

Otero County, New Mexico
Investment Policy
(Amended June 12, 2008)

Introduction and Statement Policy

This Investment Policy (the “Policy”) shall apply to the cash balances of Otero County, including but not limited to cash balances in the following funds:

General	Indigent Fund
Road Fund	Capital Project Fund
Debt Service	Enterprise Fund
Fire Protection	Agency

The Policy is designed to govern all investment transactions allowed under current New Mexico law for the prudent investment of cash balances, and to maximize the efficiency of the County’s cash management system. The goal of the policy is to “...protect public funds by investing such funds in a manner which provides for safety of principal and adequate liquidity while maximizing investment income...”.

The primary objectives, in priority order, of the County’s investment activities shall be:

SAFETY: Safety of principal is the foremost objective of the investment program. Investments of the County shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

LIQUIDITY: The County’s investment portfolio will remain sufficiently liquid to enable the County to meet all operating requirements which might be reasonably anticipated. This objective will be achieved by laddering of investments according to the cash flow of the county. The county will have a procedure in place to alert investment officer of any unanticipated expenditures and unanticipated revenues.

YIELD: The County’s investment portfolio shall be designed with the objective of attaining at least a market rate of return throughout budgetary and economic cycles, taking into account the County’s investment risk constraints and the cash flow characteristics of the portfolio.

It is the policy of Otero County to be fully invested (100% of available cash) at all times. The County will use projected monthly cash receipts and outlays as a tool for maximizing available cash for investment purposes.

Delegation of Authority and Duties:

Authority of the Board of County Commissioners: The Board of County Commissioners acting in its capacity as a County Board of Finance pursuant to 6-10-8, NMSA 1978, shall have authority to set policy for management of all County investments and insure that such Policy is carried out.

Authority of the County Treasurer: The County Treasurer has ultimate authority over the investment of public funds as outlines in the Policy and is hereby designated as the County's Investment Officer. The Investment Officer shall be responsible for all investment transactions and shall implement and maintain the system of controls outlined in the Policy in order to regulate investment activities.

Duties of the County Treasurer: The County Treasurer shall establish and appoint an Investment Committee whose membership should include the County Treasurer, County Administrator (or his/her designee) and at least one other County employee and two public members. The County Treasurer shall serve as Chairman of the Investment Committee.

Duties of the Investment Committee: The Investment Committee shall meet at least semi-annually to formulate and make recommendations to the County Board of Finance regarding any cash management or investment matters. The Investment Committee shall recommend to the County Board of Finance the policies and procedures for investment of Excess Funds.

Duties of the Investment Officer:

1. Implementing this Investment Policy.
2. The timely deposit and safekeeping of all public moneys of the county.
3. Chair Investment Committee, set agenda and participate in the development, preparation, and presentation of policy recommendations to the Board of Finance.
4. Daily management of the investment of the County's cash balances (the "Investment Portfolio") including the responsibility for the placing of specific investment with banks, savings and loan associations, and others in accordance with this Policy.
5. Developing and maintaining an ongoing cash management program to estimate cash receipts (revenues) and cash disbursements (expenditures).
6. Preparation of quarterly Investment Portfolio reports which shall include but not be limited to the following:
 - a. A schedule of investments by type, including with whom invested (name of bank, savings and loan or brokerage firm), purchase date, cost value at par, interest rate, maturity date and yielding to maturity.
 - b. Schedule of investments made since previous report.
 - c. Average maturity and yielding to maturity for the Investment Portfolio.

- d. Schedule of securities pledged as collateral by each financial institutions as required under this Policy and with comments as to the adequacy of such pledged securities.
 - e. Schedule identifying when, and if, excess funds existed during reporting period and how investment of such funds were handled.
 - f. Percentage of County Funds held by each local financial institution in relation to the allocation formula.
 - g. Comment on any current or anticipated issues or topics regarding any investment matters.
7. Maintaining a system of internal controls, which shall be reviewed by the County Board of Finance and independent auditors on an annual basis. The Investment Officer shall review the system of controls periodically to insure compliance and effectiveness.
 8. Upon request of any member of the Investment Committee or the Board of Finance, the Investment Officer shall call a special meeting.

Professional Services

Financial Advisor: The County may retain a financial advisor under a contract Approved by the Commission, if said advisor: (i.) is licensed to perform such services in the State of New Mexico, is an RIA or Investment Advisor Representative of an RIA and has at least a Series 7 securities license with no adverse actions indicated on the U-4, (ii.) has had at least seven years experience in managing and/or advising investments approved herein for other governments and fiduciary institutions, (iii.) has liability and fiduciary insurance coverage, (iv.) agrees to the communications requirements herein; (v.) agrees to advise the County in writing of any significant changes in the investment philosophy, management style, ownership, organizational structure financial condition or senior personnel staffing of the firm or manager assigned to the County within 30 days of each change; (vi.) does not have a proprietary interest in any professional fund manager utilized by the County. (vii.) is compensated only on a fee (agent only) basis and does not receive commissions, mark-ups or other compensation on securities purchased for the County; (viii.) agrees to meet personally with the Treasurer or the County Board of Finance or Investment committee at least once a year and more often if needed and (ix) agrees to be bound by the dictates of this Policy. Such meetings shall address the financial advisor's views on developments within the national/local economics, the securities markets and the potential affects of these developments on investment strategy, portfolio maturities, potential amendments to this Policy and other fiscal matters. The financial advisor's performance shall be evaluated based on the lesser of a 3-5 year time period or a complete market cycle. A copy of this Policy shall be given to the financial advisor by the County.

Investment Brokers: When United States Government, government agency securities or all other approved investment s are being purchased, a minimum of three offers will be solicited or otherwise received. When securities are being sold, a minimum of three bids will be solicited or otherwise received. Bids for

purchase or offers for sale shall be requested from local financial institutions and brokers, and at least one “Primary Dealer” in United States Treasury Securities. The Treasurer shall establish and maintain a “Local Brokers List for Otero County Investments” consisting of brokers and financial institutions who have provided qualifying information pertaining to themselves and the firm they represent by supplying the information requested on the attached form (Attachment 2) and who are registered to do business in the State of New Mexico and who have no adverse actions indicated on their U-4. All transactions are to be governed by negotiation on a “best realized price” (best net price) basis. Mark-ups on each trade, if any, and commissions charged shall be provided to the County on trade confirmations submitted by the brokerage firm. Adequate documentation will be maintained by the Investment Officer. A copy of this Policy shall be given to any investment broker doing business with the County.

Eligible Investment Instruments

Cash balances shall be invested in accordance with Section 6-10-36 NMSA, 1978, and shall be equitably distributed among all banks and savings and loan associations and credit unions, having their main or manned branch offices within the County boundaries, as directed by Section 6-10-36, NMSA, 1978, Paragraph C.

For purposes of this policy, “equitably distributed” will be defined by Prorata share of deposits in a financial institution within the geographical boundaries of the County, except where a financial institution has failed to submit to the County Treasurer a quarterly “Risk Assessment Report” with supporting documentation (i.e. Thrift or Call Report).

Funds that are declared “excess” due to the inability or unwillingness of a local financial institution to accept its pro-rata share of deposits may be invested investments approved under this policy. The County will diversify use of investment instruments to avoid incurring unreasonable risk inherent in over investing in specific instruments, individual financial institutions or maturities. Approved investments are:

1. United States Treasurer Securities (U.S. Treasury Bills, U.S. Treasury Notes and U.S. Treasury Bonds).
2. Certificates of Deposits (CD’s) of banks, savings and loan associations, and credit unions, collateralized as provided herein.
3. Money Market Funds whose portfolios consist entirely of the United States Government guaranteed Securities.
4. Repurchase agreements (if permitted by law) collateralized by United States Treasury Securities and in which perfected interest is obtained on the collateral.
5. The Local Government Investment Pool pursuant to Section 6-10-10.1, NMSA 1978.
6. The following Government agencies
 - a. Federal National Mortgage Association (Fannie Mae)

- b. Federal Home Mortgage Association (Freddie Mac)
- c. Federal Farm Credit Bank
- d. Student Loan Marketing Association (Sallie Mae)
- e. GNMA
- f. FHLB Notes

Equities and corporate debt instruments are specifically prohibited.

Scheduling of Investment Maturities

Investment maturities for cash balances shall be scheduled to coincide with projected cash flow needs, taking into account expenditures (payroll, debt-retirement payments, Capital Improvements Program disbursement) as well as considering anticipated revenue (property taxes, payment in lieu of taxes, etc.) utilizing the Cash Management program developed by the Investment Officer.

The County will commit investments to maturities as follows:

At least 50% under four years

No more than 50% in excess of four, but not more than eight years (average life).

The average weighted maturity or duration of the entire portfolio shall not exceed five (5) years.

The Board of Finance recognizes that longer maturities normally produce higher investments returns, and/or higher level of risk.

Safekeeping and Collateralization

All investments securities other than local financial institution Certificates of Deposit purchased by the County shall be held in third-party safekeeping by an institution acceptable to the County. The safekeeping institution shall issue a safe keeping receipt to the County listing the specific instrument, rate, amount, maturity date, instrument number, term, and other pertinent information.

Deposit-type securities (i.e., certificates of deposit) shall be collateralized in accordance with the State Board of Finance Bank Collateral Policy and the State Board of Finance Savings and Loan Collateral Policy, which are adopted and incorporated within this investment policy.

Should the financial institution use a payment or performance bond, if provided by state law, then the amount of the collateralization shall be equal to the amount of principal and accrued interest not otherwise covered by federal insurance.

Any financial institution holding securities for the benefit of the County shall be required to enter into a Depository Agreement which will include provisions for the

Depository bank to file monthly reports to the County Treasurer which will include risk assessment date, contact information, and disclosures of events that may pose a risk for the safekeeping of deposits of the Otero County Treasurer.

Prudence

The Standard of Prudence to be used by the County Board of Finance and Investment Officer shall be the “Prudent Person Rule”. This concept discourages speculative transactions and attaches primary significance to the preservation of capital, and secondary importance to the generation of income and capital gains. The County’s Investment Portfolio shall be managed in this context; therefore, the Investment Officer, acting in accordance with written procedures and exercising due diligence, shall be relieved of personal responsibility for and individual security’s credit risk or market price changes, provided deviations from expectations are reported on a timely basis and appropriate action is taken to control adverse development.

Prudence to be applied in accordance with Section 6-10-8 NMSA, 1978 which states: Investments shall be 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.

Ethics and Conflict of Interest

The Investment Officer and members of the County Board of Finance and Investment Committee shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could affect or impair their ability to make impartial investment decisions. (See Section 6-10-53 NMSA, 1978). County Investment officials shall disclose to the County any financial interest or personal investment in financial institutions that could be related to or affect the performance of the County’s Investment Portfolio or that might be constructed as a conflict of interest. Disclosure statements shall be filed annually with the County Clerk, County Treasurer, and County Manager. Such investment officials shall act responsibly to separate their personal banking and investment activities from those of the County, particularly with regard to the time of securities purchases and sales.

Revisions of the Investment Policy

The board of Finance may recommend any revisions in this Policy that they believe would be beneficial to the County. It shall be the obligation of the Investment Committee to bring such amendments to the Board of Commissioners and obtain the approval of their majority before such changes and amendments take affect.

In the event the State Statutes are legally changed to allow other securities as appropriate for investment by the County then this Policy may be amended to include those securities as appropriate with the approval of the Board of Finance.

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