Maryland Transportation Authority	**BOARD POLICY: INVESTMENT MANAGEMENT** Policy Code: B-MDT-FINI-0006-00 Effective Date: 8-25-2016

I. Purpose and Scope

The purpose of this investment policy is to establish guidelines for the safeguarding and efficient management of the Maryland Transportation Authority's cash and investments. This policy applies to all accounts, including those established under the Trust Agreement.

II. References

Title 4 of the Transportation Article, Annotated Code of Maryland (as amended)

Title 6 of the State Finance and Procurement Article, Annotated Code of Maryland (as amended)

Second Amended and Restated Trust Agreement between the Maryland Transportation Authority and the Bank of New York Mellon (dated as of September 1, 2007, as amended), Section 5.02 Investment of Monies, and applicable provisions of any governing trust agreements (Trust Agreements).

Governmental Accounting Standards Board (GASB)

Internal Revenue Code of 1986, Arbitrage Rebate Regulations (as amended)

Uniform Commercial Code

Resolution 2011-02

III. Policy

Prudence

Policy Statement 1. All investment balances shall be invested with prudence considering the probable safety of the capital as well as the probable income derived.

1.1. Investments and investment practices shall be in compliance with applicable provisions of the Annotated Code of Maryland and to the extent applicable to the Authority, guidelines established by the State Treasurer and the Governmental Accounting Standards Board (GASB). Article 95, Section 22 of the Annotated Code of Maryland does not govern the investment of the Maryland Transportation Authority's revenues. This State law applies to political subdivisions, municipal corporations and other specified governmental entities,

but not to agencies or units of the government of the State of Maryland. Section 4-311 of the Transportation Article of the Annotated Code of Maryland gives the MDTA statutory authority to enter into a Trust Agreement and to pledge its revenues. Permitted investments are primarily driven by the definition of Investment Obligations contained in the Authority's Second Amended and Restated Trust Agreement dated as of September 1, 2007, with some additional consideration of any other obligations that constitute legal investments for State agencies such as the Authority.

1.2. The CFO or Director of Treasury Management shall report to the Finance Committee any material deviations from this policy.

1.3. The CFO or Director of Treasury Management shall immediately report to the Finance Committee any security holding credit ratings downgrades initiated by at least two Nationally Recognized Statistical Ratings Organizations (NRSROs).

Ethics

Policy Statement 2. Employees involved in the investment process shall refrain from personal business activity that may create conflicts of interest. Furthermore, employees:

2.1. Are prohibited from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Authority.

2.2. Must provide annual financial disclosures in accordance with the requirements of the State Ethics Commission, and as otherwise required by law.

Delegation of Authority

Policy Statement 3. The Authority's power to manage investment of public Authority funds is subject to any applicable State and federal law, including Title 4 of the Transportation Article of the Annotated Code of Maryland and Title 6 of the State Finance and Procurement Article of the Annotated Code of Maryland, the Authority's Master Trust Agreement, Article V, Section 5.02 and applicable provisions of any other Authority Trust Agreements.

3.1 Responsibility for the operation of the investment program has been delegated by resolution to the CFO and certain Directors of the Finance Division, who 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:

3.1.1. Explicit designation of the person(s) responsible for investment transactions.

3.1.1.1. No person may engage in an investment transaction except as provided under the terms of this policy and procedures established by the CFO.

3.1.2. To the extent not covered by this policy, procedures shall include reference to:

3.1.2.1. Safekeeping
3.1.2.2. Repurchase Agreements
3.1.2.3. Wire Transfer Agreements
3.1.2.4. Collateral Depository Agreements
3.1.2.5. Banking Service Agreements
3.1.2.6. Competitive Bidding Procedures
3.1.2.7. Cash Flow Requirements

Finance Committee

Policy Statement 4. The Authority's Finance Committee will serve in an advisory capacity to the CFO in its periodic review of the Authority's Investment Policy, investment strategy, practices and portfolio performance. The Finance Committee is responsible for:

4.1. Reviewing and updating the Investment Policy at least annually.

4.2. Monitoring the investment transactions to assure that adequate controls are in place.

4.3. Assuring that the Authority is in compliance with the Investment Policy.

4.4. Meeting periodically to deliberate economic outlook, portfolio diversification and maturity structure, cash flow forecasts, potential risks and the interest rate outlook.

Allowable Investments

Policy Statement 5. Permitted investments include the following instruments:

5.1. U.S. Treasury Obligations - Securities issued or backed by the full faith and credit of the United States Treasury.

5.2. Federal Agency Obligations - Securities issued by or backed by the full faith and credit of any United States Government agency or government sponsored enterprise with credit ratings in the highest category assigned to that obligor, but in no event less than the double-A category. Includes, but is not limited to:

5.2.1. Fannie Mae
5.2.2. Freddie Mac
5.2.3. Federal Home Loan Bank

5.2.4. Federal Farm Credit Bank
5.2.5. Federal Intermediate Credit Banks
5.2.6. Federal Land Banks
5.2.7. Federal Bank of Cooperatives
5.2.8. Export-Import Bank of the United States
5.2.9. Federal Financing Bank
5.2.10. Federal Housing Administration
5.2.11. Farmers Home Administration

5.3. Repurchase Agreements - The Authority may purchase U.S. Treasury Obligations or Federal Agency Obligations under a repurchase agreement provided that the following conditions are met:

5.3.1. The term to maturity of repurchase agreements invested from accounts created by Trust Agreements shall be limited as follows:

5.3.1.1. Bond Service Subaccount – 1 year.
5.3.1.2. Reserve Subaccount – 1 year.
5.3.1.3. Capital Account (bond proceeds) – the expected period of spend out, or five years, whichever is less.
5.3.1.4. All Other Funds – 90 days.

5.3.2. The contract is fully secured by deliverable U.S. Treasury or Federal Agency obligations as described in 5.1 and 5.2 above (without limit to maturity), having a market value at all times of at least one hundred two percent (102%) of the amount of the contract.

5.3.3. A master repurchase agreement or specific written, repurchase agreement governs the transaction.

5.3.4. The securities are held by an independent third party custodian, acting solely as agent for the Authority and free of any lien, provided such third party is not the seller under the repurchase agreement.

5.3.5. A perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. in such securities as created for the benefit of the Authority.

5.3.6. For repurchase agreements with terms to maturity of greater than one (1) day, the Authority will value the collateral securities weekly and require under collateralization to be corrected within one (1) business day.

5.3.6.1. If a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated.

5.3.7. The counterparty must meet the following criteria:

5.3.7.1. Be a primary government securities dealer that reports daily to the Federal Reserve Bank of New York, or a bank, savings and loan association or diversified securities broker-dealer having $5 billion in assets or $500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency.

5.3.7.2. Have a minimum long-term credit rating of at least single-A and a short-term rating of not less than Tier-1.

5.3.7.3. Have been in operation for at least five (5) years.

5.4. Collateralized Certificates of Deposit – The Authority may purchase Certificates of Deposit issued by, and time deposits in, any bank or savings and loan association organized under the laws of the State, any other state of the United States or of the United States, including the Trustee; provided that such bank or savings and loan association has combined capital, surplus and undivided profits of at least $100 million; and provided further that such Certificates of Deposit or time deposits are:

5.4.1. Insured by the Federal Deposit Insurance Corporation.

5.4.2. To the extent not so insured, collateralized by U.S. Treasury Obligations or Federal Agency Obligations, having a market value of at least one hundred two percent (102%) of the amount of the contract.

5.4.2.1. Securities must be held by the Trustee or an independent third party acting solely as custodian on behalf of the Authority, free and clear of any lien.

5.4.2.2. Maturity for certificates of deposit shall be limited to a maximum maturity of one year.

5.5. Bankers' Acceptances – The Authority may purchase Acceptances issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, if the following conditions are met:

5.5.1. The maturity is no greater than two hundred-seventy (270) days.

5.5.2. The short-term paper of the issuing bank is rated not lower than Tier-1 by any two (2) NRSROs.

5.5.3. The issuing bank has combined net capital of at least $100 million as indicated in the most recent quarterly financial statement.

5.5.4. The amount invested in any single bank will not exceed five percent (5%) of the total funds available for investment (based on book value on the date of acquisition).

5.6. Commercial Paper - Unsecured short-term debt of U.S. corporations may be purchased if the following conditions are met:

5.6.1. Maximum maturity of two hundred seventy (270) days.

5.6.2. Maximum allocation to commercial paper is twenty percent (20%) of the total funds available for investment (based on book value on the date of acquisition).

5.6.3. Maximum allocation to a single issuer is five percent (5%) of the total funds available for investment (based on book value on the date of acquisition).

5.6.4. The issuing corporation, or its guarantor, has a net worth of at least $50 million.

5.6.5. At time of purchase, the issuing corporation, or its guarantor, has short-term debt ratings of not less than Tier-1 from any two (2) NRSROs and long-term debt ratings of not less than single-A.

5.7. Municipal Securities – The Authority may purchase obligations of state or local government municipal bond issuers meeting one (1) of the following two (2) conditions:

5.7.1. They are full faith and credit obligations of state or local government municipal bond issuers that are rated at the time of purchase in the highest rating category by at least two (2) NRSROs.

5.7.1.1. Downgraded securities that maintain at least one NRSRO rating in one of the top two categories may be held for a reasonable time after the downgrade as necessary to mitigate an investment loss.

5.7.2. Legally defeased municipal obligations that are secured by an escrow containing either U.S. Government Agency Securities or U.S. Government Securities.

5.8. Money Market Mutual Funds – The Authority may purchase shares in open-end investment funds provided such funds are:

5.8.1. Registered under the Investment Company Act of 1940.

5.8.3. Operated in accordance with SEC Rule 2A-7.

5.8.4. Rated in the highest category by at least one (1) NRSRO.

5.9. Maryland Local Government Investment Pool - The Authority may invest in the Pool with prior permission of the State Treasurer's Office as outlined in Article 95, Section 22G of the Annotated Code of Maryland.

5.10. The CFO may at any time determine in writing that the Authority temporarily, for a period determined by the CFO, shall not purchase any security or class of securities authorized in this Policy Statement.

Maturity Restrictions

Policy Statement 6. The market value of securities of the Authority's portfolio may fluctuate due to changes in market conditions. In view of this and the Authority's primary investment objectives of preservation of principal and liquidity, every effort shall be made to manage investment maturities so that they precede or coincide with the expected need for funds.

6.1. In addition to the limitations and requirements of applicable provisions of the Annotated Code of Maryland and applicable guidelines established by the State Treasurer and GASB:

6.1.1. Funds shall be invested at all times in keeping with the daily and seasonal pattern of the Authority's cash balances, as well as any other special factors or needs, in order to assure the availability of liquid funds on a timely basis.

6.2. Cash flow projections will be monitored and updated on an ongoing basis by Authority personnel and reported regularly to the investment manager(s).

6.3. On a periodic basis a determination will be made, based on cash flow projections and total return performance considerations, regarding the appropriate maturity structures of the portfolios. The final maturity of investments held in each portfolio may not exceed:

6.3.1. Operating Accounts – 1 Year

6.3.2. Operating Reserve – 5 Years

6.3.3. Bond Service Accounts – 1 Year

6.3.4. Capitalized Interest Accounts – Maturities must precede or coincide with coupon payment dates.

6.3.5. Maintenance & Operating Reserve – 5 Years

6.3.6. Capital and General Accounts – 5 Years, or longer if the maturity precedes or coincides with the expected need for funds and only with the prior approval of the CFO.

6..3.7. Debt Service Reserves – 15 Years

Prohibited Securities, Transactions and Activities

Policy Statement 7. The following securities, transactions and activities are prohibited:

7.1. Reverse repurchase agreements.

7.2. Short sales (selling a specific security before it has been legally purchased).

7.3. Borrowing funds for the sole purpose of reinvesting the proceeds of such borrowing.

7.4. Investing in complex derivatives such as range notes, dual index notes, inverse floating rate notes and deleveraged notes, or notes linked to lagging indices or to long-term indices.

7.5. Investing in any security for which the investor must be a "qualified institutional buyer" as defined in Rule 144A of the Securities Act of 1933.

7.6. Investing in Mortgage-Backed Securities, Collateralized Mortgage Obligations, Structured Notes, Asset-Backed Obligations, Inverse Floaters, and Real Estate Mortgage Conduits (REMICS).

7.6.1. As an exception to prohibited asset- and mortgage-backed securities noted in Statement 7.6, pooled loan securities issued through the Small Business Administration (SBA Pool Securities) and backed by the full faith and credit of the United States are permitted investments.

7.7. Investing in any security not specifically permitted by this Investment Policy.

Diversification

Policy Statement 8. The Authority will diversify its holdings by security type and institution to avoid incurring unreasonable risks due to excessive concentration in specific instruments, financial institutions or issuers. Diversification standards are as follows:

8.1. Diversification by instrument as a maximum percent of the portfolio:

8.1.1. U.S. Treasury Obligations – 100%

8.1.2. U.S. Federal Agency Obligations – 100%

8.1.3. Repurchase Agreements – 50%

8.1.4. Bankers Acceptances – 20%

8.1.5. Municipal Securities – 20%

8.1.6. Money Market Mutual Funds – 100%

8.1.7. Maryland Local Government Investment Pool – 30%

8.1.8. Collateralized Certificates of Deposit – 20%

8.1.9. Commercial Paper – 20%

8.1.10. SBA Pool Securities – 5%

8.2. Diversification by individual Institution/Issuer/Pool as a maximum percent of the portfolio:

8.2.1. Repurchase Agreements – 40%

8.2.2 Federal Agencies (Issuer) - 50%

8.2.3. Commercial Banks (CDs) – 5%

8.2.4. Money Market Mutual Funds – 30%

8.2.5. Bankers Acceptances (Institution) – 5%

8.2.6. Commercial Paper (Issuer) – 5%

8.2.7. Municipal Bond (Issuer) – 5%

8.3.8. SBA Pool Securities (Pool/Issue) – 0.5%

Safekeeping, Custody and Additional Requirements

Policy Statement 9. All security transactions, including collateral for repurchase agreements, entered into by the Authority shall be conducted on a deliver-versus-payment (DVP) basis.

9.1. Securities will be held by the Authority or its designated custodian.

9.1.1. If held by a custodian, the securities must be in the Authority's name or in the custodian's nominee name and identifiable on the custodian's books as belonging to the Authority.

9.1.1.1. If held by a custodian, the custodian must be a third party, not a counterparty (buyer or seller).

9.1.1.1.1. The third-party requirement does not apply to excess checking account funds invested overnight in a bank "sweep" repurchase agreement or similar vehicle.

Policy Statement 10. Collateralization is required for Certificates of Deposit and repurchase agreements.

10.1. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be at least one hundred and two (102%) of market value of principal and accrued interest.

10.2. Collateral will always be held by an independent third party with whom the Authority has a current custodial agreement.

10.2. Acceptable collateral is specified under Section 6-202 of Title 6 of the State Finance and Procurement Article of the Annotated Code of Maryland.

10.3.1. The third party trust custodian has the right to reject otherwise acceptable collateral based on their discretion concerning market conditions.

Internal Controls

Policy Statement 11. The Authority shall establish a system of internal controls to reasonably prevent loss of public funds as a result of fraud, employee error and/or imprudent action, or misrepresentation by third parties. This system will include:

11.1. An audit of the investment operation shall be part of the annual financial audit conducted by the Authority or an outside independent audit company.

11.2. Separation of transaction authority from accounting and record keeping.

11.3. Avoidance of physical delivery of securities when possible.

11.4. Clear delegation of responsibility to subordinate staff members.

11.5. Written records of all telephone transactions for investments and wire transfers.

11.6. Development of a wire transfer agreement with lead bank or third party custodian, as appropriate.

Authorized Financial Dealers and Institutions

Policy Statement 12. The Authority shall transact securities purchases and sales only with Qualified Institutions or directly with issuers.

14.2. The Authority shall maintain a list of financial institutions and broker/dealers that are approved for investment purposes ("Qualified Institutions").

12.2. Direct purchases of securities from issuers are not subject to the Qualified Institutions restrictions.

12.3. Only firms meeting the following requirements will be eligible to serve as Qualified Institutions:

12.3.1. Primary dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

12.3.2. Net capital of no less than $25 million.

12.3.3. Registered as a dealer under the Securities Exchange Act of 1934.

12.3.4. Member of the Financial Industry Regulatory Authority (FINRA).

12.3.5. Registered to sell securities in Maryland.

12.3.6. Engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.

Policy Statement 13. Qualified Institutions shall be provided with the Authority's Investment Policy. The Authority shall maintain on file current audited financial statements for each Qualified Institution with which the Authority transacts business.

Competitive Selection of Investment Instruments

Policy Statement 14. Whenever practical, securities shall be purchased and sold through a formal competitive process requiring the solicitation and evaluation of at least three (3) bids/offers from Qualified Institutions.

14.3. Supporting records of the competitive process must be retained including the name of the financial institutions solicited, rate quoted, description of the security, investment selected, and any special considerations that had an impact on the decision.

14.4. If the highest yielding security was not selected for purchase or if three bids/offers from Qualified Institutions are not obtained, an explanation describing the rationale will be included in this record.

Investment of Bond Proceeds

Policy Statement 15. The Authority shall comply with all applicable sections of the Internal Revenue Code of 1986, Arbitrage Rebate Regulations (as amended) and bond trust covenants with regard to the investment of bond proceeds. The Authority will consult with bond counsel to ensure that non-compliance is remediated in accordance with income tax regulations. Accounting records shall be maintained in a form and for a period of time sufficient to document compliance with these regulations and covenants.

Reporting

Policy Statement 16. MDTA staff shall provide the CFO with a monthly statement of transactions and holdings priced at market. At least quarterly, a report must be prepared detailing compliance with policy constraints. The report may include, but is not limited to the following:

16.1. Portfolio performance versus benchmarks, analyzed on a total return basis for those funds invested pursuant to a strategy that may result in the sale of securities that are not intended to be held until maturity.

16.2. Percentage of total portfolio by investment class and comparison to diversification limits in Policy Statement 8.

16.3. Holdings by institution/issuer/pool and comparison to diversification limits in Policy Statement 8.

16.4. An investment plan for the next quarter – describing the targeted maturity structure, duration, and asset allocation.

Procedures Responsibility

The CFO and Finance Division staff, including the Director of Treasury Management, are charged with ensuring compliance with and conducting periodic reviews and revisions of this policy.

Glossary

NRSRO – Nationally Recognized Statistical Rating Organization or rating agency (e.g., Moody's, S&P, Fitch).

IV. Attachment(s) (Exhibits/Tables, etc.)

None

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Approved by the Authority on 8-25-2016	Milt Chaffee Executive Director

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APPROVED FOR FORM & LEGAL SUFFICIENCY:

Assistant Attorney General

8/26/2016
Date