



TOWN COUNCIL
Mark W. Huguley, Mayor
Peter F. Chesney
Donald R. Davis
Linda Z. Jackson
W. Rusty Onley

TOWN CLERK
Christine W. Murphy

May 13, 2015

Honorable Curtis M. Loftis, Jr.
South Carolina Treasurer's Office
P.O. Box 11778
Columbia, SC 29211

Dear Treasurer Loftis,

The Town of Arcadia Lakes currently has a substantial portion of its unencumbered and unbudgeted funds invested in the option allowing immediate access without penalty available in the Local Government Investment Pool managed by your office. As you know, these funds are secure and popular with municipalities. However, the rate of return is low.

Accordingly, Town Council sought to determine whether other investment opportunities might legally provide a better yield while maintaining acceptable risk and adhering to our fiduciary responsibilities. We know there is a second option in the Local Government Investment Pool that has a longer term and pays a better rate than our funds currently produce.

We learned of investment products used by some municipalities appearing to fit our requirements. They pay a higher rate of return and are FDIC insured, which might mean they meet legal requirements for secured investments. However, we are uncertain whether these products fully comport with the requirements of the state statutes for the type of investment permitted.

The products under consideration are "market-based." One provides a seven-year contingent variable market linked certificate of deposit (CD) linked to an equity basket with minimum annual interest payment. Early withdrawal from this instrument would result in an interest penalty, as is typical with CDs, and also could result in a reduction of principal

depending upon their price when sold. This aspect of the product explains the description of "market-based." Another product invests in index funds.

The potential higher yields justify consideration of the product for a portion of our investments. Without a municipal property tax, we must consider all appropriate ways to improve revenue. However, if the product does not fully comport with state law pertaining to local government investing, there is no reason for further consideration.

We respectfully request an opinion regarding two specific concerns held by Town Council. Do investments by a municipality in FDIC insured products comply with Section 6-5-10 and other applicable sections of the S.C. Code of Laws without guarantee of principal in the event of early withdrawal? Secondly, are investments by a municipality in index funds permissible given such investments are indirectly investing in stocks?

On behalf of the Arcadia Lakes Town Council and with best regards, I am

Sincerely yours,

A handwritten signature in cursive script that reads "Mark W. Huguley".

Mark W. Huguley
Mayor

cc: Members of Council
Charles Cook, Town Attorney