

# CITY OF SANTA FE

## FINANCE DEPARTMENT MANUAL

Originator: Cash Management & Investment Officer



### SUBJECT

<b>INVESTMENT POLICY</b>	<b>Policy Number</b> 01	<b># Pages</b> 10
	<b>Effective Date</b> 11-30-2005	<b>Revision Date</b> 12/05/2016

### 1.0 PURPOSE:

- 1.1 The purpose of this investment policy is to indicate a conscious, formal effort by the City of Santa Fe (the "City") to develop, implement and monitor the investment of all City funds. It shall be considered an important means to communicate to staff and to the public the City's policies on management of financial assets.

### 2.0 APPLICABLE TO:

- 2.1 Finance Director, Assistant Finance Director, Treasury Officer, Cash Management and Investment Officer.

### 3.0 REFERENCES:

- 3.1 SFCC 11-8C.  
 3.2 Code of Ethics Ordinance 1-7.5H.  
 3.3 Securities & Exchange Commission Rule 15(c)3-1 (uniform net capital rule).  
 3.4 NMSA 1978 sections 6-10-10, 6-10-16, 6-10-17, 6-10-18, 6-10-36, 6-10-44, and 3-45-24.  
 3.5 NMAC 2.60.4  
 3.6 Local Government Investment Pool Investment Policy

### 4.0 DEFINITIONS:

- 4.1 Relevant terms are defined under Procedures.

### 5.0 POLICY:

- 5.1 It is the policy of the City to invest public funds in a manner which preserves principal, meets the daily cash flow requirements and earns the highest investment return while conforming to all state and local statutes governing the investment of public funds.

### 6.0 PROCEDURES:

- 6.1 This investment policy applies to all financial assets of the City. These funds are accounted for in the City's Comprehensive Annual Financial Report and include:

General Funds;  
Special Revenue Funds;  
Capital Project Funds;  
Enterprise Funds;  
Trust and Agency Funds; and  
Any new fund created by the City Council, unless specifically exempted.

## **6.2 PRUDENCE**

The standard of care to be used by the Investment Officer shall be the “prudent person” rule which states:

“Investments shall be made with the exercise of that degree of 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.”

This standard shall be applied in the context of managing an overall portfolio. The Investment Officer acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Public confidence in the investment program is imperative. The City will avoid any transaction that might impair the public’s confidence. 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. A balance is struck between preservation of principal, liquidity and the income to be earned.

## **6.3 OBJECTIVES**

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

### **Preservation of Principal:**

The preservation of principal and mitigation of investment risks (default/credit risk, interest rate risk, and reinvestment risk) are the foremost objectives of the investment program. The City will ensure the preservation of its investments by limiting default/credit risk, interest rate risk and reinvestment risk. Default/credit risk is the risk of loss due to the failure or downgrade of the security issuer or backer. Interest rate risk is the risk that the value of an investment will decline with changes in interest rates, e.g. an increase in interest rates will cause a decline in the value of a bond during its holding period prior to maturity. Reinvestment risk is the risk that funds from maturing investments will be reinvested at lower interest rates than that of the maturing investment due to decreases in the level of interest rates. The City will mitigate the effect of default/credit risk by:

- Investing in investment grade government debt securities rated A or better;
- Investing in securities, funds or pools that comply with New Mexico Statute 6-10-10;
- Complete and thorough due diligence and credit analysis on each investment issuer;
- Pre-qualifying all financial institutions and securities dealers with whom the City will do business; and
- Diversifying the investment portfolio to minimize the adverse effects of the failure of any one issuer or backer.

**Liquidity:** The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all of the regular expenses of the City as well as payments on the City's debt obligations in a timely manner provided they may be reasonably anticipated.

**Return on Investments:** The City's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and cash flow characteristics of the portfolio.

**Fully Invested:** The City recognizes that cash is an earning asset. It is the City's policy to invest cash balances over amounts required to meet current financial obligations to achieve the highest return consistent with the above-defined objectives. The goal is to have all of the City's available investable assets fully invested at all times and to keep idle cash at a minimum.

**Scheduling of Maturities:** Investment maturities may be scheduled to coincide with projected cash flow needs taking into account large routine expenditures (e.g. payroll, debt service and Capital Improvement Program disbursements), as well as considering sizeable blocks of anticipated revenues and inflows, (e.g. gross receipts, franchise taxes and investment maturities).

**Diversification:** The City shall diversify investments to avoid unreasonable risks from concentrating investments in specific security types and individual financial institutions.

#### **6.4 DELEGATION OF AUTHORITY**

Pursuant to SFCC 11-8C, the Governing Body has authorized the City Manager to appoint an Investment Officer to invest money not immediately needed for the operation of the City government. The Investment Officer shall establish written procedures for the investment program consistent with the investment policy. Procedures should include reference to: safekeeping, repurchase agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director and the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish



a system of controls to regulate the activities of other employees involved in investment transfers.

## **6.5 ETHICS AND CONFLICT OF INTEREST**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions or allow personal gain. Employees and investment officials shall disclose as per Code of Ethics Ordinance 1-7.6 any financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City, particularly with regard to the time of purchases and sales.

## **6.6 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

The Investment Officer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealer firms selected by credit worthiness who are authorized to provide investment services in the State of New Mexico. These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15(c)3-1 (uniform net capital rule).

All financial institutions and broker/dealer firms who desire to become qualified bidders for investment transactions must supply the Investment Officer with the following: audited financial statements; proof of Financial Industry Regulatory Authority (FINRA) certification; and certification of having an understanding of and agreeing to comply with the City’s investment policy.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Investment Officer. In addition, a current audited financial statement is required to be on file for each financial institution and broker/dealer firm through which the City invests.

All broker/dealer firms and financial institutions conducting business with the City shall receive a copy of the City’s investment policy, a broker/dealer certification form and a letter signed by the Finance Director that describes the relationship that the City is establishing with the broker/dealer firm or financial institution. This letter will contain the following information:

- City employees who are authorized to buy and sell investments on behalf of the City;
- City employees who are authorized to wire or otherwise transfer funds out of City accounts;
- City employees who are authorized to make changes to the City’s instructions regarding authority, delivery instructions, or other critical aspects of the relationships;
- City employees who should be notified if the dealer or financial institution detects any activity that it believes may be irregular given the City’s investment policy and practices;
- Controls that the dealer or financial institution should use for wire transfers of funds and securities into and out of City accounts;

- Standard delivery instructions for investments and proceeds from maturities; and,
- Dealers and financial institutions will be notified immediately both verbally and in writing about the change in status of any employee authorized to conduct investment business with that institution.

If the City has contracted with an Investment Advisor, the advisor shall be responsible for performing financial due diligence on the brokers/dealers with which it trades on the City's behalf. On an annual basis, the advisor will provide the City with a list of its authorized brokers/dealers as well as the firm's written certification of compliance with the City's Investment Policy.

## **6.7 AUTHORIZED AND SUITABLE INVESTMENTS**

City funds shall be invested in accordance with New Mexico Statute 6-10-36 and shall be equitably distributed among banks and credit unions having their main or manned branch offices within the municipal boundaries, and who are interested in doing business with the City as directed by Statute 6-10-36, Paragraph C. Funds that are declared excess due to the inability of local financial institutions to accept these deposits may be invested in the following investments pursuant to NMSA 1978 sections 6-10-10, 6-10-36, 6-10-44 and 3-45-24:

- Bonds or negotiable securities of the United States including U.S. treasury bills, treasury notes, TIPS and treasury bonds;
- Other securities issued by the United States government or its agencies or instrumentalities that are either direct obligations of the United States, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Federal Home Loan Bank, the Federal Farm Credit Bank, or are backed by the full faith and credit of the United States Government;
- Money market funds that are registered with the SEC, maintain total asset size of not less than \$100,000,000, and carry an investment rating of Aaa-mf, AAAM as rated by Moody's and Standard & Poor's;
- Contracts for the present purchase and future resale of securities ("repurchase agreements");
- 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 are listed in a nationally recognized, 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;
- Individual, common or collective trust funds of banks or trust companies that invest in fixed-income securities or debt instruments that are listed in a nationally recognized, 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; or
- Shares of pooled investment funds managed by the state investment officer, as provided in Subsection G 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.

- Bonds or negotiable securities of the State of New Mexico or of any county, municipality or school district which has a taxable valuation of real property of at least one million dollars and has not defaulted in payment of interest or sinking fund obligations or failed to pay any bonds at maturity at any time within the past five years and is rated AA equivalent or better on purchase date; and,
- Any bonds or other obligations issued pursuant to the Municipal Housing Law or issued by any public housing authority or agency in the United States, when such bonds or other obligations are secured by a pledge of annual contributions to be paid by the United States government or any agency thereof.

Reasonable prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

## **6.8 PROHIBITED INVESTMENTS**

Notwithstanding specific authority granted elsewhere in this document, the City or Santa Fe specifically prohibits the following investments and investment practices:

- Collateralized mortgage obligations (CMOs) and other hybrid mortgage-backed, pass through securities;
- Agency securities whose interest rate is tied to a long-term rate or lagging index, or whose interest rate is determined by an index that adjusts opposite to changes in a market index, including, but not limited to, inverse floaters, leveraged floaters, capped and range floaters and dual index floaters;
- Zero coupon securities, with the exception of Treasury bills and other direct obligations of the U. S. government as well as discount notes issued by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Federal Home Loan Bank, or the Federal Farm Credit Bank;
- Investment purchases on margin including short sales; and,
- Equity securities.

## **6.9 INVESTMENT POOLS**

A review of the Local Government Investment Pool and its operating policies should be done on a periodic basis. A copy of the most recent audit of the pool must be kept on file or be accessible on-line.

## **6.10 COMPETITIVE BIDS/EQUITABLE DISTRIBUTION**

It is the City's policy to invest all moneys on the basis of competitive bids or offers when practical. When U.S. government securities are being purchased in the secondary market, a minimum of three offers will be solicited. When U.S. government securities are being sold, a minimum of three bids will be received. Transactions shall be made with those firms tendering the best bids or offers to the City. When purchasing new issue securities at par, the purchases will be distributed equitably among the City's qualified brokers as is practicable and prudent. Written documentation of the quotes shall be maintained for a minimum of 3 years.

## **6.11 COLLATERALIZATION**

Collateralization will be required on all repurchase agreements and bank/credit union deposits in excess of amounts insured by the Federal Deposit Insurance Corporation or the National Credit Union Association.

- **Repurchase Agreements:** The collateralization will be 102% including accrued interest and shall consist of US Treasury, or US Government agency debt. Collateral with maturities greater than 10 years shall be collateralized at 103%. Collateral shall be reviewed daily by the Investment Officer or Investment Advisor and maintained at a minimum of 102% or 103% if the maturity is longer than 10 years. Collateral substitution is permissible with the permission of the Investment Officer or Investment Advisor.
- **Checking Deposits:** Deposits with the primary fiscal agent, may be collateralized at fifty percent (50%) in accordance with New Mexico Statute 6-10-17 and that collateral shall be in compliance with NMAC 2.60.4.10 A(1) or (7).
- **Certificate of Deposits:** Shall be collateralized in compliance with NMAC 2.60.4.9, NMAC 2.60.4.10 A(1) or (7)

Collateral for checking and certificates of deposits will be reviewed monthly to ensure that the market value of the securities pledged exceeds the investment or related bank balances with a final fiscal year review in June. Additional collateral may be requested if the Investment Officer deems that the deposits and investments are not sufficiently protected by the pledged collateral.

Exceptions to the collateralization level requirement include deposits in the State Treasurer's Office Local Government Investment Pool.

## **6.12 SAFEKEEPING AND CUSTODY**

All security transactions, including collateral for repurchase agreements entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in the custody of the City's fiscal agent and evidenced by monthly statements, maintained and filed by the Investment Officer.

## **6.13 DIVERSIFICATION**

The City will diversify its investments by security type and institution. With the exception of U.S. treasury securities, authorized pools and the City's fiscal agent, no more than 50% will be invested in a single security type or with a single financial institution.

## **6.14 TRADING SECURITIES**

The City may take advantage of temporary conditions in the U.S. government securities market by trading securities of comparable quality to further improve the overall rate of the return on the portfolio.

Transactions will be competitively marketed to at least three broker/dealers whether proposed by the City or broker/dealers. Trading of securities is permissible if the City's

investment goals will be met and the Investment Officer deems the transaction appropriate and consistent with the City's Investment Policy.

**6.15 MAXIMUM MATURITIES**

Investment maturities shall be limited to five years, unless matched to a specific cash flow.

**6.16 INTERNAL CONTROL**

Investments shall be included as a specific area in the City's annual audit by the City's independent auditor. In addition, the City's internal auditor may periodically review the City's investments and investment transactions. These reviews will provide internal control by assuring compliance with policies and procedures.

**6.17 PERFORMANCE STANDARDS**

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the City's cash flow needs.

Staff is currently conducting an in-depth analysis of potential benchmarks to evaluate the performance of the City's investment portfolio. The benchmark is a critical component to any investment policy as it reflects the objectives of preservation of principal and balancing investment risks, liquidity and income to be earned of the City's investment portfolio. A forth coming addendum to the investment policy regarding the benchmark will be provided in the near future.

**6.18 REPORTING**

The Investment Officer shall provide to the Finance Committee quarterly investment reports which provide the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, potential changes in the portfolio and/or investment strategies to be implemented.

The quarterly report should include the following:

- A listing of individual securities held at the end of the reporting period by investment category;
- The call date or final maturity of all investments listed;
- Portfolio Duration, a measure of interest rate risk.
- Yield to maturity and yield to worst;
- Par value, amortized book value and market value; and
- Percentage of the portfolio represented by each investment category.

**6.19 INVESTMENT POLICY ADOPTION**

The City's investment policy shall be adopted by resolution of the City Council. The policy shall be renewed annually by the Finance Committee with any modifications approved by the City Council.

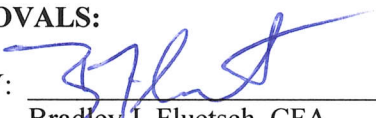


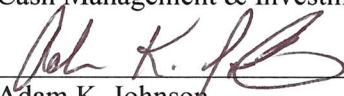
## 6.20 COMPLIANCE WITH CITY INVESTMENT POLICY

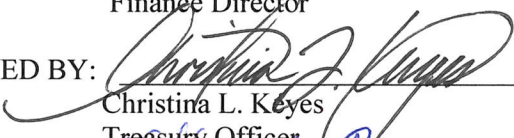
In addition to receiving written certification of compliance with the City's Investment Policy from all brokers directly assisting the City and any external investment advisor whose services may be retained, any bank or credit union serving as a depository for City funds shall also be required to provide written certification of compliance with the City's Investment Policy and all related and relevant State Statutes (NM Statute 6-10-18), whether referenced in the Investment Policy or not. Such certification will also be required of any other such person or firm that undertakes to work with the City to assist in handling investments for which the terms of this policy apply.

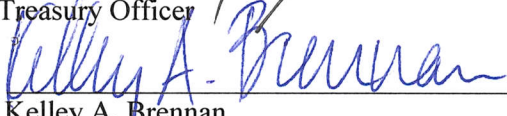
The annually adopted Investment Policy shall be forwarded to all such parties in a timely manner with a request for the return of the certification form via mail, fax, or email. Any interim Investment Policy amendments will also be forwarded to relevant parties and will require resigning and return of the certification form.

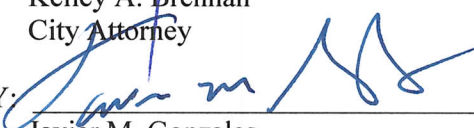
## 7.0 REVIEW AND APPROVALS:

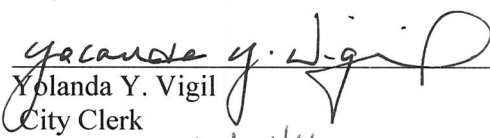
7.1 PREPARED BY:  12-16-16  
Bradley J. Fluetsch, CFA Date  
Cash Management & Investment Officer

7.2 REVIEWED BY:  12-19-16  
Adam K. Johnson Date  
Finance Director

7.3 REVIEWED BY:  12-19-16  
Christina L. Keyes Date  
Treasury Officer

7.4 REVIEWED BY:  12/16/16  
Kelley A. Brennan Date  
City Attorney

7.5 APPROVED BY:  12/27/16  
Javier M. Gonzales Date  
Mayor

7.6 ATTEST:  12-27-16  
Yolanda Y. Vigil Date  
City Clerk  
CC mtg. 12/14/16

## 8.0 APPENDIXES:

### 8.1 Certification Form

**CITY OF SANTA FE, NEW MEXICO  
CERTIFICATION FORM**

As required by the City of Santa Fe Investment Policy

**FILL IN BLANK:**

I, as the registered principal for the firm, \_\_\_\_\_, do hereby certify that I, as well as any other employee covering this account, have reviewed and agree to comply with the Investment Policy of the City of Santa Fe ("Investment Policy").

**CHECK APPROPRIATE BOX:**

- ☐ **As a Bank**, I further acknowledge that if this firm enters into an investment with the City of Santa Fe requiring collateralization, such collateralization will comply with the terms of the Investment Policy and relevant and related State Statutes. A collateral report will be provided to the City on a monthly basis, as well as when there is a change in securities pledged. This bank will also provide the City with a copy of the monthly joint safekeeping receipts(s) issued by the custodial bank(s) holding the collateral. I acknowledge that this bank has implemented reasonable internal control procedures to ensure appropriate investments that comply with the City's Investment Policy.
- ☐ **As a Credit Union**, I further acknowledge that investments with the City of Santa Fe are limited to those covered by the National Credit Union Administration (NCUA) and will not exceed the NCUA stated covered limit of \$250,000.00.
- ☐ **As a Custodial Institution**, I further acknowledge that this bank will perform its custodial duties as pertains to collateralization in conjunction with Wells Fargo Bank, the City's fiscal agent, and will provide the City with a monthly joint safekeeping receipt, as well as receipts if there are changes in securities held on behalf of the City during the month.
- ☐ **As an Advisory Firm**, I further acknowledge that this firm has implemented reasonable internal control procedures to ensure appropriate investment recommendations are made by this firm that comply with the City's Investment Policy.

Signing this form serves to meet the requirement of NM Statute 6-10-18.

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**Return via Mail, E-Mail, Fax To:**

.Bradley J. Fluetsch, CFA, Cash Management & Investment Officer  
City of Santa Fe Finance Department  
P. O. Box 909  
Santa Fe, NM 87504-0909  
[bjfluetsch@ci.santa-fe.nm.us](mailto:bjfluetsch@ci.santa-fe.nm.us)

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