

RESOLUTION NO. 658

A RESOLUTION TO AMEND THE COUNTY'S INVESTMENT POLICY

WHEREAS, the County Council for Dorchester County, Maryland, adopted Resolution No. 212 to establish a "Investment Policy," effective October 24, 1995; and

WHEREAS, the County Council for Dorchester County, Maryland adopted Resolution No. 216 amending the County's Investment Policy on January 23, 1996.

NOW, THEREFORE, BE IT RESOLVED, that the Dorchester County Council hereby formally adopts the attached revised Investment Policy for Dorchester County which was approved by the Dorchester County Council on December 5, 2023.

PASSED AND ADOPTED THIS 16th day of January, 2024.

ATTEST:



Jeff Powell
Interim County Manager

**THE COUNTY COUNCIL
OF DORCHESTER COUNTY:**



George L. Pfeffer, Jr., President



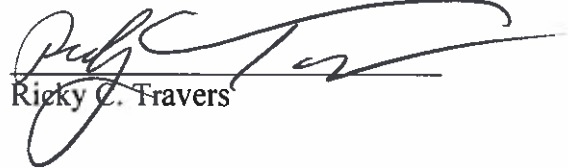
Mike Detmer, Vice President



Rob Kramer, Jr.

Absent

William V. Nichols



Ricky C. Travers

Approved the 16th day of January, 2024.

INVESTMENT POLICY



SECOND AMENDMENT

Approved December 5, 2023

Originally adopted effective October 24, 1995

Amended January 23, 1996

The County Council of Dorchester County, Maryland

County Office Building

501 Court Lane

Cambridge, Maryland 21613

(410) 228-1700

**DORCHESTER COUNTY,
MARYLAND INVESTMENT
POLICY**

TABLE OF CONTENTS

I.	Policy	1
II.	Scope	1
III.	Objective	
	A. Safety	2
	B. Liquidity	2
	C. Return on investment	2
IV.	Delegation of Authority	2
V.	Ethics and Conflicts of Interest	3
VI.	Authorized Financial Dealers and Institutions	3
VII.	Diversification in Authorized & Suitable Investments	
	A. Diversification by Instrument	5
	B. Diversification by Institution	6
	C. Diversification of Maturities	6
VIII.	Borrowing.....	6
IX.	Collateralization.....	6
X.	Safekeeping and Custody	7
XI.	Internal Controls	7
XII.	Performance Standards	7
XIII.	Investment Strategy.....	7
XIV.	Competitive Bidding.....	7
XV.	Reporting Requirements.....	8
XVI.	Investment Policy Adoption.....	8

I. POLICY

It is the policy of Dorchester County, Maryland (hereinafter referred to as "the County") to invest public funds in a manner which will conform to all State of Maryland and County statutes governing the investment of public funds while meeting its daily cash flow demands. Each local governmental unit is required to have an investment policy under Article 95, Section 22F of the Annotated Code of Maryland [Title 17, Subtitle 2 of the Local Government Article]. The Finance Director or designee is authorized to invest such funds. 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 the Board of Education of Dorchester County.

II. SCOPE

This investment policy applies to all financial assets of the County. These funds are accounted for in the County's Annual Financial Statements and include:

- A. General Fund
- B. Special Revenue Funds
- C. Capital Project Funds (Including Bond Funds)
- D. Other funds as provided by County law

III. PRUDENCE

- A. The standard of prudence to be applied by the investment officer 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.
- B. Investment officers 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.

IV. OBJECTIVE

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

- A. **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the County shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification, third party collateralization and safekeeping, and delivery versus payment will be required.
- B. **Liquidity:** The County's investment portfolio will remain sufficiently liquid to enable the County to meet all operating requirements which might be reasonably anticipated. It is the full intent of the County to hold all investments until maturity to ensure the return of all invested principal. However, securities may be sold prior to maturity as needed to comply with the intent of this policy. This policy specifically prohibits trading securities for the sole purpose of speculating or taking an unhedged position on the future direction of interest rates.
- C. **Return on investment:** The County's investment portfolio shall be designed with the objective of a market rate of return throughout budgetary and economic cycles, taking into account the County's investment risk constraints and the cash flow characteristics of the portfolio. Market rate of return on the County's investment portfolio is of secondary importance compared to the primary objective of safety and liquidity described above. However, investment performance shall be continually monitored and evaluated by the Finance Director and oversight as designated by Council using the Performance Standards described in Section XIII under Performance Standards of this policy.

V. DELEGATION OF AUTHORITY

- A. Authority to manage the County's investment program is granted to the Finance Director as provided by State law Article 95, Section 22F of the Annotated Code of Maryland [Title 17, Subtitle 2 of the Local Government Article].
- B. The Finance Director shall establish and maintain written administrative procedures and internal controls for the operation of the investment program, consistent with this investment policy. Such procedures shall include:

1. **Explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures approved by the Finance Director.**
2. **Procedures should include reference to safekeeping, master repurchase agreements, delivery versus payment, PSA repurchase agreements, wire transfer agreements, collateral/depository agreements, accounting, and banking service agreements.**
3. **The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and employees that is monitored by the Finance Director or a designee.**

VI. 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 disclose to the Dorchester County Council any material financial interest in financial institutions that conduct business within this jurisdiction, and will further disclose any large personal financial/investment positions that could be related to the performance of the County's portfolio. The Finance Director, subordinate officials and employees shall subordinate their personal investment transaction to those of the County, particularly with regard to the time of purchases and sales. Investment officials shall comply with the Dorchester County Chapter 88 Code of Ethics requirements.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The County shall maintain a list of approved financial institutions and security broker/dealers selected by creditworthiness who are authorized to provide investment services in the State. These may include "primary dealers" or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-I (Uniform Net Capital Rule). No deposit shall be made except in an institution which is a qualified public depository as established by the State of Maryland. All financial institutions and broker/dealers who desire to become qualified brokers for investment transactions must supply the Finance Director with the following: audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of registration with the

State of Maryland, and certification of having read the County's Investment Policy. An annual review of the financial condition and registrations of qualified bidders will be conducted by the Finance Director. The most recent audited financial statement is required to be on file for each financial institution or broker/dealer through which the County invests.

1. All dealers must agree to the County's policy of delivery-versus-payment as described in Section X, under Collateralization of this policy.
2. The firm must provide copies of its most recent audited financial statements, which are reviewed carefully to assure that the firm is on sound financial footing. The firm must also have adequate capital to fulfill its commitments under adverse market conditions.
3. The firm must be registered in the State of Maryland with a record for responsible business practices and professional integrity. The dealer must also provide adequate research facilities and market-related information.
4. All dealers, including primary government dealers, are required to submit annually to the County their most recent audited financial statements.
 - A. Commercial Banks: Commercial Banks must be federally chartered and a member of the Federal Deposit Insurance Corporation (FDIC). Commercial banks must have "investment grade" short term ratings from at least two of the National Recognized Statistical Rating Organizations (NRSRO) as designed by the SEC. All banks with which the Finance Department conducts business, shall provide their most recent audited financial statements.
 - B. Money Market Treasury Funds: The fund must be comprised only of obligations issued or guaranteed as to principal and interest by the U.S. Government and to repurchase agreements fully collateralized by U.S. Government obligations. The management company of the fund must take delivery of the collateral either directly or through an authorized custodian. The County is also authorized to invest in the Maryland Local Government Investment Pool (MDLGIP) which functions as a U.S. Treasury Money Market Fund.

VIII. DIVERSIFICATION IN AUTHORIZED & SUITABLE INVESTMENTS

The County will diversify, to extent possible, to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Maryland State law pertaining to authorized instruments is attached.

A. <u>Diversification by Instrument</u>	<u>Maximum % of Portfolio</u>
1. U.S. Treasury Obligations	100%
2. U.S. Government Agency and U.S. Government sponsored instrumentalities	75%
3. Repurchase Agreements (Master Repurchase Agreement required)	50%
4. Collateralized Certificates of Deposit	50%
5. Bankers' Acceptances – BA's from domestic banks which also include the U.S. affiliates of large international banks. Short term rating of AI from Standard and Poor's and PI from Moody's Investor Service.	25%
6. Money Market Mutual Funds – Highest rating by at least one recognized rating agency.	60%
7. Commercial Paper – Effective 07/01/95. Paper must have a minimum of an AI/PI rating by at least one recognized rating	10%
8. Pooled Investments – Any investment portfolio created under the Maryland Local Government Investment Pool defined under Article 95, Section 22G of the Annotated Code of Maryland.	50%
9. Municipal Bonds and Municipal Mutual Funds – Only investment grade quality as established by at least one nationally recognized statistical rating organization as designated by 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.	25%

- B. Diversification by Institution LIBERO 007 FOLIO 769
- | | |
|---|-----|
| 1. Primary Government Dealers (repurchase agreements) | 50% |
| 2. Commercial banks (Certificates of Deposit) | 50% |
| 3. Money Market Treasury funds (includes MDLGIP) | 50% |
| 4. Banker's Acceptances by institution | 25% |

C. Diversification of Maturities

In order to meet the objectives of the County's investment activities as listed in Section IV of this policy, the majority of the investments of the County will be on a short-term basis. (up to eighteen months). However, a portion of the portfolio can contain investments with longer maturities (up to three years) without jeopardizing adequate safety and liquidity standard of the portfolio and at the same time increasing the overall yield of the portfolio. These investments will be limited to US Government, US Agency securities, and MD Local Government Investment Pool.

IX. BORROWING

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

X. COLLATERALIZATION

- A. Collateralization will be required on two types of investments: certificates of deposit and repurchase (and reverse) agreements. In order to mitigate the effect of market changes and provide an additional level of security, the collateralization level must be at least 102% of the market value of principal and accrued interest.
- B. Collateral will always be held by an independent third party with whom the County has a current custodial agreement.
- C. Acceptable collateral is specified under Section 6-202 of Title 6 of the State Finance and Procurement Article of the Annotated Code of Maryland. However, the third party trust custodian, who holds the collateral, has the right to reject otherwise acceptable collateral based on their discretion concerning market conditions.
- D. The right of collateral substitution is granted, and all associated costs will be paid by the seller (financial institution).

XI. SAFEKEEPING AND CUSTODY

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All security transactions, including collateral for repurchase agreements, entered into by the County shall be conducted on a delivery-versus-payment (DVP) basis.

Securities will be held by a third party custodian designated by the Finance Director. All repurchase agreements will be governed by a Master Repurchase Agreement signed by the appropriate officials of the County and the primary government dealer. (See Exhibit E). The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

XII. INTERNAL CONTROLS

The Finance Director shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officials of the County. An audit of the internal controls of the investment operation (both procedural and operational) is part of the annual financial audit as conducted by an external independent auditor/ audit company.

XIII. PERFORMANCE STANDARDS

The investment portfolio will be managed in accordance with the parameters specified in this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance must be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken and the benchmarks shall have a similar weighted average maturity as the portfolio. Data relative to the benchmarks and portfolio performance will be reported on a frequent basis by the Finance Director

XIV. INVESTMENT STRATEGY

The Finance Director shall hold periodic investment strategy meetings with 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.

XV. COMPETITIVE BIDDING

Investments shall be awarded on a competitive bid basis to the institution whose percentage yield produces the greatest investment income to the County and complies with safekeeping requirements and investment limitations. Comparative rates must be documented by the Investment Manager or designee for each competitive trade executed. 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. Market information systems may be used to assess the market and determine that an offering exceeds the yield for a comparable maturity and investment type when a situation makes competitive bidding impractical.

XVI. REPORTING REQUIREMENTS

The Finance Director shall generate monthly reports for management purposes. In addition, the County Manager and County Council will be provided monthly reports which will include data on investment instruments being held, as well as any narrative necessary for clarification. A statement of the market value of the portfolio shall be issued at least annually as part of the County's Annual Comprehensive Financial Report (ACFR). The review should be consistent with the General Accounting Standards Board (GASB) Statements 31 and 40.

XVII. INVESTMENT POLICY ADOPTION

The Finance Director may propose changes in these policies for approval by the County Council at any time as long as the changes are in compliance with the Annotated Code of Maryland. These changes should be written and distributed to the County Manager and County Council. Exceptions to these policies may be made by securing the recommendation of the Finance Director and approval of the County Council and documented in writing. Once adopted by resolution, a certified copy must be provided to the Maryland State Treasurer for final review and acceptance. Investments shall be awarded on a competitive bid basis to the institution whose percentage yield produces the greatest investment income to the County and complies with safekeeping requirements and investment limitations. Comparative rates must be documented by the Investment Manager or designee for each competitive trade executed. 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. Market information systems may be used to assess the market and determine that an offering exceeds the yield for a comparable maturity and investment type when a situation makes competitive bidding impractical.