Resolution No.: 17-1248
Introduced: October 14, 2014
Adopted: October 21, 2014

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: The Council President at the request of the County Executive

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SUBJECT: Approval of amended and updated Montgomery County, Maryland Investment Policy

Background

1. Montgomery County invests public funds on behalf of the taxpayers and citizens of the County.

2. Maryland Code, Local Government Article, Section 17-204 (see page 31) requires the State Treasurer to adopt local government investment guidelines. Maryland Code, Local Government Article, Section 17-205 (see page 32) further requires that local governments adopt an investment policy that "(1) meets the needs of the government entity; and (2) is consistent with the local government investment guidelines adopted by the State Treasurer under Section 17-204 of this subtitle."

3. As required by Article 95, Section 22F of the Annotated Code of Maryland (now Maryland Code, Local Government Article, Section 17-205), the County Council approved by resolution the County's investment policy on September 12, 1995.

4. The County Council adopted amendments to the County's Investment Policy in 1999 by Resolution No. 14-237, with the most current version being dated August 3, 1999.

5. The County's Director of Finance has recommended, and the County Executive has approved, certain amendments and updates to the County's Investment Policy to reflect changes in State investment laws and guidelines, as well as changes in the investment and economic environment.

Action

In accordance with Maryland Code, Local Government Article, Section 17-205, the County Council approves and adopts the attached Investment Policy as the Investment Policy for Montgomery County, Maryland. The Council will modify this policy in the future, as necessary, to conform to the requirements of State law regarding local government investments.

As required by Maryland Code, Local Government Article, Section 17-205 (b), a certified copy of the amended and updated Investment Policy will be mailed to the State Treasurer.

This is a correct copy of County Council action.

Linda M. Lauer

Linda M. Lauer, Clerk of the Council

MONTGOMERY COUNTY, MARYLAND
DEPARTMENT OF FINANCE

INVESTMENT POLICY

I. POLICY

It is the policy of Montgomery County, Maryland ("the County") to invest public funds not needed for immediate expenditures (operating funds), in a manner that will preserve capital while conforming to all State of Maryland and County statutes governing the investment of public funds. The Director of Finance or designee is authorized to invest such funds until such time that the County requires liquid funds for working capital needs.

II. DERIVATIVES AND LEVERAGE

It is the policy of the County not to invest in derivative securities - financial contracts whose values are derived from the value of underlying securities such as stocks, bonds, currencies, and commodities.

Furthermore, the County may not borrow funds for the express purpose of reinvesting these funds, otherwise known as leveraging.

III. SCOPE

This investment policy applies to all financial assets 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 Projects Funds
D. Other funds as provided by County law.

This policy does not include the management of assets of the Montgomery County Employee Retirement Plans or other post employment benefit trusts. The County Code delegates the oversight of the assets in these plans to the Board of Investment Trustees.

IV. PRUDENCE

The standard of prudence to be applied by the investment staff shall be the "prudent person" rule[1] and shall be applied in the context of managing the overall portfolio.

Authorized County employees, designated by the Director of Finance and acting in accordance with written procedures, the investment policy, and exercising due diligence shall not be held personally responsible for individual security credit risk or market price changes, provided changes are reported in a timely fashion and appropriate action is taken to control adverse developments.

V. INVESTMENT OBJECTIVES

In order of priority, the primary objectives of the County's investment policy are:

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. The objective will be to mitigate credit risk and interest rate risk.

[1] The "prudent person" rule 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".

Credit risk is defined as the risk of loss due to the failure of the security issuer or backer and will be mitigated by: limiting investments to the safest types of securities, prequalifying the financial institutions with which the County will do business, diversifying the portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the County, and monitoring the portfolio on a daily basis to anticipate and respond appropriately to a significant reduction in the credit worthiness of any of the issuers.

Market or interest rate risk is defined as the risk that the market value of portfolio securities will fall due to an increase in general interest rates and will be mitigated by: structuring the County's portfolio so that securities mature to meet the County's working capital requirements for ongoing operations; thereby avoiding the need to sell securities on the open market prior to their maturation to meet those specific needs, and periodically restructuring the portfolio to minimize the loss of market value and/or maximize cash flows subject to the constraints described in Section X of this policy.

B. Liquidity: The County's investment portfolio must 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.

To facilitate meeting the County's liquidity requirements, the Director of Finance must ensure that an annual cash budget is prepared and maintained regularly to analyze the future working capital needs of the County. These annual cash budgets will be reviewed and updated at least quarterly and will be part of the quarterly review by the Investment Committee.

C. Return on Investment: The County's investment program shall be designed with the objective of attaining 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 objectives of safety and liquidity described above. However, investment performance shall be continually monitored and evaluated by the Director of Finance and the Investment Committee using the Performance Standards described in Section XIV of this policy.

VI. DELEGATION OF AUTHORITY

A. Authority to manage the County's investment program is granted to the Director of Finance as provided by: Finance Article 95, Section 22F, Annotated Code of Maryland; State Finance & Procurement Article Section 6-222; and Annotated Code of Maryland, Montgomery County Code Article II, Section 20-5.

B. Responsibility for the operation of the investment program is hereby delegated to the Investment Manager, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy.

C. The Investment Manager shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this investment policy. Such procedures must 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 Director of Finance.

2. Procedures should include reference to safekeeping, master repurchase agreements, tri-party custodial agreements, delivery vs. payment, wire transfers, collateral depository agreements, accounting, and banking service contracts.

D. The Investment Manager shall be responsible for all transactions undertaken and shall establish a system of controls that is monitored by the Director of Finance or a designee.

VII. ETHICS AND CONFLICTS OF INTEREST

County employees involved in the investment process must not conduct personal business activity that in any way conflicts with the proper execution of the investment program, or that in any way impairs their ability to make impartial decisions.

The Investment Manager or any other employee designated by the Director of Finance to invest County funds must disclose to the Director of Finance any material financial interests in any financial institution with which they conduct personal business. They must disclose any personal financial/investment position that could be related to the performance of the investment portfolio. The Investment Manager or designee must not undertake any personal investment transactions with employees of the institutional investment departments of firms with whom the County's Department of Finance conducts business.

VIII. AUTHORIZED FINANCIAL INSTITUTIONS

1. The County shall establish and maintain a list of financial institutions and broker/dealers authorized to provide investment services to the Montgomery County Department of Finance for the purchase of short-term investments. Any financial institution and broker/dealer must:

a. be on the published list of the Primary Government Securities Dealers Reporting to the Market Reports Division of the Federal Reserve Bank of New York; and qualified under Securities and Exchange Commission Rule 15C3-1; or

b. be a Securities and Exchange Commission (SEC) registered Government Securities Dealer, and

c. be licensed and registered by the Financial Industry Regulatory Authority (FINRA) and licensed by the State of Maryland, and

d. be approved by the Director of Finance, in writing.

2. This list must be reviewed annually, and more frequently as deemed necessary, to determine which approved dealers continue to comply with the above requirements.

3. All dealers with whom the County conducts business including primary dealers, are required to submit annually to the County their most recent audited financial statements.

4. All dealers and financial institutions with who the County conducts business will receive a copy of the County's current investment policy and a list of employees authorized to transact investment trades on behalf of the County. Each dealer and financial institution will be required to respond in writing that the policy was received, understood, and will be adhered to.

5. The Director of Finance or Designee will make a determination as to whether an agreement and/or contract (for example: a repo agreement) needs to be executed with the financial institution based on the scope of the services and compensation provided. The Director of Finance is authorized to execute that agreement on behalf of the County.

6. In order for the County to use the investment services of commercial banks, the bank 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 designated by the SEC. All banks with which the Department of Finance conducts business must submit to the County, annually, their most recent audited financial statements.

IX. AUTHORIZED AND SUITABLE INVESTMENT SECURITIES

A. Any obligation for which the United States pledges its full faith and credit for the payment of principal and interest.

B. Any obligation that a federal agency or a federal instrumentality issues in accordance with an Act of Congress.

C. Bankers' Acceptances (BA's) of domestic and foreign banks that maintain the highest short term debt rating from one of the NRSROs as designated by either the SEC or the Maryland State Treasurer.

D. Repurchase Agreements (repos) collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities provided a custodian, designated by the County and other than the seller, holds the collateral.

E. Certificates of Deposits or Time Deposits of financial institutions that are chartered in the State of Maryland. The deposit must be interest bearing, collateralized at 102% of the market value and held by a custodian, designated by the County and other than the seller.

F. Money Market Mutual Funds must maintain a net asset value (NAV) of $1.00 at all times and must provide investors with daily liquidity. The fund must be registered with the SEC and operating under the Investment Company Act of 1940, 15 U. S. C. § 80a-1 et seq., as amended; operated in accordance with Rule 2a-7, of the Investment Company Act of 1940, 17 C.F.R. § 270.2A-7, as amended; and have received the highest possible rating from at least one NRSRO.

G. Commercial Paper that received the highest letter and numerical rating by at least two NRSROs as designated by the SEC.

H. Any investment portfolio created under the Maryland Local Government Investment Pool defined under Article 95. Treasurer - In General, Annotated Code of Maryland, Section 22G that is administered by the Office of the Maryland State Treasurer.

I. Brokered Certificates of Deposits: Pursuant to Article 95. Treasurer - In General, Annotated Code of Maryland, Section 22-O, the County is authorized to invest in the Certificates of Deposit Account Registry Program (CDARS).

X. DIVERSIFICATION IN AUTHORIZED AND SUITABLE INVESTMENTS

The County must diversify its investment portfolio to avoid incurring unacceptable risks inherent in over-investing in specific investments, individual financial institutions, or maturities.

If the balance of the County's working capital/investment portfolio drops below a level determined appropriate by the Director of Finance such that adequate diversification becomes difficult to obtain, or that the daily cash needs of the County requires the County to invest for daily liquidity, these maximum percentages may be temporarily suspended by the Director of Finance. To further protect the County, increasing maximum percentages should be directed at traditionally diversified investments such as Money Market Mutual Funds and/or the Maryland Local Government Investment Pool.

A. Diversification by Investment Type	Max. % of Portfolio*
1. U.S. Treasury Obligations	100%
2. U.S. Government Agencies	75%
3. Repurchase Agreements	50%
4. Bankers' Acceptances	25%
5. Money Market Mutual Funds	50%
6. Maryland Local Government Investment Pool	50%
7. Collateralized Certificates of Deposit and Time Deposits (Including Brokered Certificates of Deposit)	25%
8. Commercial Paper	10%

* at time of purchase

B. Diversification by Institution

	Max. % of Portfolio*
1. Approved Broker/Dealers and Commercial Banks (Repurchase Agreements)	30%
2. Money Market Mutual Funds by Fund	25%
3. Bankers' Acceptances by Institution and Country	15%
4. Commercial Banks (Certificates of Deposits - does not include Brokered Certificates of Deposit)	10%
5. U.S. Government Agency by Agency	20%
6. Commercial Paper by Issuer	5%

* at time of purchase

C. Diversification of Maturities

In order to meet the objectives of the County's investment programs, as listed above in Section V of this policy, the majority of the investments of the County must be on a short-term basis (up to 18 months). However, subject to Section XIII, a portion of the portfolio may be invested in instruments with longer maturities (up to 3 years) as long as such action does not jeopardize the adequate safety and liquidity standards of the portfolio and at the same time increases the overall yield of the portfolio. These investments will be limited to U.S. Government and U.S. Agency securities.

XI. COLLATERALIZATION

A. Collateralization will be required on three types of investments: certificates of deposits, time deposits, and repurchase 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. A third party with whom the County has a current custodial agreement must always hold the collateral. Tri-party repurchase agreements are permitted under this policy; therefore, the County and dealer may share, by mutual consent, the same custodian.

C. Acceptable collateral is specified under Section 6-202 of the State Finance and Procurement Article of the Annotated Code of Maryland and further described in Section 20-5c-3 of the Montgomery County Code.

D. The right of collateral substitution is granted, and all associated costs will be paid by the seller (financial institution).

XII. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the County shall be conducted on a delivery-versus-payment basis. Securities will be held by a third party custodian designated by the Director of Finance. A Master Repurchase Agreement signed by the Director of Finance and the appropriate official of the approved broker/dealer or financial institution will govern all repurchase agreements. 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).

Relative to transferred securities in a repurchase agreement investment in which the County is the buyer of the transferred securities, substitution of the transferred securities may not be made without the prior approval of the County.

XIII. MAXIMUM MATURITIES

To the extent possible, the County will match its investments with anticipated cash flow requirements. Unless approved by the Director of Finance, the County will not directly invest in securities maturing more than 18 months from the date of purchase. Furthermore, any investment with a maturity of 12 months to 18 months at the time of purchase requires the notification of the Director of Finance. However, the County may accept long term securities as collateral for its repurchase agreements.

The method for determining the portion of the portfolio that can be invested in longer-term investments (18 months or longer) will be to analyze the investment portfolio for the last two years. Determine the investment balance low point for each of those years, and then compute the average. The maximum level of longer-term investments will be approximately 50% of this average for investments with a maturity of 18 months to 24 months and 25% of this average for investments with a maturity of 24 months to 36 months. This will be a rolling process to be performed at the end of each fiscal year on June 30th.

XIV. 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 monthly basis to the Director of Finance and to the Investment Committee at its quarterly meetings.

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. INTERNAL CONTROL

The Director of Finance shall establish a system of internal controls designed to prevent loss of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees 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 for the County by an external independent auditor.

XVII. REPORTING REQUIREMENTS

A. The Investment Manager shall generate monthly reports for the Director of Finance summarizing the investment activity, past and current portfolio balances, and relative rates of return.

B. A statement of the market value of the portfolio shall be issued at least annually as part of the County's Comprehensive Annual Financial Report. The review should be consistent with the General Accounting Standards Board (GASB) Statements 31 and 40.

C. The County will establish an Investment Committee that is required to meet on a quarterly basis to review the current investment portfolio, review the portfolio performance relative to the benchmarks, review the County's cash budgets/forecasts, and set up guidelines for future investments. The Committee members will be the County's Director of Finance, the Investment Manager and at least three other County employees so designated by the Director of Finance.

XVIII. INVESTMENT POLICY ADOPTION

The County's investment policy shall be adopted by Resolution by the Montgomery County Council and a certified copy of the current investment policy must be provided to the Maryland State Treasurer. The Investment Committee shall review the policy on an annual basis. The Montgomery County Council must approve any modification made to this investment policy (by resolution) and a certified copy of the changed policy must be forwarded to the Maryland State Treasurer.

APPROVALS

Joseph F. Beach, Director of Finance — Date: 9/9/14

Timothy L. Firestine, Chief Administrative Officer — Date: 9/11/14

Isiah Leggett, County Executive — Date: Sept 17, 2014