



# ADMINISTRATIVE PROCEDURE

## INVESTMENT POLICY AND PROCEDURES

3100

Procedure No.

November 1, 1999

Date

I. **PURPOSE:** The purpose of these procedures is to establish the Board of Education of Prince George's County's (the Board) operational policy for investments; scope, objectives, delegation of authority to invest and standards of prudence to be applied in investments; specify internal controls to monitor the investments portfolio; and identify reporting, bidder eligibility standards, bidding practices, investment limitations and safeguarding requirements.

II. **POLICY:**

A. As prescribed in Board of Education Policy 3100, dated April 16, 1998, it is the policy of the Board to invest public funds in a manner, which will provide the highest investment return with the maximum security while meeting daily cash flow demands and conforming to all State and local statutes governing the investment of public funds.

B. The Board will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation.

III. **SCOPE:**

The investment policy applies to the investment of all unexpended or surplus funds of the Board. These funds are accounted for in the Board of Education of Prince George's County's Comprehensive Annual Financial Report and include: the Current Expense Fund, School Construction Fund, Food and Nutrition Service Fund and the Group Life and Health and Vehicle Self Insurance Funds, and other funds that may be created from time to time.

IV. **DEFINITIONS:**

A. Annual Financial Audit – the annual audit performed by independent auditors on the financial statements of the Board on which they express an opinion based on their audit.

B. Banker's Acceptance – an instrument in the form of a draft, bill, or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the instrument.

C. Banks – institutions that are incorporated or authorized to operate under Federal law as bank or incorporated under the laws of the State of Maryland as a State bank, trust company, or savings bank.



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- D. Certificates of Deposit – a certificate issued by a commercial bank or savings and loan institution as evidence that a certain amount of money has been deposited for a fixed period of time and will be received with interest at maturity. The certificate specifies the amount of deposit, the date on which it matures, the interest rate, and the method of calculating the interest.
- E. Closed-End Management Investment Company – a management investment company that operates in much the same manner as a conventional corporation. The closed-end fund will issue a fixed number of shares. The shares may be of several classes. The shares are bought and sold in the secondary market place. The market price of the shares is determined by supply and demand, not by their net asset value.
- F. Commercial Paper – an unsecured promissory note with a fixed maturity of no more than 270 days. Commercial paper is normally sold at a discount from face value.
- G. Custodial Agreement – an agreement between an investor and the third party holder of collateralized securities. The agreement specifies ownership and types of securities that could be delivered to the custodian and the appropriate confirmation and audit trails thereof. The agreement lists the names of signatures of persons authorized to give verbal or written instructions on the collateral.
- H. Delivery-Versus-Payment – the investor’s cash is not wired transferred to a financial institution until the agreed collateral is delivered and received by a third-party custodian.
- I. Derivatives – a financial instrument created from or whose value depends on (or is derived from) the value of one or more underlying assets, such as securities, currencies or commodities, indexes of asset values or interest rates. It is a security or contract that derives its value from another security or contract. Examples of derivatives: collateralized mortgage obligations (CMOs), interest-only (IOs), and principal only (POs), forwards, futures, currency and interest rate swaps, options, floats/inverse floaters, and caps/floors/collars.
- J. Examining Authority – for purposes of U.S. Security and Exchange Commission rule 15c3-1, the National Securities Exchange or National Securities Association of which the broker or dealer is a member. If the broker or dealer is a member of more than one such self-regulatory organization, the examining authority is the organization designated by the



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Commission as the Examining Authority for such broker or dealer. If the broker or dealer is not a member of any such self-regulatory organization, then the examining authority is the Regional or District Office of the Commission where such a broker or dealer has its principal place of business.

- K. Financial Institutions – any bank or brokerage firm registered with the U.S. Securities and Exchange Commission (SEC).
- L. Independent Auditor – the certified public accounting firm retained by the Board to perform the annual financial audit of the financial statements.
- M. Investment Grade – a long-term debt rating, which indicates the ability to repay principal and interest on a timely basis. Investment grade is a letter credit rating, which varies in range from acceptable to very high.
- N. Investment Officials – the Treasurer, the Chief Divisional Administrator for Budget, Finance, and Management, the Director of Financial Services, the Assistant Treasurer, and the employees of the Office of the Assistant Treasurer to whom the Chief Divisional Administrator for Budget, Finance, and Management has in writing delegated the authority to conduct investment transactions including electronic transfers of funds.
- O. Leverage – the amplification in the return earned on a portfolio when an investment is financed with borrowed money.
- P. Mark-to-Market – on longer-term repurchase agreements, the market value of the underlying securities can deteriorate unless the collateral is marked-to-market regularly. The collateral is adjusted in response to market value changes to ensure that the investor's principal and accrued interest always is on hand with the custodian.
- Q. Master Repurchase Agreement – a legal agreement standardized by the Public Securities Association (PSA) between investor and financial institution. The master agreement governs each repurchase (“repo”) transaction, defines the nature of the transaction, identifies the relationship between the parties, established normal practices regarding ownership and custody of the collateral securities during the term of the investment, and provides for remedies in the event of a default by either party.
- R. Nationally Recognized Statistical Rating Organization – any of six national credit rating services recognized by the U.S. Securities and Exchange Commission:



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1. Thompson Bankwatch (specializes in bank ratings)
  2. Standard & Poors
  3. Moody's
  4. Fitch
  5. International Bank Credit Analysis (IBCA, Ltd.)
  6. Deffenfeld's
- S. Open-end Management Investment Company – a management investment company that constantly issues new shares. Portfolio holdings are redeemable on any business day at the net asset value.
- T. Pooled Investments – an investment that pools investor's or shareholders' money and invests it towards a specific goal. The pooling of funds can allow for a diversified portfolio at a reduced cost.
- U. Repurchase Agreement – a money market instrument that is a secured transaction between an investor and an issuing financial institution. The investor, who initiates the transaction, exchanges cash for control collateralized securities, with an agreement between the parties that on a future date, the financial institution will repurchase the securities. The investor receives interest during the term of the repurchase agreement, as agreed to at the time of the investment transaction.
- V. Reverse Repurchase Agreement – a repurchase agreement initiated by a lender of funds. It is the mirror image of a repurchase agreement. The borrower/investor sells the securities to a dealer with an agreement to buy them back for a specific price at a specific time. Usually conducted in order to avoid liquidating a portfolio to meet an immediate cash requirement.
- W. Time Deposits – an interest bearing deposit at a commercial bank or savings institution that must be held for a specified time.
- V. **PROCEDURES:** The investment activities will be carried in accordance with the procedures delineated below.
- A. Objectives



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The primary objectives of the Board's investment activities shall be:

1. Safety – the preservation of capital in the overall portfolio and the protection of the investment principal. To attain this objective, investments shall be diversified by specific security types and individual financial institutions to reduce risk. Third-party collateralization and safekeeping, and delivery-versus-payment will be required.
2. Liquidity – to remain sufficiently liquid to meet disbursement requirements, which might be reasonable anticipated.

The secondary objective of the Board's investment activities shall be:

Yield – maximize investment return consistent with risk limitations and prudent investment policies described in this policy.

### B. Standards of Care

1. Prudent Person Rule and Indemnification
  - a. The standard of prudence to be applied by the investment officials 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. The investment officials, acting in accordance with written policies and procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviation are reported immediately and the appropriate action is taken to control adverse developments.
2. Source of Authority



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- a. In accordance with Article 95, Section 22, of the Annotated Code of Maryland, “Notwithstanding any provision of a local law or ordinance, the...county school boards are hereby severally directed, authorized and empowered to invest, redeem, sell, exchange and reinvest all unexpended or surplus moneys in any fund or account of which they have custody or control in obligations or repurchase agreements in accordance with §6-222 of the State Finance and Procurement Article” (Appendix A).
  - b. The responsibility for conducting investing transactions rests with the Treasurer of the Board of Education through the Office of the Assistant Treasurer, an organizational unit in the Financial Services Department and the Budget, Finance, and Management Division.
3. Ethics and Conflicts of Interest
- a. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Board.
  - b. As employee of the Board, investment officials shall act according to the Ethics Regulations regarding conflicts of interest, gifts and financial disclosures set forth in Board Policy Numbers 0400, 0409, and 0410.
- C. Investment Strategy
1. The CDA for Budget, Finance, and Management, the Director of Financial Services, and the Assistant Treasurer will meet in June of every year to formulate the investment strategy for the ensuring



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fiscal year and review and amend the operational investment policy and procedures, if necessary.

2. Investment strategy is conducted under the auspices of an Investment Committee, consisting of the CDA for Budget, Finance, and Management as Chairman, the Director of Budget, the Director of Financial Services, the Employee Services Officer, the Assistant Treasurer, and the Risk Manager. The annual investment strategy will be reviewed and approved by the Investment Committee.
3. The Director of Financial Services and the Assistant Treasurer will meet quarterly to discuss the performance of the current investment portfolio and to develop adjustments to the strategy for the ensuing quarter. The Investment Committee's approval is required for variances from the annual plan.

#### D. Authorized Financial Dealers and Institutions

1. The Assistant Treasurer will maintain a list of financial institutions and security brokers/dealers, which are approved for investment purposes based on the following criteria:
  - a. Repurchase Agreements – The Board may invest in repurchase agreements from primary government dealers, other securities dealers, and dealer banks that have a short-term or long-term debt rating of investment grade by at least one nationally recognized statistical rating organization as designated by the SEC.
  - b. Certificates of Deposits and Time Deposits – The Board may invest in certificates of deposit and time deposits from national or state-chartered banks and savings and loans located in Maryland that have a short-term or long-term credit rating of investment grade by at least one nationally recognized statistical rating organization as designated by the SEC or have equity in excess of assets of 5.0%.
  - c. Pooled Investments – The Board may invest in any pooled investment that qualifies under Section F.1.
  - d. Other Investments listed in Section F of these procedures.



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2. In addition to the investments described in Section D.1.a through D.1.d, the Board may purchase other investments from the financial institutions approved in Section D.1.a or which qualify under the modified SEC Net Capital Rule 15c3-1 (Appendix B) and meet Federal Deposit Insurance Corporation (FDIC) and other regulatory capital guidelines for adequate capitalization. If they do not have an investment grade rating as required by Section D.1.a, banks are also required to have equity in excess of assets of 3.0% and other financial institutions must have equity in excess of assets of 1.5% or a minimum capital requirement of \$10,000,000.00 and at least five years of operation. Investments, such as banker's acceptances and commercial paper, may be purchased directly from the insurer of the investment if the investment meets the credit quality standards for the investment type listed in these procedures under Section F.
  3. All financial institutions and brokers/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:
    - a. audited financial statements.
    - b. proof of National Association of Securities Dealers (NASD) certification.
    - c. certification of having read this Investment Policy.
  4. An annual review of the financial condition and regulation of qualified bidders will be conducted by the Assistant Treasurer.
- E. Competitive Bidding
1. Investments shall be awarded on a competitive bid basis to the institution whose percentage yield produces the greatest interest income to the Board and complies with safekeeping requirements and investment limitations. The institution's responsiveness in providing timely bids is second in consideration to yield.
  2. A competitive bid constitutes a minimum of three qualified bidders. 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. Competitive bidding is not required for pooled investments.



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- F. Authorized Investments: Consistent with the GFOA Recommended Practice on State Statutes Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by Maryland State law, where applicable:
1. U.S. Government Securities – These securities include obligations for which the United States has pledged its full faith and credit for the payment of principal and interest.
  2. U.S. Agency Securities – Obligations that a federal agency or a federal instrumentality issues in accordance with an Act of Congress.
  3. Repurchase Agreements – Entered into with financial institutions listed under Section D of these procedures. Institutions must sign master repurchase agreements and maintain collateralization of at least 102% of the principal amount and comply with other safekeeping and collateral requirements.
  4. Certificates of Deposit and Time Deposits – Maintain collateralization that equals or exceeds the amount of the deposit not federally insured and comply with other safekeeping and collateral requirements.
  5. Banker's Acceptances – Issued and 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 the SEC.
  6. Commercial Paper – Issued by a company 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 the SEC.
  7. Pooled Investments
    - a. Any investment portfolio created under the Maryland Local Government Investment Pool defined under Article 95, Section 22G of the Annotated Code of Maryland that is administered by the State Treasurer.
    - b. Money Market Mutual Funds registered with the SEC under the Investment Company Act of 1940, 14 U.S.C. Section



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80(A), as amended, and operated in accordance with Rule 2A-7 of the Investment Company Act of 1940, 17 C.F.R. Section 270 2A-7, as amended, and that have received the highest possible rating from at least one nationally recognized statistical rating organization as designated by the SEC.

- c. Any open-end or closed-end management type investment company or investment trust registered under the provisions of the Federal Investment Company Act of 1940, 15 U.S.C. Section 80A-1, as amended, the portfolio of which is limited to direct obligations of the U. S. government and to repurchase agreements fully collateralized by U.S. government obligations, and that takes delivery of that collateral, either directly or through an authorized custodian.

#### G. Investment Limitations

1. Investment maturities shall be adequate to cover anticipated cash flow requirements. Investments shall be for a maximum maturity of one year.
2. Banker's Acceptances shall not exceed a six-month maturity and shall meet eligibility requirements of the Federal Reserve System.
3. Maximum percentages of the portfolio have been established based on credit quality risks of investment instrument classes. These percentages apply at the time the investment is purchased.

#### Maximum

- |    |  |      |
|----|--|------|
| a. | U.S. Government Securities               | 100% |
| b. | U.S. Agency Securities                   | 90%  |
| c. | Repurchase                               | 80%  |
| d. | Certificate of Deposit and Time Deposits | 80%  |
| e. | Bankers' Acceptances                     | 50%  |
| f. | Commercial Paper                         | 5%   |



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- g. Pooled Investments 100%
4. Type of institution (individual institution's maximum percent limitation of the portfolio at time of investment purchase):
- a. U.S. banks and savings and loan associations for Banker's Acceptances, Certificates of Deposits, Time Deposits and Repurchase Agreements are limited to a maximum dollar value of 30% of the total investment portfolio. This limit may be overridden for the overnight investment of funds remaining at the end of the day with the primary collection and disbursement banks.
  - b. Foreign banks for Bankers' Acceptances are limited to a maximum dollar value of 5% of the total investment portfolio.
  - c. Brokers/Dealers for Repurchase Agreements are limited to a maximum dollar value of 30% of the total investment portfolio.
  - d. Commercial paper issuers are limited to a maximum dollar value of 5% of the total investment portfolio.
5. Total investments in a financial institution shall not exceed 25% of that institution's equity (e.g., stockholder's equity, and partners' equity).
6. Pooled Investment Size – The total investment in a pooled investment shall not exceed 25% of the fund's net assets.
7. Liquidity – A minimum of \$5million of the Board's portfolio shall be in liquid investments consisting of any of the following:
- a. Pooled investments allowing same day withdrawals.
  - b. Overnight Repurchase Agreements.
  - c. Other authorized investments maturing in one day.
8. Reverse Repurchase Agreements – The Board shall not leverage the portfolio through the use of reverse repurchase agreements, except



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where reverse repurchase agreements are executed for the purpose of providing liquidity for unanticipated cash requirements and provided that a Master Repurchase Agreement has been signed with a financial institution, which has been authorized under Section D.1.a.

9. Derivatives – Investments in derivative products are prohibited.

#### H. Collateralization

1. Collateral shall be maintained in excess of Federal insurance coverage for all Board bank accounts, certificates of deposit, and time deposits. Acceptable collateral is specified under Section 6-202 of Title 6 of the State Finance and Procurement Article of the Annotated Code of Maryland.
2. Collateralization is required for all repurchase agreements of at least 102% of the principal amount. Acceptable collateral shall consist of obligations of the United States, its agencies or instrumentalities. Fixed-rate mortgage backed securities are acceptable collateral. Neither adjustable rate mortgages nor collateralized mortgage obligations are acceptable.
3. The collateral shall be held by an independent third-party as specified under Section I.

#### I. Safekeeping and Custody

1. A current custodial agreement is required between the Board and the appointed independent third-party custodian.
2. The custodian may not be a counterpart to the transaction unless the custodian is the Board's primary bank and the securities purchased from the bank, including collateral for repurchase agreements, certificates of deposit, and time deposits, are held in the Board's name and account.
3. The Federal Reserve Bank of Richmond, functioning under the rules in Operating Circular Nos. 16 and 19, may be used as a custodian for pledged collateral on deposits and certificates of deposit.

#### J. Reporting



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1. Monthly Investment Policy Compliance Reports reflective of the investment activity will be submitted by the Assistant Treasurer to the Director of Financial Services and the Chief Divisional Administrator for Budget, Finance, and Management for review and approval with final distribution to Board members and Executive Council. The report will be submitted by the 15<sup>th</sup> business day of the month following the month reported. The report will include the following:
  - a. Listing of individual securities held at the end of the reporting period.
  - b. Listing of investment by maturity date.
  - c. The percentage of the total portfolio, which each type of investment represents.
2. As a minimum, the Board shall mark-to-market the portfolio on a semi-annual basis for reporting purposes and portfolio evaluation. The market values shall be obtained from a reputable and independent source.
3. The investment portfolio will be managed in accordance with the parameters specified within this portfolio. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to appropriate benchmarks on a regular basis.

#### K. Internal Controls

The Assistant Treasurer, under review and approval of the Director of Financial Services, shall establish a system of internal controls, which shall be documented in writing. An independent auditor will review the investment program as a part of the annual financial audit of the Board.

#### VI. **RELATED PROCEDURES:** None.

#### VII. **MAINTENANCE AND UPDATE OF THESE PROCEDURES:** These procedures originate with the Financial Services Department, Division of Budget, Finance, and Management. Regular review and updating (if appropriate) will occur annually in the month corresponding to the effective day or whenever changes to legal and regulatory requirements so dictate.



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VIII. **CANCELLATIONS AND SUPERSEDURES:** None. This is a new Administrative Procedure.

IX. **EFFECTIVE DATE:** November 1, 1999.

Approved by:  
Iris T. Metts  
Chief Executive Officer

Attachments: 1 and 2

Distribution: Lists 1, 2, 3, 4, 5, 6, 10, and 11