SANDOVAL TREASURER'S INVESTMENT COMMITTEE (STIC)

REGULAR MEETING MINUTES
2nd Floor Training Room – Sandoval County Administration Building
Tuesday, July 10, 2018 - 4:00pm – 5:00pm

1. CALL TO ORDER
Meeting was called to order at 4:00 PM.

Present:

Committee Members:
Laura M. Montoya, County Treasurer
Christopher Daniel, Community Member
Linda P. Gallegos, Deputy Treasurer
David Heil, County Commissioner
Cassandra Herrera, Director of Finance
Dianne Maes, County Manager
Mario Martinez, Community Member
Larry Polanis, STO Treasury Controller

Treasurer Staff:
Victoria Romero, Treasurer's Office
Jennie Taylor, Treasurer's Office

Committee Members Not Present:
Don Chapman, County Commissioner

Portfolio Manager:
Paul Dickson, Vice President-Portfolio Manager, NMBT Wealth Management

Other Members of the Public Present:
Rob Burpo, Sandoval County Financial Municipal Advisor
Robin Hammer, County Attorney

2. APPROVAL OF AGENDA
Motion to approve the July 10, 2018 agenda by Chairman Heil; Second by Linda Gallegos; All in favor; Motion carries.

3. APPROVAL OF MINUTES
Motion to approve the April 17, 2018 minutes by Larry Polanis, Second by Christopher Daniel. All in favor; Motion carries.

4. INTRODUCTION
Treasurer Montoya asked everyone to go around the room and introduce themselves.

5. STATUS OF THE TREASURER'S OFFICE
Laura M. Montoya, Treasurer

- Treasurer Montoya reported that her office is preparing for the annual audit. On July 11, 2018, her office sent out the Cash Management Procedure which was updated per the auditor's request. It was suggested that it be sent to the whole county to ensure that everyone who handles county funds are aware. Additionally the acknowledgement form goes to every department that deals with cash.
- Treasurer Montoya showed the committee members the Letter of Credit which is always done during the July STIC meeting. The effective date is January 3, 2018 to December 31, 2018; she used to do it by month, then by quarter and then realized it would be better to do it for the whole year. She presented

it previously but thought it would be better to present it for the investment policy at the end of one fiscal year and going into another fiscal year. The County will be fully collateralized on that end for the banking portion.

- Treasurer Montoya stated that she will be attending the NACo Annual Conference the week of July 9th and has been asked to be a panelist for a discussion about cash handling and the importance of credit card services for point of sale, online and web. She will be sharing some of Sandoval County's data on our IVR and web to show that we usually have about $500,000 of an increase every year just on point of sale which is done at the payment window with credit/debit cards. In addition, with our web, they've been going up to about $500,000 to $1mil every year. IVR has stayed consistently low to only a $25,000 increase each year.
- There has been a question in regard to fraud or someone calling taxpayers indicating that Sandoval County will be foreclosing on them. Treasurer Montoya stated that the county does not foreclose on people; nor does the State. The State does an annual auction and they are currently in our county researching accounts.

6. STATUS OF COUNTY INVESTMENTS
Laura M. Montoya, Treasurer; Paul Dickson, NMB-T Wealth Management
An overview of the accounts, a review of strategy and performance in the bond market were presented by Mr. Dickson. There has been big changes in the last couple of years and the Federal Reserve has continued to hike short rates which has been a drag on bond market performance. Mr. Dickson stated that the County has done well riding out the storm. They are more than half way done with the rate hikes for this cycle. As they reinvest maturities, they can be confident that it wasn't quite as bad, depending on what the yield curve does.

Everything is invested in either Government Security or Federated US Treasury Money Market. Any residual cash we have left is well below the FDIC limits. Cash in equivalence at the end of the quarter got down to about 1%. The Treasurer worked with Mr. Dickson to make sure everything was invested and collateralized by the end of the fiscal year. As for maturities, they still have the latter half of this year; nearly 20% of the portfolio coming due. Through 2019 another 20% and a little over 10% in 2020. This means within the next two years, nearly half the portfolio will be coming due and will be ready to reinvest. The timing will be consistent with the end of the Federal Reserve rate hike cycle. As they are reinvesting, proceeds going forward will be at much better rates. Most recently in those accounts which they have invested longer, they have been picking up agency bonds at greater than 3% yield at 5 years. This means they are not extending the portfolio much at all, yet picking up quite a bit more yield. As we get a more normal investment bond market, we'll get the yield back up.

Cash Management, the largest account with less than $30,000 in cash, has also invested the rest in a ladder of agencies and treasuries. As noted, quite a bit of them come due in short term. The duration at two years means the overall average time of maturity is relatively short. Yield maturity on those bonds, a number have been called, is 2.7%. A few of the bonds will be called and they'll get a 2.5% yield to maturity. Compared it to where they had started in 2013, at 80 basis points, they've come up significantly. If the account was liquidated tomorrow, it would still accrue that interest.

Rob Burpo asked Mr. Dickson to point out the bonds that he believes may be called prior to maturity. Mr. Dickson stated that some of the Step Coupon Bonds, like the Freddie Mac Home Mortgage, have a fairly steep step coupon schedule and as those bonds step up some of them have a high coupon toward the turn of this last year or two of its period. Those are the ones that are most likely to be called. The way NMBT gets that number for the yield convention is not their guesstimate whose will be called, it's the market's guesstimate. If you go to the Bloomberg with these particular securities, the way it is priced compared to the yield curve gives you an indication of what the market thinks it's going to do. The bonds with the step coupons are the most likely to be called.

Mr. Dickson added that the 2021 Bond for Federal Home Loan Mortgage is at 3% so they have picked up some securities with the 3% coupon. Treasuries haven't done that for us at that rate.

General Fund also has some step coupons that will roll off. Yield is very similar and in line with the Cash Management account. There are a number of other bonds that will be coming due very shortly. They will be working with the Treasurer on what she would like to do with the General Fund monies.

Indigent Needs (HCAP), has not been formally changed. At the Treasurer's direction, they have been shortening maturities. In the Treasuries there are a number of zero T-Bills that are all going to come due this year and they are now approaching the one year duration on this account. Treasurer Montoya indicated that the decision to shorten the maturities was at the direction of the Finance Director and the Community Services Director. They are going to be spending all of it by the next year. That is why the put $215,000 in a T-Bill in the last month. Mr. Dickson said there are two T-Bills; one for the $215,000 and the other for $360,000. One comes due in August and the other in September. So there will be a half a million dollars of liquid cash in the balance sheet. There are also two agency bonds coming due in that same time frame. They'll have more than $750,000 in cash this summer.

The New **Economic Incentive Account** is a short portfolio overall as it's invested in a similar fashion. Treasurer Montoya indicated that she has received direction that this account will be used fairly quickly, within the next two years; that is why they haven't been able to invest further out. She also indicated they also have the STO LGIP funds that are part of the Economic Development Incentive Account; however it is through the State Treasurer's Office-Local Government Investment Pool. County Manager Maes asked if it was the transportation one. The Treasurer indicated it is not specific to the two different projects.

Mr. Dickson clarified that the funds for the **Library Bond** have already been distributed. Treasurer Montoya said the remaining $134,000 is on the banking side.

The **AMI Kids** account is similarly short and is a small account. Treasurer Montoya stated that $160,000 was taken out of this account and placed into the bank account for the $127,000 rental income where the County pays a portion and AMI Kids pays a portion. Therefore $160,000 will hold us for several months and then they will readjust according to whatever decision the Commission makes at the State Board of Finance in the future.

The **Bond Reserve**, does not have a lot of activity. Mr. Dickson indicated that it's still invested in the securities his predecessor had bought.

AMI Kids Maintenance is the smallest account. It has a maturity this month as well. Mr. Dickson said they will need to ask what they should do with those proceeds. Treasurer Montoya said that they had always been told that in regard to the bond reserves that they should go out further because they were going to become a reserve. However, because of what's going on with AMI, she wasn't sure if she should have it more short-term or keep it long because it won't be used by AMI for any technical maintenance or anything else.

Rob Burpo stated that this was an account which was required by the lender, NM Finance Authority, which they already had in place because it was a maintenance reserve and it's not expected to be hit for ten years from the original date. If you were to go out another five years, max, maturity you would be okay because you would be within that window of the original 2012; so you can go out to 2022 or 2023.

In regard to the Treasurer's transactions, there were a few that Mr. Dickson wanted to highlight. There are some reinvestments but the disbursements from the Library Bond and the AMI Kids Bonds are both included in the presentation so the committee members can see those transactions.

In regard to the collateral issue, it shows that they are fully invested in permissible securities that are government guaranteed or backed in some fashion. They're allowed cash up to $150,000 and we don't have anything near that. What they do have is mostly invested in either the Heartland Savings at NM Bank and Trust, which is FDIC insured, or if we had more than that, we would put it in a fully collateralized Treasury Money Market. We review this every month and made sure we were fully collateralized at the end of the fiscal year. On Saturday, June 30, 2018, we had maturities come in at a sizable amount. We had to do the transactions on Friday to be in possession of the bonds so when maturities happen, they own the bonds. We had the bonds by Friday but if they would have waited till Monday they technically would not have been collateralized because it's what you're invested in. We had to make sure it was done before the Saturday. In the future, we will not buy anything that matures on June 39th if we can avoid it.

We are now able to buy bonds and are able to get higher yields. As yields have been rising, we've been able to take our proceeds and reinvest at better rates. This has been our strategy all along to be conservative until we get to this point. Now, at the direction of the Treasurer, we will start to add a little duration where we can get a reasonable rate where we believe our return risk makes more sense. There's a possibility of the treasuries rates reaching 4% in this cycle.

Christopher Daniel asked how much of the yields pressures the response to the possible recession. Mr. Dickson responded that as the economy improves and picks up steam; as an inflation and depression start to build, yields go up and bond prices go down so that shows a mark to market. So all the securities they own and all the securities on the bench mark are earning income all the time. The problem is as that as the bond market sells off, as bond prices go down to get the higher rates that mark-to-market is a loss. They didn't want to be in a position where they had too much interest rate risk with duration in the portfolio. As this transition happened they end up being well behind. What they should see moving forward, as they pick these higher rates up, our total return will rise. For many years the bond market was in a secular period of falling rates so it was easy to make money in the bond market. As they normalize rates they'll start to actually get some income.

Rob Burpo had a question in regard to the performance part of the presentation. He said that he looked at the statement pertaining to Cash Management, which indicates the value of the account is $6,894,618.65. The year started off with $6,880,092.00 which would be a loss; not a gain. Mr. Dickson explained that these are gross of fees which are 15 basis points; so for the year they take off 15 basis points. From the beginning of the year, Mr. Burpo is probably right but they are currently at six months. Mr. Burpo then asked if the numbers in Mr. Dickson's presentation are adding back in his fees which are being charged for the year. Mr. Dickson said yes because it is gross of fees which is common to do. It's comparing apples to apples. Treasurer Montoya clarified that the fees for each account which are taken out monthly are already included in the packet which the committee members were given.

For their outlook, they believe that the Fed is going to hike rates at least once this year; possibly twice according to the Federal Reserves. A lot of the Reserves have said that they believe the odds of the second hike are going down. Nonetheless there is at least one expected this year and possibly a couple more next year. It's okay because they have so much coming due in these accounts that we are looking forward to it. He does not foresee a rural economic slowdown coming any earlier than 2020. Hopefully they'll get reinvested with slightly a longer duration by the time the recession comes in 2020, when rates start falling again and they'll get both the higher rates and rising bond prices.

Yield curve, in 2012 was the bottom ground line. That is when they started the investment process which is when interest rates were very low and difficult; today they are finally at the red line. A lot of it is the Federal Reserve forcing the rates up on the short end. This gives us the ability to invest at higher rates. That's what's going on with the bond market and that is what's caused the low rates on return and negative returns for bonds in this period as the economy recovers and inflation picks up.

Treasurer Montoya wanted to add the breakdown between Wealth Management with about $16 million in the portfolio and LGIP with $2.2 million in that portfolio totaling approximately $18 million; however when you look at what we really have, the Bond Reserves cannot be utilized, and the Economic Development and the Indigent account are supposed to be gone within the next two years. The only item we really have cash on is our General Fund and Cash Management account which we have to safeguard 3/12 and 1/12 for the road fund which cannot be utilizes because of DFA requirements. When you look at it from that perspective, you don't have a lot of money. The money you do have is going to be gone or is required to stay as a reserve.

7. INVESTMENT POLICY DISCUSSION
Laura M. Montoya, Treasurer
The last quarter the investment policy was discussed by a team of the County Manager, the Finance Director, the Chairman, the Treasurer, the Treasury Controller and the County Financial Municipal Advisor. Mr. Burpo had been working on it for the last three months or before the last STIC meeting. The Treasurer showed everyone the Investment Policy draft with both the red line version and the clean copy to show what was on it originally to what had been changed. On the first few pages changes made were agreed upon by everyone on the committee. There have been concerns in regard to the Professional Portfolio Manager and the Investment Committee.

Treasurer Montoya brought it to the committee because the policy is something that should be reviewed or given guidance by the committee members and then presented to the Board of Finance on an annual basis.

Input, additions, edits or concerns were discussed by the committee. Christopher Daniel had a couple of questions in regard to the updated version of the policy. In reference to a potion stating "to comply with the **Internal Revenue code section 54A**." What does section 54A state about maturities not exceeding three years? The Treasurer stated that she was unsure of that information and Mr. Burpo, the County Financial Municipal Advisor, already exited the meeting at 4:36 p.m to comment on why he had added that. Larry Polanis clarified that it was pertaining only to bond proceeds. There is an expectation when you're issuing a bond, the bulk of the proceeds will be substantially spent at three years; generally no longer than five years. Mr. Polanis believes that the intent of the IRS was to say, don't go issuing bonds so that you can go and stick it in investments. The idea is to have your maturities come in with your expenditure that you would expect for that bond and you would be substantially using those proceeds within a limited matter of time. Obviously they had that in arbitrage as well. This was meant for the county commissioners to have the intent to use the bond proceeds within the time frame permitted.

The second question he had was in regard to **collateralization**. In the second paragraph it refers to 103%, is that referenced somewhere else previously? Treasurer Montoya referenced page 6 under collateralization where it shows the ratios; right now they are at 75% and with the new banking contract, they renegotiated it from 103% to 75% at 23 basis points. The Federal Fund Rate minus 1.0 is what you will get. Right now they are getting 75 basis points and they keep it for six months because they only review every six months based on whatever the Federal Fund Rate is. Mr. Daniel asked if she was referring to her earnings. Treasurer Montoya confirmed that he is correct. She added she gets 50 basis points for the non-interest bearing accounts.

Mr. Daniel said that he feels that it is unnecessary to have the 103% in there and they should be able to simply state that they can have their collateral between 50% and 103% if that's their ceiling. Mr. Polanis said that according to State Statute, they are in compliance to include the 103%. Treasurer Montoya added that most banks won't even take your money if you're going to do it at 102% and that's how that part of the negotiation took place. She also stated that they implemented a graph in the policy to explain where the percentages were coming from based on what the Statute said. The way they are currently doing things is that they are collateralized through a Letter of Credit on the banking side. The issue sometimes is that you get new Commissioners and they don't know about the collateralization or the purpose of it, so they keep it in the policy to keep everyone informed.

Mr. Daniel had another question in regard to the financial advisor section. He asked if they had a debt policy; separate from the investment policy. Treasurer Montoya stated they do not have a debt policy. Mr. Daniel said that he was wondering why the financial advisor is related to the public finance or debt program.

Another question Mr. Daniel had pertaining to the **Professional Portfolio Manager** is if it were a discretionary or non-discretionary agreement. Treasurer Montoya clarified that right now she makes all the investment decisions and Mr. Dickson gives the advice and does the trades. Robin Hammer, the County Attorney, asked Treasurer Montoya if she wanted to add that to the rules. That it's non-discretionary so that in the future that don't have any question about whether it is discretionary or not. Treasurer Montoya agreed.

Treasurer Montoya stated that there was another area that she wanted to have the County Financial Municipal Advisor, Rob Burpo clarify was in regard to a section that may be added, "in order to comply with the Security and Exchange Commission's Municipal Advisory Rule, Rule 15B, effective July 1, 2014, the County will not rely upon the advice of any Professional Fund Manager with regard to the investment of any county bond debt proceeds. Investment information, if any, received from a professional fund manager is to be of a general nature and is not to be relied upon by the county investment officer in making investment decisions pertaining to county bond debt proceeds. An investment officer may invest such bond debt proceeds if approved investments set forth herein." Treasurer Montoya said that is from the City of Albuquerque. Christopher Daniel said that is what he was referring to in regard to non-discretionary.

The **Investment Committee** was also brought up for discussion as a concern.

Treasurer Montoya wanted to point out that the policy that's currently adopted by the Commission says, "The investment committee shall meet quarterly, shall be established by the Board of Finance." It's comprised of the County Treasurer, the County Manager, the County Finance Director and a member of the Commission, who shall be named by the County Commission, and a resident." That's basically the same wording that is being proposed right now. The Treasurer's disagreement is that there should be as many people at the table that are going to help in giving her the best guidance to serve our community and that includes her two community members, the deputy and the controller. It has always worked out great having two community members. They had actually added a third community member when they first had the conversation and the Chairman wanted a community member appointed by the commission. She thought it was great to have one more community member come to the table for the discussion to get different perspectives.

The Treasurer pointed out that the committee is advisory and voluntary; she has never paid any committee member to attend. In the past they didn't have a Commissioner, County Manager and a Finance Director present; however the committee still met to make decisions, have always had public meetings and whoever wanted to be present could attend. They vote but it's not a vote that is a policy making decision because all the ideas they come up with goes to the Board of Finance as they are a policy making board.

Overall she didn't want the "investment committee" wording in this investment policy, because she is a true believer that the policy is supposed to be on the parameters of what she is permitted to invest in; however, in good faith, she wanted to work with the chairman in getting this done and his desire to include a committee portion in the policy.

Community Member, Mario Martinez, commented that if it works they don't need to fix it. He likes the idea and when he first came on the committee because of the autonomy that's associated with it. He liked the transparency. At first they dealt with really big things and now it's dealing more with what they are now discussing on a quarterly basis. Anytime you have people willing to serve, it's a win/win. He gave the example of the charter schools who are looking for people to serve on their boards. He said he would like to stay fighting for what they have accomplished. He said as a community member, it helps in instances where he goes to senior centers and discussions come up in regard to county finances with the Treasurer and he can explain what's going on. He feels that it's good to have one person out there to offer more transparency to the public. If there are two or more people willing to serve, let it be.

Community member Christopher Daniel, asked if the issue is the number of community members. Chairman Heil explained that is not the issue as he was taking the policy from Bernalillo County as it defines more. He wanted to stimulate conversations in this issue to, hopefully, get a resolution. He wants to bring it to conclusion.

Treasurer Montoya commented that she spoke to the current Bernalillo County Treasurer, Nancy Bearce, who stated that they are currently amending their investment policy right now which appears to be very similar to Sandoval County's Investment Policy.

Chairman Heil stated that he wants this investment committee to have the capability to go to the Board of Finance whereas right now it's just at the advice of the Treasurer.

County Manager Maes included that, as stated before, none of the people in the committee were present way back when so it's something that needs to be functional and works for whoever is at the table.

Treasurer Montoya agreed and said that she believes that it's currently functional the way that they have it. She said she does have a problem with being compared to Bernalillo County because Sandoval County is nothing like them. Treasurer Montoya looked up the Bernalillo County Moody's Investment Services which wrote about their investment policy, "Weak internal controls persist after implementation of new investment policy." Bernalillo County has $400 million dollars in investments; Sandoval County has $18 million which only approximately $3 million can be utilized one way or the other. The investment committee is not required by Statute and one elected official cannot have authority or supersede over another elected official. In the current policy, which was implemented in the Treasurer's election year, it was mandated that, "The investment committee shall meet quarterly and its meeting dates shall be established and approved by the Board of Finance, County Treasurer, and Portfolio Manager. The County Financial Advisor shall be required to attend the investment committee meetings." Treasurer Montoya clarified that they cannot mandate one another to attend the meetings. The Commission can mandate the County Manager, the County Manager can mandate any of the County employees and the Treasurer can mandate her staff; however they cannot mandate one other. They all come together because they care about their community and want to make it better. She wants to ensure that everyone gets to be at the table and everyone continues to volunteer their time for the best interest of our community.

8. STATUS OF 2017 COLLECTIONS, PTD LIST & AUCTION
Larry Polanis, Sandoval County Treasurer's Office
Currently we are at 99.2% collection rate over the ten year period we're obligated to collect for. We will have a true number for the full ten years in September before placing the new tax year on the tax roll. Current year collection, is at 96.82%. Collection rate for the previous nine years is a bit higher this year but basically the same.
This tax year there has been an increase of taxes charged to the Treasurer of $38 million dollars. Our tax roll continues to grow. Over the ten year span, the current year was about $9 million dollars lower due to the drop of the hospital levy and a few other levies in the city of Rio Rancho and Corrales. Nonetheless, the ten year number continues to grow.

The 2015 tax year number of 99.27% is the exact same number as the last year. This is the number that they will be turning over to the state later this week. Anything beyond two years will be reported to the State of NM and they will inherit that obligation. Right now this number would stand for the 2015, 2016 and 2017 number because when you report the 2015 you have to bring all taxes current before the State will release you. Currently they have 2,233 accounts; penalty and interest at about $170,000. The County will miss out on this because the State will keep it. The County will get taxes back of about $1,065,000.00. About 1300 accounts belongs to one taxpayer known as Rio Rancho Land Partners; it's mostly vacant lands. They are looking at about $126,000 for that; about $45,000 will be penalty and interest. The Treasurer's Office has advised the taxpayer that the cost to state fee that is imposed on all property is $125 per account/parcel. The cost to state for this is going to be over $165,000.00. This taxpayer has ignored this warning. The State will take this on for the next fiscal year.

Treasurer Montoya showed the committee the auction list for the accounts that are on the State's website. She included that you can access it through the Treasurer's website as well. Commissioner Heil asked if there was any situation where they're creating the disassembly of property especially in the areas like Rio Rancho that make the property less developable. He clarified that there are many disassembled lots that the County can't do anything with. Treasurer Montoya stated that they got a bill passed this last year by the name of House Bill 88. If there are 5,000 lots in one area that haven't been paid in ten years and the deed was before 1980, then they can offer it to a Pueblo or a Land Grant if they owned it before or a non-taxable entity which can be Sandoval County. The County could then subdivide it and use it for Economic Development or whatever it wishes. That could assist with that concern.

Treasurer Montoya concluded that the Sandoval County Treasurer's Office has changed their website. The County Public Information Officer is doing amazing and even received credit in the newspaper twice in one week. The website is easier to read through and more transparent. The Monthly Treasurer's Report for the last two years and the Investment Policy are now available to view online. She encouraged everyone to visit the website.

9. NEXT MEETING DATES
Tuesday, October 16th

10. NEW BUSINESS

11. ADJOURN

Motion to adjourn made by Larry Polanis; Second by Linda Gallegos; All in favor; Motion carries. Meeting adjourned at 5:21 p.m.