

City of Rio Rancho Financial Policies

The financial policies set forth below are the basic framework for the financial management of the City of Rio Rancho. These policies are intended to assist members of the City of Rio Rancho Governing Body and City staff in evaluating current activities and proposals for future programs. These policies are to be reviewed on an annual basis and modified to accommodate changing circumstances or conditions.

Annual Budget Policies

Budget Form

The City Manager, prior to the end of April each year, shall submit to the Governing Body the annual budget covering the next fiscal year. The budget including the General Fund, Special Revenue Funds, and Enterprise Funds shall contain the following information:

1. A letter from the City Manager discussing the proposed financial plan for the next fiscal year;
2. budget summaries for the General Fund, Special Revenue Funds and Enterprise Funds, shall include a beginning fund balance, estimated revenues, operating expenditures, capital outlay and ending fund balance;
3. proposed capital projects and equipment, debt service expenditures, along with comparisons of estimated expenditures to three prior year actual expenditures;
4. proposed revenues, by source, for the budget year, with comparisons to three prior year actual revenues; and
5. a table of proposed activity changes (additional staffing) including operating and capital expenditures required supporting the additional staffing.

Basis of Budgeting

The budget basis of accounting differs from generally accepted accounting principals (GAAP) used for preparing the City's annual financial reports. The major difference is that revenue and expenditures are budgeted on a cash basis with encumbrances (contractual commitments to be performed) considered the equivalent of expenditures rather than GAAP required reservation of fund balance.

Budget Calendar, Roles and Responsibilities

The City's budget is developed on an annual basis. The City's fiscal year begins on July 1st and ends on the following June 30th. Key milestones are as follows:

1. Budget packages for annual preparation, which include forms and instructions, shall be distributed to City departments no later than December 1st.
2. Departments must return their proposals no later than February 15th.

3. The City Manager and representatives of the Financial Services Department review the department budget proposals, making any additions or deletions that are determined appropriate.
4. The City Manager's recommended budget shall be submitted to the Mayor no later than April 15th. The Mayor reviews the budget and provides written comments to the City Manager within ten days. The City Manager may or may not incorporate the comments into the recommended budget. The City Manager must give a written explanation to the Governing Body why any comment or recommendation was not included in the recommended budget.
5. The recommended budget must be submitted to the Governing Body no later than the first regularly scheduled meeting in May.
6. Following submission of the budget to the Governing Body, multiple budget hearings are scheduled. One public hearing for citizen comments are held during the month of May. Following adoption by resolution, the budget is submitted by June 1st to the New Mexico Department of Finance and Administration to obtain interim approval.
7. At fiscal year-end cash positions are established. After which the Governing Body makes a final review and approves the final budget by resolution.

Budget Control System

The Financial Services Director is responsible for maintaining a budgetary control system to ensure adherence to the adopted budget. On a quarterly basis, the Financial Services Director will prepare summary reports that compare actual revenues and expenditures to budgeted amounts. These reports are presented to the Governing Body to keep them informed of the City's operating performance. Monthly budget reports are distributed to and reviewed by the City Manager and Department Directors.

One aspect of budget control is the process for approving amendments to the operating budget or budget transfers. These changes to the budget are handled as follows:

1. An increase in appropriations require approval by resolution of the Governing Body.
2. Any single budget transfer that exceeds \$20,000 requires approval by resolution of the Governing Body.
3. The City Manager has authority to approve budget transfers within a cost center not exceeding \$20,000 in the aggregate within a fiscal year.

Balance Budget Definition

All funds are required to be in balance. As such, total anticipated revenues must equal the sum of budgeted expenditures for each fund. Revenues are derived from four sources: current revenue charges; increases in existing revenue charges; new revenue sources; and unallocated reserves carried forward from prior years.

Performance Measures

Where possible, the City will integrate performance measurement and productivity indicators in the City's published budget document.

Revenue Policies

Revenue Diversification and Stabilization

The City will strive to attain a diversified and stable revenue system to shelter it from short-run fluctuations in any one revenue source. However, State of New Mexico statutes force municipalities to rely heavily on gross receipts tax (GRT) as their primary revenue. Because it is highly influenced by local economic conditions, gross receipts tax revenue tends to be much more volatile than property tax. Property tax revenue is the second single largest revenue source.

To address this inherent volatility, the City will pursue strategies to promote economic development and diversification to strengthen its overall economic base. To this end, the Governing Body adopted a Comprehensive Economic Development Policy.

One-Time Revenues and Unpredictable Revenues

The City will use one-time or unpredictable revenues for capital expenditures or for expenditures required by the revenue, and not subsidize recurring personnel, operational or maintenance costs.

New Revenues

For any proposed additional revenue source the following criteria will be considered:

1. Community acceptability.
2. Competitiveness – the revenue or tax burden of the City relative to neighboring communities.
3. Diversity – the balance of revenue sources that can withstand changes in the business cycle.
4. Efficiency – the cost of administering a tax or fee should bear a reasonable relation to revenues collected, and any new tax or fee should have minimal effect on private economic decisions.
5. Fairness – the distribution of the City's revenue burden as measured by ability to pay, the benefits received, or the community's definition of the resident's fair share of the revenue burden.

Revenue Estimates

In order to maintain a stable level of services, the City shall use a conservative, objective, and analytical approach when preparing revenue estimates. The process shall include analysis of probable economic changes and their impacts on revenues, historical collection rates, and trends in revenues. This approach should reduce the likelihood of actual revenues falling short of budget estimates during the year and should avoid mid-year service reductions.

User Fee Cost Recovery Goals

Ongoing Review

Fees will be reviewed and updated on an ongoing basis to ensure that they keep pace with changes in the cost-of-living as well as changes in methods or levels of service delivery.

In implementing this goal, a comprehensive analysis of City costs and fees should be made at least every five years. In the interim, fees will be adjusted by annual changes in the Consumer Price Index. Fees may be adjusted during this interim period based on supplemental analysis whenever there have been significant changes in the method, level or cost of service delivery.

User Fee Cost Recovery Levels

In setting user fees and cost recovery levels, the following factors will be considered:

1. Community-Wide Versus Special Benefit.
The level of user fee cost recovery should consider the *community-wide* versus *special service* nature of the program or activity. The use of general-purpose revenues is appropriate for community-wide services, while user fees are appropriate for services that are of special benefit to easily identified individuals or groups.
2. Service Recipient versus Service Driver.
After considering community-wide versus special benefit of the service, the concept of *service recipient* versus *service driver* should also be considered. For example, it could be argued that the applicant is not the beneficiary of the City's development review efforts: the community is the primary beneficiary. However, the applicant is the *driver* of development review costs, and as such, cost recovery from the applicant is appropriate.
3. Effect of Pricing on the Demand for Services.
The level of cost recovery and related pricing of services can significantly affect the demand and subsequent level of services provided. At full cost recovery, this has the specific advantage of ensuring that the City is providing services for which there is genuinely a market that is not overly stimulated by artificially low prices. Conversely, high levels of cost recovery will negatively impact the delivery of services to lower income groups. This negative feature is especially pronounced, and works against public policy, if the services are specifically targeted to low income groups.
4. Feasibility of Collection and Recovery.
Although it may be determined that a high level of cost recovery may be appropriate for specific services, it may be impractical or too costly to establish a system to identify and charge the user. Accordingly, the feasibility of assessing and collecting charges should also be considered in developing

user fees, especially if significant program costs are intended to be financed from that source.

Factors Favoring Low Cost Recovery Levels

Very low cost recovery levels are appropriate under the following circumstances:

1. There is *no* intended relationship between the amount paid and the benefit received. Almost all “social service” programs fall into this category as it is *expected* that one group will subsidize another.
2. Collecting fees is not cost-effective or will significantly impact the efficient delivery of the service.
3. There is *no* intent to limit the use of (or entitlement to) the service. Again, most “social service” programs fit into this category as well as many public safety (police and fire) emergency response services. Historically, access to neighborhood and community parks would also fit into this category.
4. The service is non-recurring, generally delivered on a “peak demand” or emergency basis, cannot reasonably be planned for on an individual basis, and is not readily available from a private sector source. Many public safety services also fall into this category.
5. Collecting fees would discourage compliance with regulatory requirements adherence is primarily self-identified, and as such, failure to comply would not be readily detected by the City. Many small-scale licenses and permits might fall into this category.

Factors Favoring High Cost Recovery Levels

The use of service charges as a major source of funding service levels is especially appropriate under the following circumstances:

1. The service is similar to services provided through the private sector.
2. Other private or public sector alternatives could or do exist for the delivery of the service.
3. For equity or demand management purposes, it is intended that there be direct relationship between the amount paid and the level and cost of the service received.
4. The use of the service is specifically discouraged. Police responses to disturbances or false alarms might fall into this category.
5. The service is regulatory in nature and voluntary compliance is not expected

to be the primary method of detecting failure to meet regulatory requirements. Building permit, plan checks and subdivision review fees for large project would fall into this category.

General Concepts Regarding the Use of Service Charges

The following general concepts will be used in developing and implementing service charges.

1. Revenues should not exceed the reasonable cost of providing the service.
2. Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs, and organization-wide support costs such as accounting, personnel, data processing, vehicle maintenance and insurance.
3. The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
4. Rate structures should be sensitive to the “market” for similar services as well as to smaller, infrequent users of the service.
5. A unified approach should be used in determining cost recovery levels for Various programs based on the factors discussed above.

Low Cost-Recovery Services

Based on the criteria discussed above, the following types of service should have very low cost recovery goals. In selected circumstances, there may be specific activities within the broad scope of services provided that should have user charges associated with them. However, the primary source of funding for operation as a whole should be general-purpose revenues, not user fees.

1. Delivering public safety emergency response services such as police patrol services and fire suppression.
2. Maintaining and developing public facilities that are provided on a uniform, community-wide basis such as streets, parks and general-purpose buildings.
3. Providing social service programs and economic development activities.

Recreation Programs

The following cost recovery policies apply to the City’s recreation programs:

1. Cost recovery for activities directed to adults should be relatively high.
2. Cost recovery for activities directed to youth and seniors should be relatively

low. In those circumstances where services are similar to those provided in the private sector, cost recovery levels should be higher. Although ability to pay may not be a concern for all youth and senior participants, these are desired program activities, and the cost of determining need may be greater than the cost of providing a uniform service fee structure to all participants. Further, there is a community-wide benefit in encouraging high-levels of participation in youth and senior recreation activities regardless of financial status.

3. Cost recovery goals for recreation activities are set as follows:

High-Range Cost Recovery Activities (60% to 100%)

- a. Classes (Adult and Youth)
- b. Adult athletics (volleyball, basketball softball, swimming)
- c. Facility rentals

Mid-Range Cost Recovery Activities (30% to 60%)

- d. Library room rentals
- e. Special events and other City sponsored events
- f. Youth baseball
- g. Youth basketball
- h. Swim lessons
- i. Outdoor facility and equipment rentals

Low-Range Cost Recovery Activities (0% to 30%)

- j. Public swim
- k. Special swim classes
- l. Youth programs
- m. Teen programs
- n. Senior programs

4. For cost recovery activities of less than 100%, there should be a differential rates between residents and non-residents. However, the Director of Parks, Recreation and Community Services is authorized to reduce or eliminate non-resident fee differentials when it can be demonstrated that:

- a. The fee is reducing attendance.
- b. And there are no appreciable expenditure savings from reduced attendance.

5. Charges will be assessed for use of rooms, pools, gymnasiums, ball fields, special-use areas, and recreation equipment for activities not sponsored or co-sponsored by the City. Such charges will generally conform to the fee guidelines described above. However, the Director of Parks, Recreation and Community Services is authorized to charge fees that are closer to full cost

recovery for facilities that are heavily used at peak times and include a majority of non-resident users.

6. A vendor charge of at least 10 percent of gross income will be assessed from individuals or organizations using City facilities for moneymaking activities.
7. Director of Parks, Recreation and Community Services is authorized to offer reduced fees such as introductory rates, family discounts and coupon discounts on pilot basis (not to exceed 18 months) to promote new recreation programs or resurrect existing ones.
8. The Parks, Recreation and Community Services Department will consider waiving fees only when the City Manager determines in writing that an undue hardship exists.

Comparability With Other Communities

In setting user fees, the City will consider fees charged by other agencies in accordance with the following criteria:

1. Surveying the comparability of the City's fees to other communities provides useful background information in setting fees for several reasons.
 - a. They reflect the "market" for these fees and can assist in assessing the reasonableness of Rio Rancho' fees.
 - b. If prudently analyzed, they can serve as a benchmark for how cost-effectively Rio Rancho provides its services.
2. However, fee surveys should never be the sole or primary criteria in setting City fees as there are many factors that affect how and why other communities have set their fees at their levels. For example:
 - a. What level of cost recovery is their fee intended to achieve compared with our cost recovery objectives?
 - b. What costs have been considered in computing the fees?
 - c. When was the last time that their fees were comprehensively evaluated?
 - d. What level of service do they provide compared with our service or performance standards?
 - e. Is their rate structure significantly different than ours and what is it Intended to achieve?
3. These can be very difficult questions to address in fairly evaluating fees among different communities. As such, the comparability of our fees to other communities should be one factor among many that is considered in setting City fees.

Expenditure Policy

The City will maintain a level of expenditures that will provide for the health, safety and welfare of the residents of the City of Rio Rancho.

Employee Efficiency

The City will invest in technology and other efficiency tools to maximize staff productivity.

Maintenance of Capital Assets

Within the resources available each fiscal year, the City shall maintain capital assets and infrastructure at a sufficient level to protect the City's investment, to minimize future replacement and maintenance cost, and to continue service levels.

Fund Balance and Reserve Policy

The City of Rio Rancho General Fund's principal revenue source, gross receipts tax, accounts for nearly 50 percent of general fund revenues. Gross receipts tax revenue tends to be volatile since it is impacted heavily by economic conditions. An adequate General Fund balance level is paramount to the overall financial management strategy and key factor in external agencies' measurement of the City's financial strength.

The City will strive to maintain a total General Fund balance of approximately fifteen percent (15%) and not greater than twenty-five percent (25%) of General Fund operating expenditures.

The New Mexico Department of Finance and Administration, Local Government Division regulations mandates that all municipalities maintain a minimum general fund balance of 1/12 or 8.3 percent of general fund operating expenditures. To ensure that the City meets this requirement, this amount shall be set up as a reserve for contingencies as part of the total fund balance.

Capital Improvement Plan

The Capital Improvement Plan of the City is a long-term planning tool intended to allow for prioritization, financing coordination, and timely technical design and application of projects and programs to better serve the citizens of Rio Rancho.

1. The City's Capital Improvement Plan shall be a five-year plan and be updated annually.
2. The City shall maintain a balanced mix of financing for funding capital project, including pay-as-you-go, grants, and debt, without excessive reliance on any one source.
3. The City will coordinate development of the capital improvement budget with development of the operating budget. Future operating costs

associated with new capital improvements will be projected and included in operating budget forecasts.

Debt Management Policy

The purpose of this policy is to establish parameters and provide guidance governing the issuance, management, continuing evaluation, and reporting on all debt obligations issued by the City.

Use of Long-term Debt Financing

Long-term debt financing will not be considered appropriate for a recurring purpose such as current operating and maintenance expenditures. The City will use long-term debt financing only for one-time capital improvement projects and unusual equipment acquisitions included under the following circumstances:

1. when the project is included in the City's five-year capital improvement plan;
2. when the project is not included in the City's five-year capital improvement plan, but is an emerging need whose timing was not anticipated in the five-year capital improvement plan, or it is a project mandated immediately by state or federal requirements, or it is a project for which grant money has been offered and the matching funds are not readily available from other sources;
3. When the project is the result of growth-related activities within the community that require unanticipated and unplanned infrastructure or capital improvements by the City.

Types of Debt

Debt financing may include general obligation bonds, revenue bonds, lease/purchase as well as public improvement district bonds, special assessment bonds, and tax increment financing (TIF) Bonds.

Project Life

Only capital assets or projects with an economic value lasting more than five years can be financed using debt.

Refunding Policy

The Financial Services Department and the financial advisor will monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. As a general rule, the present value savings of a particular refunding should exceed 3%, with certain exceptions, such as bonds to be refunded have restrictive or outdated covenants, or restructuring debt is deemed to be desirable.

Limitations on Maturity

The City normally will issue bonds with maturities of 10 years for general obligation bonds and 12 years for revenue bonds. The City will seek to structure debt with level principal and interest costs over the life of the debt.

Statutory Limitation

The Constitution of the State of New Mexico limits the amount of outstanding general obligation bonds to 4% of the assessed value of taxable property within the City.

Credit Enhancements

Credit enhancement (letters of credit, bond insurance, etc.) may be used, but only when net debt service on the bonds is reduced by more than the costs of the enhancement.

Investment of Bond Proceeds

All general obligation and revenue bond proceeds shall be invested as part of the City's cash pool unless otherwise specified by the bond legislation. Investments will be consistent with those authorized by existing city ordinance, state law and by the City's investment policies.

Sale Process

The City will generally conduct financings on a competitive basis. However, negotiated financings may be used due to market volatility or the use of an unusual or complex financings or security structure.

Professional Services

The City employs outside financial specialists to assist it in developing a bond issuance strategy, preparing bond documents, and marketing bonds to investors. The key players in the City's financing transactions include its financial advisor, bond counsel, the underwriter (on a negotiated sale) and in some instances a disclosure counsel. Other outside firms, such as those providing paying agent/registrars services, trustee, credit enhancement, auditing, or printing services, are retained as required.

Bond Rating Goals

The City will seek to maintain and, if possible, improve the current ratings in order to minimize borrowing costs and preserve access to credit.

Disclosure

The City is committed to continuing disclosure of financial and pertinent credit information relevant to the City's outstanding securities and will abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure.

Rating Agency Relations

Full disclosure of operations and open lines of communication shall be made to the rating agencies. City staff, with the assistance of the financial advisor, shall prepare the necessary materials and presentation to the rating agencies. Credit ratings will be sought from Moody's, Standard and Poor's, and Fitch as recommended by the City's financial advisor.

Investment Policy

I. PURPOSE

The purpose of this Policy is to set specific policy requirements and guidelines for the investment of City funds in a manner that maximizes safety of principal while ensuring that funds are available to meet operating needs of the City and to meet unanticipated cash demands while earning the highest possible return within the parameters established by the Charter and Ordinance 36.55 through 36.62 ("the Ordinance") of the City of Rio Rancho and the laws of New Mexico.

II. 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.

III. OBJECTIVES

The City of Rio Rancho shall manage and invest its cash and assets with four major objectives, listed in order of priority: safety, liquidity, diversification and yield. 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. Each investment transaction shall be conducted in a manner to avoid capital losses, whether from security defaults, safekeeping or erosion of market value.

B. Liquidity

The City's investment portfolio shall be structured to meet all expected obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow liabilities and maintain additional liquidity for unexpected liabilities.

C. Diversification

The City's investment portfolio shall be diversified by asset class, issuer, and maturity in order to reduce overall portfolio risk while attaining average market rates of return. The City will diversify its use of investment instruments to avoid incurring unreasonable risks inherent in over-concentration in specific instruments, individual financial institutions or maturities.

D. Yield

Yield should become a consideration only after the basic requirements of safety, liquidity, and diversification have been met. 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, ordinances or resolutions that restrict investments.

IV. INVESTMENT STRATEGY

The City may maintain one commingled portfolio for investment purposes which incorporates the specific investment strategy considerations and the unique characteristics of the fund groups represented in the portfolio.

The City shall pursue a proactive versus a passive portfolio management strategy. That is, 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 yield. The Investment Officers and Investment Adviser 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.

V. DELEGATION OF AUTHORITY AND RESPONSIBILITIES

A. Treasurer/Finance Director

Authority to manage the investment program is granted to the Treasurer by City Ordinance 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. Currently, no other person is designated and, as such, the Finance Director will assume all requirements and responsibilities of the Treasurer.

1. Authority to manage the investment program is granted to the Finance Director pursuant to City Ordinance 36.57. The Finance Director 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 Investment Advisor to advise in 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. The Finance Director shall establish written procedures and internal controls for the operation of the investment program consistent with the Municipal Code and this Policy and approved by the Investment Advisory Group.
4. No person may engage in an investment transaction except as provided under this Policy and the procedures established by the Finance Director.
5. 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 three years.

C. Investment Advisory Group

1. The City Manager shall create an Investment Advisory Group to advise the Finance Director on the execution of his/her duties imposed by the

Ordinance and this Policy. The Investment Advisory Group shall meet monthly to:

- a. Review monthly investment holdings reports;
 - b. Review quarterly performance reports;
 - c. Deliberate on topics such as economic outlook, portfolio strategy, diversification, maturity structure and potential portfolio risks;
 - d. Identify potential violations of and suggest remedial actions to achieve conformity to the Investment Policy;
 - e. Review the Investment Policy, no less than annually, and recommend updates and modifications to the Governing Body, if advisable;
 - f. Approve broker/dealers authorized to provide investment services to the City and review the performance of broker/dealers as presented annually;
 - g. Assess, no less than annually, the utility and efficacy of established internal investment controls and procedures;
 - h. Upon sufficient budget availability, the Investment Advisory Group shall request a compliance audit be performed by the independent public accountant procured to conduct the annual financial audit, that examines investment transactions to determine adherence to the Investment Policy; and
 - i. Approve the Investment Advisory contract.
2. The members of the Investment Advisory Group shall include the Mayor, the Deputy Mayor, the City Manager, the Finance Director, a department head selected by the City Manager, and two residents of the City who have expert knowledge or professional experience in public finance or public funds investing.
 3. The Mayor, with approval of the City Council, shall appoint the resident members who shall serve a term of two years from the date of the appointment. If the resident members resign, remove their residence from the City, or are otherwise removed from the group for cause as determined by the City Manager and confirmed by the Governing Body, new members shall be appointed in a like manner, to serve a full term of two years from the date of appointment.

D. Ethics and Conflicts of Interest

The Finance Director, Investment Officers, and members of the Investment Advisory Group 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 Group 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 investments 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.

VI. STANDARD OF CARE: PRUDENCE

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.

In accordance with this Prudent Person Standard, investment officers acting within the parameters of the Ordinance 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.

VII. AUTHORIZED SECURITY BROKER/DEALERS and FINANCIAL INSTITUTIONS

A. City Depository

The Banking Services Depository shall be selected through a formal request for proposal (RFP) process, pursuant to the City Procurement Code. In selecting a banking services depository, the services, cost of services, and credit worthiness. The banking services depository, or its subsidiaries, shall not be used as a broker/dealer in order to assure City control on a delivery versus payment basis.

B. 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 Group 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 Policy will require re-certification.

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

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

VIII. 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 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.

IX. 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.

X. AUTHORIZED INVESTMENTS

Assets of the City may only be invested in the instruments listed below, as authorized by New Mexico State Statute 6-10-10. 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 following types of investments are authorized:

- A. **United States Treasury Obligations:** Securities that are issued by the United States government that are either direct obligations of the United States or that are backed by the full faith and credit of the United States government. Investments shall be limited to a maximum maturity of five (5) years at time of purchase.
- B. **United States Agency and Instrumentality Obligations:** Securities issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored enterprises, that are direct obligations of the federal home loan mortgage association, the federal national mortgage association, the federal farm credit bank, and the federal home loan bank Investments in U.S. Government Agency Obligations shall be limited to a maximum stated maturity of five (5) years at time of purchase.
- C. **Repurchase Agreements (Repo):** 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.
- D. **Certificates of Deposit:** Certificates of Deposit are allowed in certified and designated New Mexico financial institutions, in accordance with New Mexico State law, whose deposits are insured by an agency of the United States. All deposits will comply with state statute and Section XII of this Policy regarding interest rates and collateral requirements not to exceed one (1) year to stated maturity.
- E. **Demand Deposits:** Deposits are allowed in certified and designated New Mexico financial institutions, in accordance with the New Mexico State law, whose deposits are insured by an agency of the United States. All deposits will comply with state statute and this Policy Section XII regarding interest rates and collateral requirements.
- F. **Obligations of State and Local Governments and Public Authorities:** These include bonds or negotiable securities of 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. If rated, such obligations shall be rated at least A (long-term) or A1 (short-term) or their equivalents by two nationally recognized rating agencies

and not to exceed three (3) years to stated maturity.

G. The New Mexico State Treasurer's Local Government Investment Pool.

H. SEC Registered, AAA-rated 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 funds assets;
4. be invested only in United States Government and Agency Obligations and repurchase agreements secured by such obligations; and
5. be rated AAA or equivalent by a nationally recognized rating agency.

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 Group 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 Group to decide on appropriate action to be taken to hold to maturity or liquidate. Liquidation is not mandatory.

XI. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

- A. It will be the policy of the City to use a competitive trading process 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 X.
- 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.
- 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 trade fails or compliance violations are to be documented in an error report on the day that they are discovered and shall disclose the reason for each error. Errors shall be summarized in a report to the Investment Advisory Group even if corrected.

XII. COLLATERALIZATION

A. Time and Demand Deposits

All City time and demand deposits, (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.

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 Pledgee 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 evidence of indebtedness of the United States including mortgage-backed securities which pass the Federal Reserve's Bank Test.
 2. Obligations, the principal and interest on which, are guaranteed or insured by any state, county, city or other political subdivision of the U.S. rated A (or equivalent) or better by a nationally recognized rating agency.
 3. Repurchase Agreements Owned Collateral
All securities underlying Repurchase Agreements must be delivered to the City's custodian bank or handled under a properly executed tri-party repurchase agreement. Collateral underlying a repurchase agreement is owned by the City. It will be held by an independent third party safekeeping agent approved by the City under an executed Securities Industry and Financial Markets Association (SIFMA") Master Repurchase Agreement. Collateral with a market value totaling 102% of the principal and accrued interest is required and the counter-party is responsible for the monitoring and maintaining of collateral and margins at all times.

XIII. SAFEKEEPING

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.

1. Financial 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.

XIV. INVESTMENT PARAMETERS

A. Diversification,

It is the Policy of the City to diversify the investment portfolios. 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 each portfolio:

U.S. Treasury Obligations	80%
U.S. Agencies/Instrumentalities	50%
Repurchase Agreements	50%
Flexible Repo in One Bond Fund	100%
Certificates of Deposit	40%
In any one bank	15%
State/Local/Public Authority Obligations	15%
Local Government Investment Pool	75%
Money Market Funds	50%
In any one fund	20%
Ownership of the fund	5%

B Maximum Maturity and Maximum Weighted Average Maturity (WAM).

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 five years to the stated maturity from date of purchase.
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 five (5) 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, or money market mutual funds to ensure that appropriate liquidity is maintained to meet operating obligations.
5. To control overextension of the portfolio, the maximum weighted average maturity (WAM) of the total portfolio will be two years. The current WAM will be reported on the quarterly reports.

XV. INVESTMENT REPORTING

A. Monthly and Quarterly Reporting

The Finance Director shall prepare and submit an investment report to the City Manager, the Advisory Group and the Governing Body at least quarterly. An annual report summarizing investment holdings and performance for the fiscal year shall also be prepared and presented to the Governing Body in concert with the annual financial reports. The report shall provide summary and detail information to represent the status of the current investment portfolio and transactions made over the reporting period. The report shall include a management summary that allows the reader to ascertain whether investment activities (such as allocation by market sector and maturity) during the reporting period have conformed to the Investment Policy.

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);
- Weighted average yield of the portfolio;
- Weighted average yield of the portfolio benchmark;
- Earnings for the period (accrued and net amortization);
- Allocation analysis of the total portfolio by market sector and maturity;
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 Group. The report shall review recommended investments, portfolio strategies, and quarterly performance against the benchmark.

B. Performance Standards.

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.

XVI. POLICY APPROVAL

The Investment Policy shall be reviewed by the Advisory Group once annually and reviewed and approved at least every three 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 21 day of March, 2013.


James Babin, Acting City Manager