

Management responsibility for the investment program is hereby delegated to the Clerk-Treasurer who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping, PSA repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to person responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Clerk-Treasurer. The Clerk-Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of any subordinate officials.

SECTION 6. ETHICS AND CONFLICTS OF INTEREST

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 to the Mayor any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Town, particularly with regard to the time of purchases and sales.

SECTION 7. AUTHORIZED FINANCIAL INSTITUTIONS

No public deposit shall be made except in a qualified public depository as established by state laws.

SECTION 8. AUTHORIZED INVESTMENTS

The town is empowered by statute to invest in securities, including but not limited to:

1. Obligations for which the United States has pledged its faith and credit, including U.S. Treasury Bills, Notes, Bonds and other direct obligations of the U.S. Government.
2. Obligations that a federal agency or federal instrumentality has issued in accordance with an act of Congress, including but not limited to the Federal Farm Credit Bank, Federal Home Loan Bank, Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Mortgage Corporate and Student Loan Marketing Association.
3. Repurchase Agreements collateralized in an amount not less than 102% of the principal amount by an obligation of the United States or its agencies or instrumentalities if the collateral is held by a custodian other than the seller designated by the buyers.
4. Bank's acceptances guaranteed by a financial institution 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 Treasurer.
5. Certificates of deposit or other interest bearing time deposits or savings accounts in any bank in the State of Maryland or savings and loan association or building and loan association provided such deposits are insured or the bank or association has collateralized the deposit.
 - a. Commercial Banks must have a short-term rating of at least investment grade from the appropriate bank rating agency. All banks shall provide their most recent Consolidated Report of Condition at the request of the Town.
6. Commercial Paper that has received the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the SEC. Not more than 5% of the total funds available for investment may be invested in commercial paper.
7. Money Market Mutual Funds registered under the Investment Company Act of 1940, operated in accordance with Rule 2A-7 and having the highest possible rating from at least one statistical rating organization designated by the SEC. The management company of the fund must take delivery of the collateral either directly or through an authorized custodian.

8. An obligation or security of, or other interest in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940 if the portfolio thereof is limited to direct obligations of the United States Government and repurchase agreements fully collateralized thereby and the investment company or trust or its custodian holds the collateral.

9. Any investment portfolio created under the Maryland Local Government Investment Pool defined under Article 95 § 22G of the Code that is administered by the Office of the State Treasurer.

SECTION 9. COLLATERALIZATION

Collateralization will be required on two types of investments: certificates of deposit over the Federal insurance limit of \$100,000, and repurchase (and reverse) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be (102%) of market value of principal and accrued interest.

The Town chooses to limit collateral to those instruments permitted under Section 6-202 of the State Finance and Procurement Article of the Annotated Code of Maryland.

The right of collateral substitution is allowable and granted.

SECTION 10. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the Town shall be conducted on a delivery-versus-payment basis. Securities will be held by the Town or the designated custodian for the Town and evidenced by safekeeping receipts and/or identified on the custodian's books as belonging to the Town. Further, if held by a custodian, the custodian must be a third party, not a counterpart (buyer or seller) to the transaction.

SECTION 11. DIVERSIFICATION

The Town will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the Town's total investment portfolio will be invested in a single security type or with a single financial institution.

SECTION 12. MAXIMUM MATURITIES

To the extent possible, the Town will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than eighteen (18) months from the date of purchase. However, the town may collateralize its repurchase agreements using longer-dated investments not to exceed thirty (30) years to maturity.

Reserve funds may be invested in securities exceeding 18-24 months if the maturity of such investments is made to coincide as nearly as practical with the expected use of funds.

SECTION 13. INTERNAL CONTROL

The Clerk-Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

SECTION 14. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

SECTION 15. REPORTING

A review of all investments and investment results shall be presented by the Clerk-Treasurer to the Mayor, or such parties as he/she may designate, on a quarterly basis or as required. The report will include the following:

- a. A listing of individual securities held at the end of the reporting period.
- b. Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one year duration that are not intended to be held until maturity.
- c. Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks.
- d. Listing of investment by maturity date.
- e. The percentage of the total portfolio which each type of investment represents.

SECTION 11. INVESTMENT POLICY ADOPTION

The Town's investment policy shall be adopted by resolution of the Town's Mayor and Council. The policy shall be reviewed annually by the Mayor and Council and any modifications thereto must be approved by the Mayor and Council.

SECTION 12. BORROWING PROHIBITION

The Town shall not borrow money solely for the purpose of reinvesting the loan proceeds.

EFFECTIVE: September 1, 1995

ADOPTED: December 11, 1995

Recorded in Liber 5, folio 878.