

**RESOLUTION 2009-27**

**A RESOLUTION OF THE COMMISSIONERS OF ST. MICHAELS, MARYLAND TO ADOPT  
AN INVESTMENT POLICY FOR THE TOWN OF ST. MICHAELS**

WHEREAS, the Commissioners of St. Michaels, Maryland (hereinafter "the Commissioners"), a body corporate and politic and a political subdivision of the State of Maryland (the "Town"), hereby declares the policies contained herein to be the official Investment Policy of the Town; and

WHEREAS, it is the policy of The Commissioners of St. Michaels, Maryland (hereinafter referred to as "the" Town) to invest public funds in a manner which will conform to all statutes of the State of Maryland and the Charter of the Town of St. Michaels and which will obtain the best return on public funds invested.

WHEREAS, the practice known as the "prudent person" rule, which is defined in Section III of this Policy, shall be applied by the Investment Officer in all transactions involving Town funds.

**SECTION 1:**

**I. SCOPE**

This investment policy applies to all financial assets of the Town. These funds are accounted for in the Town's annual financial statement and include:

- A. General Fund
- B. Capital Project Funds (Including Bond Funds)
- C. Enterprise Funds
- D. Debt Service Funds
- E. Special Revenue Funds
- F. Any new funds as provided by Town Ordinance

It is understood that all General Fund Operating Accounts and all savings accounts will be maintained in a fully accredited bank in the State of Maryland and all accounts will contain less than the dollar amount that is fully protected and insured under the FDIC.

This policy does not cover the financial assets of any Town retirement or pension plan for which a separate investment policy governs such assets.

**II. PRUDENCE**

- A. The practice known as the "prudent person" rule shall be applied by the Investment Officer in all transactions involving Town funds. This 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 level."
- B. A person acting in the capacity of Investment Officer who performs their duties in accordance with written procedures and the Investment Policy and who exercise due diligence shall not be held personally responsible for an individual security's credit risk or market price change, provided deviations from expectations are reported in a timely fashion

and appropriate action is taken to control adverse developments.

**III. 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. To attain this objective, the Town will diversify its investments by investing funds among a variety of financial institutions and securities offering independent returns. Collateralization, third-party safekeeping, and delivery versus payment (DVP) will be required.
- 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, plus a reasonable amount for unanticipated needs.
- C. **Yield:** The Town's investment portfolio will be designed to attain a favorable rate of return throughout budgetary and economic cycles, with due regard for minimizing risks and cash flow needs. The benchmark yield will be the six-month U.S. Treasury bill.

**V. DELEGATION OF AUTHORITY AND INTERNAL CONTROLS**

- A. Authority to manage the Town's investment program is derived from Article 5 of the Charter of the Town of St. Michaels, Maryland, and Article 95, §22F and State Finance and Procurement Article, §6-222 of the Annotated Code of Maryland.
- B. The Town Clerk/Manager shall develop and maintain written administrative procedures for the operation of the investment program consistent with this policy. Such procedures shall include but not be limited to:
  - 1. Explicit delegation of authority to persons responsible for investment transactions, provided that no person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Town Clerk/Manager; and
  - 2. Reference to safekeeping, delivery-versus-payment, repurchase agreements, wire transfer agreements and banking service agreements.
- C. The Town Clerk/Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials (designated Investment Officers). These internal 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 Investment Officers of the Town. An audit of internal controls of the investment operation will be part of the annual financial audit conducted by an outside independent audit company.

**VI. ETHICS AND CONFLICTS OF INTEREST**

Officials and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment officials shall disclose to

the Town Ethics Commission any material financial interest in financial institutions that conduct business with the Town. They shall further disclose any large personal financial/investment positions that could be related to the performance of the Town's portfolio. Town employees and officers shall subordinate their personal investment transactions to those of the Town, particularly with regard to the time of purchases and sales.

**VII. DELINEATION OF EXPRESS STATE LAW REQUIREMENTS TO WHICH THE TOWN ADHERES**

- A. The Town will invest only in those types of securities described in State Finance and Procurement Article, §6-222(a) or Article 95, §22N of the Annotated Code of Maryland.
- B. All investments made by the Town will comply with the standards of State Finance and Procurement Article, §6-222(d).
- C. The Town is prohibited from borrowing money for the sole purpose of investment.
- D. The Town's Investment Officer is prohibited from investing public funds in a manner inconsistent with this adopted policy.

**VIII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

- A. The Investment Officer will maintain an approved list of qualified financial institutions that the Town Commissioners have authorized to provide financial or investment services to the Town. Primary government securities dealers ("primary dealers") that regularly report to the Federal Reserve Bank of New York will be eligible to apply for inclusion on the approved list as well as regional dealers, provided they meet the following criteria and provide adequate proof thereof:
  - 1. have been in business for more than five years;
  - 2. have a net capital position in excess of \$10 million;
  - 3. are qualified under Securities and Exchange Commission Rule 15C-315C3-1 (uniform net capital rule);
  - 4. are headquartered or have a branch office in the State of Maryland;
  - 5. carry adequate insurance coverage including liability, errors and omissions, and workers' compensation (if applicable); and
  - 6. are a Member of National Association of Securities Dealers (NASD).
- B. The Investment Officer will conduct an annual review of the financial condition and the registrations of all approved broker-dealers in order to determine whether they should remain on an approved list. In addition to other requirements, the Town will give all approved broker-dealers a copy of the Town's current Investment Policy and a certification form.
- C. The completion and submission of the certification form by an approved broker-dealer will constitute proof that it has received the Town's investment policy, read it, and intends to comply with the policy. The Investment Officer will keep a current audited annual financial statement on file for each approved broker-dealer with which the Town does business.

**IX. INVESTMENT STRATEGY, REQUIREMENTS AND DIVERSIFICATION IN AUTHORIZED INVESTMENTS**

- A. The Town's investment strategy is, in general, passive.
- B. Diversification shall mean that no more than five percent (5%) of the Town's total investment portfolio will be invested in a single security type or with a single institution with the exception of U.S. Treasury Securities and authorized pools. The Town will diversify its investments by security type and institution in the following manner:
  - 1. U.S. Treasury Obligations – 100%
  - 2. Agencies and Instrumentalities – 80%
  - 3. Repurchase Agreements – 75%
  - 4. Bankers' Acceptances – 20%
  - 5. Muni's and Muni Funds – 20%
  - 6. Commercial Paper – 10%
  - 7. Money Market Funds – 30%
  - 8. Local Government Investment Pool – Less than 10% of total LGIP Assets
- C. If/when funds are invested outside of authorized investment pools, steps will be taken to protect the funds from market price losses resulting from rising interest rates. Unless the funds are matched to a specific cash flow item and in addition to adhering to the requirements stated elsewhere in this policy, the Town will not invest directly in securities maturing more than five (5) years from the date of purchase. The Town Clerk/Manager is charged with the responsibility of producing a market report on such investments showing activity and returns on the investment. This report shall be a part of the Town's Annual Financial Report and shall include performance, number of trades (when applicable) and interest earnings.

**X. AUTHORIZED INVESTMENT INSTRUMENTS**

- A. The Investment Officer may exercise discretion in investing Town funds among the following instruments permitted by the State Finance and Procurement Article, § 6-222 of the Annotated Code of Maryland:
  - 1. Any obligation for which the United States has pledged its full faith and credit for the payment of interest and principal;
  - 2. Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress;
  - 3. Any repurchase agreement collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities, provided the collateral is held by a custodian, other than the seller, designated by the Town.
  - 4. Any bankers' acceptance 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 United States Securities and Exchange Commission or the Treasurer;
  - 5. With respect to amounts treated by the Internal Revenue Service as bond sale proceeds only, bonds, notes, or other obligations of investment grade in the highest quality letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the United States Securities and Exchange Commission issued by or on

behalf of this or any other state or any agency, department, county, municipal or public corporation, special district, authority, or political subdivision thereof, or in any fund or trust that invests only in securities of the type described in this paragraph;

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 United States Securities and Exchange Commission, provided that such commercial paper may not exceed 10% of the total investments made by the Investment Officer under this subsection;
  7. Any money market mutual fund that:
    - i. are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, 15 U.S.C. § 80a-1 et seq., as amended;
    - ii. are operated in accordance with Rule 2A-7 of the Investment Company Act of 1940, 17 C.F.R. § 270.2A-7, as amended; and
    - iii. have received the highest rating from at least one nationally recognized statistical rating organization as designated by the United States Securities and Exchange Commission;
  8. Any investment portfolio created under the Maryland Local Government Investment Pool defined under Article 95 § 22G of the Annotated Code of Maryland that is administered by the State Treasurer.
- B. The proceeds of bonds, notes or other evidences of obligations of the Town shall be invested in accordance with, and subject to any limitations set forth in, Maryland laws and, to the extent applicable, federal law.

#### **XI. COLLATERALIZATION**

- A. Collateralization will be required on two types of investments: certificates of deposit and repurchase (and reverse purchase) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be at least 102% of market value of principal and accrued interest.
- B. Collateral will always be held by a third party with whom the Town has a current custodial agreement.
- C. Acceptable collateral is that which is specified under Title 6, Section 6-202 of the State Finance Procurement Article of the Annotated Code of Maryland.

#### **XII. SAFEKEEPING AND CUSTODY**

All security transactions, including collateral for repurchase agreements, entered into by the Town shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Town Clerk/Manager. The Town will require broker trade confirmations for all trades. All securities held by the custodian shall be in the name of the Commissioners of St. Michaels, and will be evidenced by safekeeping receipts. All repurchase agreements will be governed by a Master Repurchase Agreement signed by the appropriate officials of the Town.

#### **XIII. INVESTMENT POLICY ADOPTION**

The Town's Investment Policy (including the Glossary which is Attachment "A" to this Resolution 2009-27) shall be adopted by Resolution of The Town Commissioners of St.

Michaels. The policy shall be reviewed annually, or as the need arises, by The Commissioners of St. Michaels. Modifications to this Policy must be presented in writing to the Town and approved by a majority of the Town Commissioners. All changes must be in compliance with the Annotated Code of Maryland and the Town.

SECTION 2

BE IT FURTHER RESOLVED that this Resolution shall take effect upon the date of its adoption.

THIS RESOLUTION 2009-27 HAVING BEEN PASSED by the following yea and nay vote of The Commissioners of St. Michaels on the 16<sup>th</sup> day of December, 2009 at 6:30 o'clock p.m. in the meeting room of the Edgar M. Bosley, Jr. Building, 300 Mill Street, St. Michaels, Maryland.


Brady	-	<u>yea</u>
Clark	-	<u>yea</u>
Dinkel	-	<u>yea</u>
Hunt	-	<u>yea</u>
Snyder	-	<u>yea</u>

I HEREBY CERTIFY that the above Resolution was passed by a yea and nay vote of The Commissioners of St. Michaels on the 16<sup>th</sup> day of December, 2009.

ATTEST:

  
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CHERIL S. THOMAS,  
Town Clerk/Manager

THE COMMISSIONERS OF ST. MICHAELS

By:  (SEAL)  
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Michael W. Brady, President

**TOWN OF ST. MICHAELS INVESTMENT POLICY GLOSSARY  
ADOPTED DECEMBER 16, 2009AS ATTACHMENT "A" TO RESOLUTION 2009-27**

<b>BANKERS' ACCEPTANCE:</b>	A draft, bill or exchange by a bank or trust company. Both the issuer and the accepting institution guarantee payment of the bill.
<b>COLLATERAL:</b>	Securities, evidence of deposit or other property which a borrower pledges to secure a loan. Also refers to securities pledged by a bank to secure deposits of public monies.
<b>COMMERCIAL PAPER:</b>	An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.
<b>CERTIFICATE OF DEPOSIT:</b>	A time deposit with a specific maturity evidenced by a certificate.
<b>DELIVERY-VERSUS-PAYMENT:</b>	One of two methods for delivery of (DVP) securities. DVP is delivery of securities with an exchange of money for the securities. This is different from delivery-versus-receipt in which a signed receipt is exchanged for securities.
<b>DIVERSIFICATION:</b>	Dividing investment funds among a variety of securities offering independent returns.
<b>FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):</b>	A federal agency that insures bank deposits currently up to \$250,000 per deposit.
<b>INVESTMENT OFFICER:</b>	The Town Clerk/Manager or such other person (s) so designated by the Town Commissioners.
<b>LIQUIDITY:</b>	A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.
<b>LOCAL GOVERNMENT INVESTMENT POOL (LGIP):</b>	The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.
<b>MONEY MARKET</b>	The market in which short-term debt instruments (e.g., bills, commercial paper, bankers' acceptance) are issued and traded.
<b>REPURCHASE AGREEMENT:</b>	A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security buyer in effect lends the seller money for a short period of the agreement and the terms of the agreement are structured to compensate him for this.

S.E.C. RULE 15C3-1  
(Uniform net capital rule):

Securities and Exchange Commission requirement that member firms as non-member broker-dealers in securities maintain maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio.

TREASURY BILLS:

A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

TREASURY BOND:

Long term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES:

Intermediate term coupon bearing U.S. Treasury securities having initial maturities of one to ten years.

YIELD:

The rate of annual income return on an investment, expressed as a percentage.