



CITY OF RIO RANCHO

ADMINISTRATIVE POLICIES AND PROCEDURES

Investment Policy

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Section

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2-17-1 Purpose

The purpose of this Policy is to set specific policy requirements and guidelines for the investment of City funds within the parameters established by the Charter and City Code Sections 36.55 through 36.62 ("the City Code") of the City of Rio Rancho ("the City") and the laws of New Mexico.

2-17-2 Scope

This Policy applies to all financial assets over which the City has direct control as well as those funds the City is responsible for as custodian or trustee. These funds are reported in the City's Comprehensive Annual Financial Report (CAFR) and include:

- General Fund;
- Special Revenue Funds;
- Debt Service and Debt Reserve Funds;
- Capital Projects Funds;
- Internal Service Funds;
- Agency Funds; and
- Enterprise Funds

Bond proceeds shall be invested in the securities permitted by the applicable bond documents. If the bond documents are silent as to the permitted investments, bond proceeds will be invested in the securities permitted by this policy. Notwithstanding the other provisions of this policy, the percentage or dollar portfolio limitations listed elsewhere in this policy do not apply to bond proceeds.

While the City accounts for its financial assets in various governmental Fund and general ledger accounts and investment income and market value changes are apportioned accordingly, the assets are managed as three sub-portfolios:

- the Liquidity Portfolio
- the Cash-Matched Portfolio
- the Core Portfolio

The primary purpose of the Liquidity Portfolio is to provide daily liquidity to the City while controlling the risk factors. The City strives to minimize the Liquidity Portfolio level so that more cash may be deployed as earning assets in the Cash-Matched and Core portfolios.

The purpose of the Cash-Matched Portfolio is to place investments to match known liabilities under one year. The purpose of the Core Portfolio is to convert excess cash, over and above the required Liquidity Portfolio level, to earning assets. Performance is measured on a total return basis and an accrual earnings basis. As this portfolio consists of operating reserves and bond proceeds awaiting eventual expenditure, a longer-term focus is appropriate. Principal preservation remains a primary objective, as the Core Portfolio's funds may be utilized to meet debt service, capital project, and operational requirements. As such, strict duration management is to manage acceptable principal value change.

2-17-3 Objectives

The City shall manage and invest its cash and assets with three major objectives of safety, liquidity, and return. All investments shall be managed in a manner responsive to the public trust and consistent with state and local law.

The City shall maintain a comprehensive cash management program which includes the timely collection of accounts receivable and timely vendor payments made in accordance with invoice terms and prudent investment of assets.

A. Safety

The primary objective of the City's investment activity is the preservation of principal and minimization of risk in tandem with other primary investment objectives. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

B. Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

C. Return

The City seeks to attain a market-average rate of return on its investments throughout economic cycles, taking into account the City's risk constraints, the cash flow characteristics of the portfolio, and State and Local laws, and ordinances or resolutions that restrict investments.

2-17-4 Investment Strategy

The City seeks to pool fund groups for investment purposes. The City may allocate investments among separate portfolios based upon specific investment strategy considerations.

The City shall pursue a semi-active portfolio management strategy. Securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade and opportunities will be constantly evaluated for investments to maintain a reasonable market return. The Treasurer and Investment Advisor will continuously monitor the contents of the portfolio, the available markets, and the relative value of competing instruments to adjust the portfolio in response to market conditions.

2-17-5 Delegation of Authority and Responsibilities

A. Treasurer/Finance Director

Authority to manage the investment program is granted to the Treasurer by City Code Section 36.57. Section 6.01 of the City Charter states that the Director of the Department of Finance shall function as the City Treasurer unless another person is designated by resolution.

1. Authority to manage the investment program is granted to the Finance Director pursuant to City Code Section 36.57. The Finance Director, or designee, shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of authorized subordinate officials (Investment Officers).
2. The City may further contract with an SEC-registered Fiduciary Investment Advisor to advise on the management of and conduct trades on behalf of the City's investment portfolio, in accordance with this Policy, and such other written instructions as are provided.
3. No person may engage in an investment transaction except as provided under this Policy and the procedures established by the Finance Director.
4. Any authority granted in State statute shall be secondary to the lawfully adopted Policy of the City to the extent that this Policy is more restrictive than State statute.

B. Governing Body

1. The Governing Body has ultimate fiduciary responsibility for the investment of City funds.
2. The Governing Body shall review and adopt the Investment Policy at least every two years.

C. Investment Advisory Board

The Governing Body has determined that formal citizen input regarding the management of local government investment portfolios and associated policy is appropriate and advantageous. An Investment Advisory Board is established in Chapter 33 Boards, Commissions, and Committees that outlines Board membership and duties and responsibilities.

D. Ethics and Conflicts of Interest

The Finance Director, Investment Officers, and members of the Investment Advisory Board shall:

1. Refrain from personal and 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;
2. Receive from the Finance Director an annual listing of all portfolio positions in order to determine if personal disclosure is required for any personal financial or investment positions that could be related to the performance of the investment portfolio. The Investment Officers and Investment Advisory Board shall disclose any contracts (mortgages or loans) from City authorized institutions and disclose personal portfolios managed by or through a City authorized broker/dealer. The size of the US Treasury and Agency markets negates any need to disclose holding in these authorized investment types;
3. Refrain from undertaking personal investment transactions with the same individual

with whom business is conducted on behalf of the City.

4. Nothing herein shall be construed to bar any individual from using a financial institution for normal customer transactions, including but not limited to, checking accounts, savings accounts, consumer credit cards, certificates of deposit, and money market funds, all on the same terms as such institution offers to the general public.

2-17-6 Authorized Investments

Assets of the City may only be invested in instruments as authorized by 6-10-10 (NMSA 1978 annotated). If changes are made to State Statute authorizing additional investments, they will not be authorized until this Policy is modified and adopted by the Governing Body. The City may choose to follow stricter guidelines than the statute requires. The relevant portions of state statute are shown below, followed by the City's specific guidelines for the permissible investments under that section of the statute.

Time and Demand Deposits

NMSA 1978 §6-10-10, entitled "Deposit and investment of funds", at subsections A and B provides as follows:

- A. *Upon the certification or designation of a bank, savings and loan association or credit union whose deposits are insured by an agency of the United States to receive public money on deposit, the state treasurer and county or municipal treasurers who have on hand any public money by virtue of their offices shall make deposit of that money in banks and savings and loan associations and may make deposit of that money in credit unions whose deposits are insured by an agency of the United States, designated by the authority authorized by law to so designate to receive the deposits of all money thereafter received or collected by the treasurers.*
- B. *County or municipal treasurers may deposit money in one or more accounts with any such bank, savings and loan association or credit union located in their respective counties, subject to the limitation on credit union accounts.*

NMSA 1978 §6-10-16, entitled "Security for deposits of public money", provides as follows:

- A. *Deposits of public money shall be secured by:*
 - (1) *securities of the United States, its agencies or instrumentalities;*
 - (2) *securities of the state of New Mexico, its agencies, instrumentalities, counties, municipalities or other subdivisions;*
 - (3) *securities, that are guaranteed by the United States or the state of New Mexico;*
 - (4) *revenue bonds that are underwritten by a member of the financial industry regulatory authority, known as FINRA, and are rated "A- or above by a nationally recognized bond rating service; or*
 - (5) *letters of credit issued by a federal home loan bank.*

- B. No security is required for the deposit of public money that is insured by the federal deposit insurance corporation or the national credit union administration.*
- C. All securities shall be accepted as security at market value. The restrictions of Subsection A of this section apply to all securities subject to this subsection.*

NMSA 1978 §6-10-17, entitled “Amount of Security to be deposited”, provides as follows:

Any bank or savings and loan association designated as a depository of public money shall deliver securities of the kind specified in Section 6-10-16 NMSA 1978 to a custodial bank described in Section 6-10-21 NMSA 1978 and shall then deliver a joint safekeeping receipt issued by the custodial bank to the public official from whom or the public board from which the public money is received for deposit. The securities delivered shall have an aggregate value equal to one-half the amount of public money to be received in accordance with Subsection B of Section 6-10-16 NMSA 1978. However, any such bank or savings and loan association may deliver a depository bond executed by a surety company as provided in Section 6-10-15 NMSA 1978 as security for any portion of a deposit of public money.

The City may deposit funds in a time (certificates of deposit) or demand (checking, savings, money market account) deposits in any certified or designated financial institution whose deposits are insured by an agency of the United States in accordance with state law. Any deposits above what is insured must be collateralized per the requirements of 2-17-12 of this policy.

The City may purchase brokered certificates of deposit, certificate deposit account placement services with assurance that all dollars invested are fully insured through one or more institutions by the Federal Deposit Insurance Corporation (FDIC).

US Treasury, US Agency, and Municipal Securities

NMSA 1978 §6-10-10 at subsection F provides as follows:

County or municipal treasurers, with the advice and consent of their respective boards of finance charged with the supervision and control of the respective funds, may invest all sinking funds or money remaining unexpended from the proceeds of any issue of bonds or other negotiable securities of any county, municipality or school district that is entrusted to their care and custody and all money not immediately necessary for the public uses of the counties, municipalities or school districts not invested or deposited in banks, savings and loan associations or credit unions in:

- (1) bonds or negotiable securities of the United States, the state or a county, municipality or school district that has a taxable valuation of real property for the last preceding year of at least one million dollars (\$1,000,000) and that has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding and that have a maturity date that does not exceed ten years from the date of purchase;*
- (2) securities that are issued and backed by the full faith and credit of the United States government or issued by its agencies or instrumentalities, including securities issued by federal home loan banks, the Federal Home Loan Mortgage Corporation, the federal national mortgage association, the federal farm credit banks funding corporation, the federal agricultural mortgage corporation or the government national mortgage*

- association and that have a maturity date that does not exceed ten years from the date of purchase; or*
- (3) *federally insured obligations, including brokered certificates of deposit, certificate of deposit account placement services and federally insured cash accounts.*

The City may invest in to following:

US Treasury obligations (bills, notes and bonds)

Securities issued and backed by the full faith and credit of the US Government or issued by its agencies or instrumentalities, including the following US Government Sponsored Enterprises (GSEs):

- Federal National Mortgage Association (FNMA)
- Federal Home Loan Mortgage Corporation (FHLMC)
- Federal Home Loan Bank (FHLB)
- Federal Farm credit Bank (FFCB)
- Federal Agricultural Mortgage Corporation (Farmer Mac)

The City will limit its investments in US Treasury and US Agency obligations to a maximum maturity of seven (7) years from the time of purchase.

The City may invest in obligations of State of New Mexico and local governments, or school districts located in New Mexico subject to the restrictions outlined in NMSA 1978 §6-10-10, subsection F. In addition, if rated, such obligations shall be rated at least A (long-term) or A1 (short-term) or their equivalent by at least one nationally recognized rating agency and not to exceed seven (7) years to stated maturity.

The New Mexico State Treasurer's Local Government Investment Pool

NMSA 1978§6-10-10.1 entitled "Local government investment pool created; distribution of earnings; report of investments," subsection A provides as follows:

- A. There is created in the state treasury the "local government investment pool". The fund shall consist of all deposits from participating governments, including revenues dedicated to repaying bonds, that are placed in the custody of the state treasurer for investment purposes pursuant to this section. The state treasurer shall maintain one or more separate accounts for each participating government having deposits in the local government investment pool and may divide the fund into two or more subfunds, as the state treasurer deems appropriate, for short-term and medium-term investment purposes, including one or more subfunds for bond proceeds deposited by participating governments.*

The City may invest in the New Mexico Local Government Investment Pool (LGIP), sponsored and managed by the New Mexico State Treasurer's Office.

Mutual Funds and Exchange Traded Funds (ETFs), NM State Investment Council (SIC) Investment Pools, Supranational Securities, Commercial Paper, Money Market Mutual Funds

NMSA 1978 §6-10-10 at subsection G provides as follows:

- G. It shall be the duty of the treasurer to bring amendments to the investment policy to the board of finance and obtain consent before such amendments take effect. The investment policy shall be reviewed at least every two years. The treasurer of a class A county or the treasurer of a municipality having a population of more than sixty-five thousand according to the most recent federal decennial census and located within a class A county, with the advice and consent of the boards of finance, charged with the supervision and control of the funds as can be reflected by an investment policy that is amended by the treasurer and approved by the board of finance, may invest all sinking funds or money remaining unexpended from the proceeds of any issue of bonds or other negotiable securities of the county or municipality that is entrusted to the treasurer's care and custody and all money not immediately necessary for the public uses of the county or municipality not invested or deposited in banks, savings and loan associations or credit unions in:*
- (1) shares of a diversified investment company registered pursuant to the federal Investment Company Act of 1940 that invests in fixed-income securities or debt instruments that passively match or track the components of a broad-market, fixed-income-securities market index; provided that the investment company or manager has total assets under management of at least one hundred million dollars (\$100,000,000) and provided that the board of finance of the county or municipality may allow reasonable administrative and investment expenses to be paid directly from the income or assets of these investments;*
 - (2) shares of pooled investment funds managed by the state investment officer, as provided in Subsection I of Section 6-8-7 NMSA 1978; provided that the board of finance of the county or municipality may allow reasonable administrative and investment expenses to be paid directly from the income or assets of these investments;*
 - (3) securities that are issued by a supranational issuer and that:
 - (a) are eligible for purchase and sale within the United States;*
 - (b) are denominated in United States dollars;*
 - (c) have a maturity date that does not exceed five years from the date of purchase; and*
 - (d) are rated "AA" or its equivalent or better by a nationally recognized statistical rating organization;**
 - (4) commercial paper rated "A1" or "P1", also known as "prime" quality, by a nationally recognized statistical rating organization, issued by corporations organized and operating within the United States and having a maturity at purchase of no longer than one hundred eighty days; or*
 - (5) shares of an open-ended diversified investment company that:
 - (a) is registered with the United States securities and exchange commission;*
 - (b) complies with the diversification, quality and maturity requirements of Rule 2a-7, or any successor rule, of the United States securities and exchange commission applicable to money market mutual funds; and*
 - (c) assesses no fees pursuant to Rule 12b-1, or any successor rule, of the United States securities and exchange commission, no sales load on the purchase of shares and no contingent deferred sales charge or other similar charges, however designated, provided that the county or municipality shall not, at any time, own more than five percent of a money market mutual fund's assets.**

The City may invest in:

Fixed Income mutual funds or exchange traded funds (ETF's) that are passively managed to track the performance of a nationally recognized fixed income index. The City may gain exposure to the following investment types through these vehicles:

- U.S. Treasuries
- U.S. Treasury Inflation Protection Securities (TIPS)
- U.S. Agencies, including GSE's identified above (fund or ETF may hold Agencies other than those permissible for direct City investment)
- U.S. municipal issues (BBB-AAA)
- U.S. investment grade corporate issues (BBB-AAA)
- U.S. high-yield corporate issues
- Foreign fixed income issues

The City may not invest directly in any mutual fund or ETF that contains non-fixed income assets such as equities or alternative assets. Aside from the SIC Investment Pools, these investment types are excluded from permissibility per NMSA Chapter 6, Article 10.

The City will utilize the weighted average fund duration to control the interest rate risk of each fund holding.

The City may invest in any investment pool offered by the New Mexico State Investment Council (SIC) that is available for investment by the City.

The City may invest in securities issued by the following supranational organizations dedicated to providing financing, advice, and research to developing nations to aid their economic advancement, and which are rated AA or higher and have a maturity of five (5) years or less at time of purchase:

- International Bank for Reconstruction and Development (IBRD)
- International Finance Corporation (IFC)
- Inter-American Development Bank (IADB)

The City may invest in Commercial Paper issues with a minimum A1 or P1 or equivalent rating or better by a nationally recognized statistical rating organization with a maturity date of 180 days or less at time of purchase.

The City may invest in SEC Registered, AAA-rated Government Money Market Mutual Funds. A qualified money market mutual fund must:

1. be registered with the United States Securities and Exchange Commission;
2. comply with the diversification, quality and maturity requirements of Rule 2a-7, or any successor rule, of the United States Securities and Exchange Commission applicable to money market mutual funds;
3. assess no fees pursuant to Rule 12b-1, or any successor rule, of the United States Securities

and Exchange Commission, no sales load on the purchase of shares and no contingent deferred sales charge or other similar charges, however designated, provided that the City shall not, at any time, own more than five (5) percent of a money market mutual fund's assets;

4. be invested only in United States Government and Agency Obligations and repurchase agreements secured by such obligations; and
5. be rated AAAM or equivalent by a nationally recognized rating agency.

The City may invest in shares of a diversified investment company and individual or collective trust funds of banks or trust companies. These include shares of a company or trust pursuant to the federal Investment Company Act of 1940 that invests in fixed-income securities or debt instruments that passively match or track the components of a, broad-market, fixed-income-securities market index; provided that the investment company or manager has total assets under management of at least \$100,000,000 and provided that the Investment Policy of the City may allow reasonable administrative and investment expenses associated with the investment company to be paid directly from the income or assets of these investments.

Repurchase Agreements (Repos)

NMSA 1978 §6-10-10 at subsection H provides as follows:

H. A local public body, with the advice and consent of the body charged with the supervision and control of the local public body's respective funds, may invest all sinking funds or money remaining unexpended from the proceeds of any issue of bonds or other negotiable securities of the investor that is entrusted to the local public body's care and custody and all money not immediately necessary for the public uses of the investor and not otherwise invested or deposited in banks, savings and loan associations or credit unions in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor. The contract shall be fully secured by obligations of the United States or the securities of its agencies, instrumentalities or United States government sponsored enterprises having a market value of at least one hundred two percent of the contract. The collateral required for investment in the contracts provided for in this subsection shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with the investment. As used in this subsection, "local public body" includes all political subdivisions of the state and agencies, instrumentalities and institutions thereof; provided that home rule municipalities that prior to July 1, 1994 had enacted ordinances authorizing the investment of repurchase agreements may continue investment in repurchase agreements pursuant to those ordinances.

The City may invest in repurchase agreements (repos) or contracts for the simultaneous purchase and resale, at a specified time in the future, of specific securities at specified prices at a price differential representing the interest income to be earned by the City. The contract at the time of purchase shall be fully secured by the Authorized Collateral described in Section XII

having a market value of at least one hundred two percent (102%) of the amount of the contract. The Repurchase Agreement must have a stated maturity date not to exceed one (1) year to maturity. Flexible repurchase agreements may only be used for bond proceeds with a maturity not to exceed the expenditure plan of the funds.

Investment types, asset classes and sectors not explicitly permitted under Section 6-10-10 (NMSA 1978 annotated) are not permissible by the City.

Any investment held by the City that does not meet the guidelines of this Policy shall be liquidated as soon as possible. Proceeds shall be reinvested only as provided by this Policy.

Securities which do not meet Policy requirements because of an adopted change in the Policy shall be reviewed by the Investment Advisory Board to decide on appropriate action to be taken to hold to maturity or liquidate. Liquidation is not mandatory.

Securities which do not meet Policy rating requirements because of a change in credit rating shall be reviewed by the Investment Advisory Board to decide on appropriate action to be taken to hold to maturity or liquidate. Liquidation is not mandatory.

2-17-7 Standard of Care

The standard of prudence to be used by the City for managing its investments is the Uniform Prudent Investor Act (UPIA), notwithstanding state statutory constraints.

Investment officers acting within the parameters of the City Code and this Investment Policy and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion so that appropriate actions can be taken to reduce risk in accordance with the terms of this Policy.

2-17-8 Authorized Security Broker/Dealers and Financial Institutions

Security Broker/Dealers

The Finance Director shall maintain information on all financial institutions authorized to provide investment services to the City. The security broker/dealers are to be approved by the Investment Advisory Board on the basis of creditworthiness (minimum capital requirements of \$10,000,000 and at least five years of operation) and the firm's ability to offer competitive prices on securities transactions. All financial institutions and broker/dealers who desire to become authorized broker dealers for investment transactions must supply the following:

1. Annual audited financial statements;
2. Proof of Financial Industry Regulatory Authority (FINRA) certification and the FINRA CRD number;
3. Proof of New Mexico state registration;
4. Completed City broker/dealer questionnaire; and
5. Certification of having read this Investment Policy.

Each broker/dealer must obtain a copy of the current Investment Policy and certify to a review stating understanding of the Policy. Material changes to this Policy will require re-certification.

The performance of all authorized broker/dealers will be reviewed at least annually by the Investment Advisory Board.

If an external Investment Advisor is authorized to conduct investment transactions on the City's behalf, the Investment Advisor may use her/his own list of approved issuers/broker/dealers and financial institutions for investment purposes.

2-17-9 Internal Controls

The Finance Director shall establish and maintain procedures and internal controls designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall address issues including the following:

- A. Control of collusion;
- B. Separation of transaction authority;
- C. Delivery versus payment;
- D. Custodial safekeeping;
- E. Investment accounting;
- F. Repurchase agreements;
- G. Wire transfer agreements;
- H. Collateral/depository agreements;
- I. Banking services contracts;
- J. Clear delegation of authority to subordinate staff members;
- K. Written confirmation of all transactions; and
- L. Review, maintenance and monitoring of security procedures both manual and automated.

2-17-10 Delivery versus Payment

All trades involving deliverable securities will be executed by delivery versus payment (DVP). This ensures that securities are deposited in the City's eligible financial institution prior to the release of City funds. Securities shall be held by a City-approved, independent third-party custodian as evidenced by safekeeping receipts.

2-17-11 Competitive Selection of Investment Instruments

- A. It will be the policy of the City to use a competitive trading process, whenever practical, that obtains at least three offers or bids. The City will accept the bid/offer which provides (a) the best competitive price within the maturity required and considering the credit quality of the investment; and (b) optimizes the investment objectives of the overall portfolio.

- B. Offers or bids for securities may be received from authorized broker/dealers or issuers of qualified securities as defined in Section 2-17-8.
- C. The City shall produce and retain written records of each transaction including the name of the financial institutions offering or bidding on securities, rate or price quoted, description of the security, bid/offer selected, and any special considerations that had an impact on the decision. If the lowest priced security (highest yield) was not selected for purchase or the highest bid was not selected for sale, an explanation describing the investment objective prompting the investment/sale will be included in this record. It is understood that the prices may change between the timing of authorization of the trade and execution. The competitive documentation is always required at time of execution.
- D. New issue offerings may be purchased from an approved broker/dealer or directly from the issuer without competitive solicitation if it is determined that a new issue will best meet the City's investment objectives. It will be the responsibility of the Finance Director/Investment Advisor involved with each purchase to produce and retain written records of each transaction when competitive solicitation is not followed.
- E. The Finance Director shall authorize all investment transactions in writing or via email. Executed trade documents shall be reviewed for compliance and signed by the Finance Director after the trade.
- F. All compliance violations are to be documented in an error report on the day that they are discovered and the Finance Director shall document the reason for each error. Errors shall be summarized in a report to the Investment Advisory ~~Group~~ Board even if corrected.

2-17-12 Collateralization

A. Time and Demand Deposits

All City time and demand deposits, (DDAs, certificates of deposit and interest bearing accounts), shall be secured above the FDIC insurance coverage by collateral pledged to the City pursuant to the requirements of this section. In order to anticipate market changes and provide a level of security for all funds, collateral will be maintained and monitored daily by the depository at 102% of market value of principal and accrued interest on the deposits. Acceptable collateral includes:

- US Treasury securities
- US Agency securities, issued by the Agencies permitted by this policy for direct investment
- Federal Home Loan Bank letters of credit

¹Financial Institutions Resource and Recovery Act is used as the control for FDIC when closing a bank and requires an executed agreement approved by one of these bank boards.

Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository in accordance with a safekeeping agreement signed by authorized representatives of the City, the Depository, and the custodian. (If the custodian is the Federal Reserve, a Circular 7 Pledge Agreement will be executed.) The collateral agreement shall be approved by resolution of the Bank Board or Bank Loan Committee in accordance with FIRREA¹. The custodian shall provide a monthly list of collateral directly to the City.

All collateral shall be subject to inspection and audit by the City or the City's independent auditors.

B. Authorized Collateral

The City shall accept only the following securities as collateral for time and demand deposits:

1. Obligations of the United States, its agencies or instrumentalities, or other securities that are guaranteed by the United States.
2. Obligations, the principal and interest on which, are guaranteed or insured by the State of New Mexico, its agencies, instrumentalities, counties, municipalities or other subdivisions.
3. Letters of credit issued by a federal home loan bank.

2-17-13 Safe Keeping/Custodial Arrangements

The laws of the State and prudent treasury management require that all deliverable securities be bought on a delivery versus payment basis and be held in safekeeping by an independent third-party financial institution or the City's designated banking services depository.

All safekeeping arrangements shall be approved by the Finance Director and an agreement of the terms executed in writing. The safekeeping institution shall be required to issue original safekeeping receipts listing each security by rate, description, maturity, par amount, cusip number, and other pertinent information. Each safekeeping receipt will be clearly marked that the security is held for the City.

2-17-14 Investment Parameters

A. Diversification.

Investments shall be diversified to reduce the risk of loss resulting from an over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. The following diversification limitations at the time of purchase shall apply to the total portfolio:

U.S. Treasury Obligations	100%
U.S. Agencies/Instrumentalities	80%
Per issuer	30%
Per Issuer Other than Fannie Mae, Freddie Mac, Federal Home Loan Bank, Federal Farm Credit Bank	
Repurchase Agreements	50%
Certificates of Deposit	40%
In any one bank	15%
Demand Deposits	100%
State/Local/Public Authority Obligations	25%
Local Government Investment Pool	75%
Government Money Market Funds	50%
In any one fund	20%
Ownership of the fund	5%
Shares of a diversified investment company or trust	40%
In any one fund	20%
State Investment Council	5%

B. Maximum Maturity and Maximum Effective Duration.

1. The City recognizes that all portfolios with marketable investment securities are subject to interest rate risk. Therefore, to limit the City's exposure to the possibility of loss due to interest rate fluctuations, the City will not commit any funds to maturities longer than seven years to the stated maturity from date of settlement.
2. The stated maturity date on investments made for legal reserves will not exceed the next call date of the designated bond but in no event shall exceed 7 years.
3. In debt service funds, each subsequent debt service payment should be funded before any extension is made in maturities.
4. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as overnight repurchase agreements, Local Government Investment Pool, demand deposit accounts, or money market mutual funds to ensure that appropriate liquidity is maintained to meet operating obligations.
5. To control overextension of the portfolio, the city will use an effective duration ceiling of three (3) years. The effective duration will be reported in the quarterly reports.

2-17-15 Investment Reporting

A. Quarterly Reporting

The Finance Director shall submit an investment report to the City Manager, the Advisory Board and the Governing Body at least quarterly.

The report will include the following at a minimum:

- A full description of individual securities including amortized book and market value;
- Unrealized gains or losses;
- Summary change in market value during the period as a measure of volatility (market prices for the calculation of market value will be obtained from independent sources);
- Effective duration;
- Weighted average yield of the portfolio;
- Return of the portfolio(s) and the City's selected benchmark(s);
- Earnings for the period (accrued and net amortization); and
- Statement of compliance of the investment portfolio with Investment Policy.

If the City uses an Independent Investment Advisor, the Investment Advisor shall report quarterly, in writing, to the Investment Advisory Board. The report shall review recommended investments, portfolio strategies, and quarterly performance against the benchmark(s).

B. Performance Standards and Benchmarks

The City's portfolio shall be evaluated and compared to appropriate indices in order to assess the relative performance of the City's investment program. The comparable benchmarks should be consistent with the City's portfolio in terms of maturity and composition, which includes credit quality and security type.

2-17-16 Policy Approval

The Investment Policy shall be reviewed by the Investment Advisory Board once annually and reviewed and approved at least every two years by the Governing Body. The resolution approving the Policy shall detail any and all changes made to the Policy as a result of the review.

APPROVED THIS 22nd DAY OF August, 2024



Matthew Geisel, City Manager

Definitions

Agency – A debt security issued by a government-sponsored enterprise (GSE). While not explicitly guaranteed by the government, GSEs are generally traded with an “implied” guarantee. An example of a GSE is the Federal National Mortgage Association (FNMA).

Credit Quality – The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer’s ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Ratings Scales –

Credit quality comparison of short term and long-term ratings are as follows:

Rating Standard & Poor’s Moody’s Fitch

Short Term A-1+ A-1 P-1 F-1+ F-1

Long Term AAA -A- A+-A- Aaa-A3 AAA-A- A+-A, BBB

Current Yield Return – A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

Delivery Versus Payment (DVP) – A type of securities transaction in which the purchaser pays for the securities when they are delivered to the purchaser or the custodian.

Discount – The amount by which the par value of a security exceeds the price paid for the security.

Diversification – A process of investing assets among a range of security types by sector, maturity, and quality rating.

Duration – A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security.

Fair Value – The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Government Securities – An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See “Treasury Bills, Notes, and Bonds”.

Investment Policy – A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Local Government Investment Pool (LGIP) – An investment by local governments in which their money is pooled as a method for managing local funds.

Par – Face value or principal value of a bond, typically \$1,000 per bond.

Premium – The amount by which the price paid for a security exceeds the security’s par value.

Principal – The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prudent Person Rule – An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Total Return – The sum of the portfolio interest earnings plus amortization/accretion plus realized gains plus unrealized gains minus fees divided by the average portfolio value during the period.

Treasury Bills – Short-term U.S. government non-interest-bearing debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000.

Treasury Notes – Intermediate U.S. government debt securities with maturities of one to ten years and issued in denominations ranging from \$1,000 to \$1 million or more.

Treasury Bonds – Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of \$1,000.

Yield – The current rate of return on an investment security generally expressed as a percentage of the security's current price.