

INVESTMENT POLICY
of
SANDOVAL COUNTY

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INTRODUCTION: This Investment Policy ("Policy") applies to all financial assets of Sandoval County ("County") including, but not limited to, the assets of the County's:

General Funds
Special Revenue Funds
Capital Projects Funds
Enterprise Funds
Debt Service Funds,
Debt Service Reserve Funds and
Agency Funds

This resolution establishes a policy for the prudent investment of County funds, and the maximization for the efficiency of the County's cash management system.

RECITALS:

SCOPE OF POLICY: The goal of this Policy is to protect public funds and to invest County funds in a manner that insures the safety of the investment, that provides for adequate liquidity and proper maturities and that maximizes investment income after providing for safety and liquidity. It also serves to establish a clear understanding between the County and any investment broker, financial advisor and/or professional fund manager utilized by the County as to the guidelines, limitations and directions that the County has determined appropriate for accounts under its purview.

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

OBJECTIVE: 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. Future use of funds shall be a criteria is determining maturities for any investment.

RETURN ON INVESTMENTS: 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.

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NOW THEREFORE BE IT RESOLVED THAT:

DELEGATION OF AUTHORITY: 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. The Board of County Commissioners hereby adopts this Policy.

The County Treasurer has ultimate authority over the investment of public funds as outlined 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.

PRUDENT PERSON RULE: The prudence which is to be used by the Investment Officer investing County funds shall be used in accordance with the provisions of Section 6-8-10, NMSA 1978 which states "Investments shall be made with judgement 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: Board of Finance members, County Manager and any and all Investment officials shall refrain from personal business activity that could conflict with the proper execution of the County's investment program or which could affect or impair their ability to make impartial investment decisions on behalf of the County. (Sections 6-10-40 and 6-10-53 NMSA 1978.)

CASH MANAGEMENT: The Board of Commissioners and the Treasurer's Office shall jointly prepare and maintain an ongoing cash management program. This program will involve the preparation of a regular report that includes projections for cash receipts (revenues), cash disbursements (expenditures) and interest earned or estimated to be earned on overnight investments. The Board of Commissioners shall notify the County Treasurer on a regular basis of county expenditures and of any large expenditures anticipated so that cash liquidity can be planned according to the cash management report and County expenditures. The County Treasurer shall take into consideration these projected cash needs of the County when setting investment maturity dates. It shall be the duty of the Investment Officer to provide for adequate security for funds received, receipt and disbursement reports and accounting of all cash and cash management activities.

BANKS SELECTION: Public money may be invested with banks and savings banks having their main or manned branch offices within the geographical boundaries of the County, which have qualified as public depositories by reason of insurance of the account by an agency of the

United States (FDIC), or by depositing collateral security of United States Treasury or agency securities as provided herein, letters of credit from the Federal Home Loan Bank or by giving bonds as provided by law. (See Section 6-10-36C, NMSA 1978)

INVESTMENTS: All sinking funds or money remaining unexpended from the proceeds of any issue of bonds or negotiable securities which by law are entrusted to the care and custody of the Treasurer, and all money not immediately necessary for public use, may be invested in interest bearing deposits with banks and savings banks within the geographical boundaries of the County. All funds available for investment with local banks and savings and loans must be equitably distributed according to the net worth of each institution in accordance with State Statute 6-10-36. If any bank or savings bank within the geographical boundaries of the County declines to accept any part of their pro-rata share of County funds, a written notice of such shall be obtained by the Investment Officer. The funds that are declined shall be considered excess and may be invested in those securities authorized by the laws of the State of New Mexico, including the following approved investments:

1. Certificates of Deposits with federal or state chartered banks or savings banks, to be collateralized by United States Treasury Bills and/or Municipal Bonds issued by New Mexico entities whose daily closing price ("mark-to-market") is equal to or greater than that portion of the Certificate of Deposit and interest thereon, that the Federal Deposit Insurance Corporation ("FDIC") does not insure.
2. United States Treasury Bills, United States Treasury Bonds, and United States Treasury Notes.
3. Bonds or negotiable securities of the State of New Mexico or any County, Municipality or School District.
4. Short term investments with the Local Government Investment Pool as per Section 6-10-1.1, NMSA 1978. Also see Sections 6-10-1.0 and 6-10-44, NMSA 1978.
5. Securities that are issued by the United States government or by its agencies or by instrumentalities and that are either direct obligations of the United States, the federal home loan mortgage association, federal national mortgage association, the federal farm credit bank or the student loan marketing association or are backed by the full faith and credit of the United States government. Derivative investments are not "direct obligations" and hence, are not approved for any accounts
6. All investments set forth in 1-5 above must have readily ascertainable market value and be easily marketable.
7. In the event the State Statutes are legally changed to allow other securities as appropriate for investment by the County then this policy shall be amended to include those securities as appropriate with the approval of the Board of Finance.

BE IT FURTHER RESOLVED that the interest rate to be paid on time deposits shall not be less than the rate fixed by the State Board of Finance under Section 6-10-36.e, NMSA, 1978 Comp. Additionally, the County will diversify use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities.

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 disbursements) 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 create a program that will match investment funds with maturities. Such maturities may be either by fund or in aggregate, depending on market conditions, professional advice, other proposed financings or other matters that will could have a positive or negative impact on rates of return.

INVESTMENT SELECTION CRITERIA AND ASSET ALLOCATION:

1. Cash and cash equivalents may include Treasury bills, certificates of deposit due within 12 months, and money market funds that invest in U.S. Government and its agencies securities. The purpose of these funds is to provide income, liquidity and preservation of the funds' principal value.
2. The maximum maturity of the securities purchased for an account cannot be greater than eight (8) years. The average weighted maturity of the entire portfolio shall be less than five years.
3. The maturity schedule of the portfolio must take into account and reflect future cash needs and the goal of maximizing investment returns.
4. The weighted duration of the portfolio should never exceed five (5) years unless there is prior review by the County Treasurer. Duration is defined as the weighted average time to full recovery of principal and interest payments. Duration provides a summary statistic of the average maturity of the portfolio. Second, it is an essential tool in immunizing a portfolio from interest rate risk. Finally, duration can be used to estimate the interest rate sensitivity of a portfolio. For example, if the portfolio has a duration of five (5) years, and if yields decline by one percent, the portfolio market value could rise in value by approximately 5 percent.

COLLATERALIZATION: The following guidelines shall be utilized to ascertain the level of collateral required from each local bank or savings bank. These ratios are in agreement with those set by the State Board of Finance for the State of New Mexico. Sandoval County will require collateral at one hundred and three percent (103%) on deposits or investments on amounts greater than the FDIC coverage and reserves the right to set the level of collateral

required based on criteria other than the ratios below. Written justification for the variance shall be kept on file in the Treasurer's Office. Should the financial institution use a payment or performance bond, if provided by law, then the amount of collateralization shall be equal to the amount of the principal and accrued interest not otherwise covered by federal insurance. The maturity of deposits so collateralized shall be for the lesser of the term of or time for cancellation of such payment or performance bond.

BE IT FURTHER RESOLVED that all banks and savings banks in which the County's funds in excess of \$100,000.00 are deposited will be required to enter into the attached Collateral Security Agreement (Attachment #1) which is adopted and included as part of this Policy. (NMSA 1994, 6-10-18a)

SAFEKEEPING OF SECURITIES: All investment 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 safekeeping receipt or other evidence (i.e. book entry notice) to the County listing the specific instrument, rate, amount, maturity date, instrument number, term and other pertinent information. Any financial institution holding securities for the benefit of the County shall be required to provide insurance sufficient to cover 100% said securities in the event that the financial institution fails financially and is unable to meet obligations to securities clients. Insurance such as Securities Investor Protection Corporation (SIPC) and private insurance shall be acceptable. The Investment Officer shall prepare the Safekeeping Report monthly.

INTERNAL CONTROLS: The County Treasurer, as the Investment Officer, shall document and maintain a system of internal controls for the making of investments of County funds. The internal controls and compliance thereof shall be reviewed by independent auditors on an annual basis. The County Treasurer shall review the systems of controls periodically to insure such controls are effective and that the County is complying with such controls. The Treasurer shall provide quarterly to the Board of Finance a copy of the internal controls policy, and any amendments thereto.

INTERNAL REPORTS: The Safekeeping Report, Pro-Rata Distribution Reports and Investment Report shall be compiled by the County's Investment Officer monthly and published along with the Treasurer's Monthly Financial Statement. The Chief Investment Officer shall have daily access to reports from safekeeping institutions showing daily mark-to-market valuations of investments other than those local banks and savings banks certificates of deposit.

COMMUNICATIONS AND REPORTS: Any investment broker, financial advisor and/or professional fund manager actively doing business with the County must submit to the Investment Officer on, but not less than, both a quarterly, and fiscal annual basis, investment reports showing total amount invested, cost basis and market value of each security, amount invested in each type of security, maturity schedule of the portfolio, yield and cash flow analysis of the portfolio, and the time weighted return for each reporting period. Any transaction that occurred during the reporting period should be shown as well as any realized gains or losses. All

exhibits and written material that will be used for presentation to the Treasurer and Commission shall be submitted to and received by the Treasurer at least five (5) business days prior to any meetings with the Commission, unless otherwise approved in writing or unless waived in writing by the Investment Officer.

PROFESSIONAL FUND MANAGER: The County Treasurer, with advice and consent of the Board of Finance may retain a professional fund manager, under a contract approved by the Commission, if said manager: (i.) is licensed to perform such services in the State of New Mexico and as a Registered Investment Advisor ("RIA") under the Investment Advisor's Act of 1940, as amended, (ii.) has had at least seven years experience in managing investments approved herein for other governments and fiduciary institutions and has at least \$1,000,000,000 under management for investment disciplines similar to this Policy; (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 fund manager or manager assigned to the County within 30 days of each change; (vi.) 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; (vii.) agrees to meet personally with the Commission at least annually; and (ix) agrees to be bound by the dictates of this Policy. Such meetings shall address the professional fund manager's views on developments within the national economies, the securities markets and the potential effects of these developments on investment strategy, portfolio maturities and other fiscal matters. Manager's rate of return shall be measured against their peer and passive indices and their 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 professional fund manager.

PORTFOLIO MANAGER: The County Treasurer, with the advice and consent of the Board of Finance may hire a portfolio manager, under an employment agreement approved by the Commission, if said portfolio manager: (i.) is licensed to perform such services in the State of New Mexico; (ii.) has had at least seven years experience in managing investments approved herein for other governments and fiduciary institutions for investment disciplines similar to this Policy; (iii.) is compensated only on a salary basis and does not receive commissions, mark-ups or other compensation on securities purchased for the County; and (iv) agrees to be bound by the dictates of this Policy.

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 and the Board of Finance at least quarterly; 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 economies, 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 lessor 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. The Investment Officer reserves the right to request monthly meetings.

INVESTMENT BROKERS: 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. Each investment broker must agree to advise the County in writing of any significant changes in the ownership, organizational structure, financial condition or senior personnel staffing or change of broker handling transactions for the County. A copy of this Policy shall be given to any investment broker doing business with the County.

BE IT FURTHER RESOLVED that this Policy may be revised as appropriate. It shall be the obligation of the Investment Officer to bring such amendments to the Board of Commissioners and obtain the approval of their majority before such changes and amendments take affect.

Revised and Adopted this 3rd day of March, 2005.

Board of Sandoval County Commissioners

ATTEST:

Sally Padilla
Sally Padilla, County Clerk

William Sapien
William Sapien, Chairman

Jack E. Thomas
Jack E. Thomas, Vice Chairman

APPROVED AS TO FORM:

David Mathews
David Mathews, County Attorney

David Bency
David Bency, Member

Don Leonard, Member

Joshua Madalena, Member

**Attachment #1 to the Investment Policy
of
Sandoval County**

COLLATERAL SECURITY AGREEMENT

This COLLATERAL SECURITY AGREEMENT is made and entered into on the date herein

Written by and between the County of Sandoval hereinafter called "Depositor", and _____, a National or New Mexico State banking association, organized under the laws of the United States and/or New Mexico and authorized by law to do banking business in the State of New Mexico, hereinafter called "Bank".

Background: Depositor, through action of its governing Board, has designated Bank as a depository for funds of the Depositor. During the term of this Collateral Security Agreement, the Depositor will, through appropriate action of its governing Board, designate the officer, or officers, who singly or jointly will be authorized to represent and act on behalf of the Depositor in any and all matters of every kind arising under the Collateral Security Agreement. Bank's Deposit Agreement is incorporated herein for all purposes; however to the extent that any provision therein conflicts with a provision herein, this Collateral Security Agreement will control. AU funds on deposit with Bank to the credit of the Depositor are required to be secured by Collateral as provided for in the investment policy of Depositor in effect at the time the initial deposit is made, and if Depositor does not currently have an investment policy, in the investment policy of the Treasurer of the State of New Mexico.

To perfect the security interest of the Depositor in the Collateral pledged by the Bank, an independent third party financial institution acceptable to the County, Namely _____ will hold the Collateral in a custody account for the benefit of the Depositor. The said third party financial institution is hereinafter referred to as "Trustee"

NOW THEREFORE, in consideration of the foregoing, and for other consideration, the receipt and sufficiency of which are hereby acknowledged, it is agreed as follows:

I. Bank hereby pledges to Depositor, and grants to Depositor a security interest in, those assets owned by Bank and held by Trustees for the benefit of Depositor, in accordance with the terms of this Collateral Security Agreement (hereinafter, the "Collateral"), to secure the deposits held by Bank for Depositor as required by the investment policy of Depositor and/or the Treasurer of the State of New Mexico.

II. Bank has heretofore or will immediately hereafter deliver to Trustees Collateral of the kind and character permitted by the investment policy of Depositor and/or the Treasurer of the State of New Mexico of sufficient amount and market value to provide adequate Collateral for the funds of Depositor deposited with Bank. Said Collateral or substitute Collateral, as hereinafter provided for, shall be kept and retained by Trustees in trust so long as the depository relationship between Depositor and Bank shall exist hereunder, and thereafter so long as deposits made by

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Depositor with Bank hereunder, or any portion thereof, shall have been properly paid out by Bank to Depositor or on its order.

III. Bank shall cause Trustees to accept said Collateral and hold the same in trust for the purpose herein stated.

IV. Should Bank fail at any time to pay and satisfy when due, any check, draft, warrant, or voucher lawfully drawn against any deposit, or in case Bank becomes insolvent, or fails to maintain adequate Collateral as required by this Agreement, or in any manner breaches its contract with Depositor, Depositor shall give written notice of such failure, insolvency, or breach to Bank, and Bank shall have three days to cure such failure, insolvency, or breach. In the event Bank shall fail to cure such failure, insolvency, or breach within three days, it shall be the duty of Trustees, upon demand of Depositor (supported by proper evidence of any of the above-listed circumstances), to surrender the above described Collateral to the Depositor. Depositor may sell all or any part of such Collateral and out of the proceeds thereof pay Depositor all damages and losses sustained by it, together with all expenses of any and every kind incurred by it on account of such failure or insolvency, or sale, accounting to Bank for the remainder, if any, of said proceeds or Collateral remaining unsold.

V. Any sale of such Collateral, or any part thereof, made by Depositor hereunder may be either at public or private sale; provided, however, Depositor shall give Bank three days notice of the time and place where such sale shall take place, and such sale shall be to the highest bidder therefore for cash. Depositor and Bank shall have the right to bid as such sale.

VI. If Bank shall desire to sell or otherwise dispose of any Collateral deposited with Trustee, it may substitute for the Collateral other Collateral of the same market value and of the character authorized herein. Such right of substitution shall remain in full force and may be exercised by Bank as often as it is desired-, provided, however, that the aggregate market value of all Collateral pledged hereunder, shall be at least equal to the amount of Collateral required hereunder. If at any time, the aggregate market value of such Collateral so deposited with Trustees is less than the total sum of the Depositor's funds on deposit with said Bank, Bank shall immediately deposit with Trustees such additional Collateral as may be necessary to cause the market value of such Collateral to equal the total amount of required Collateral. Depositor shall have the right to reject substituted Collateral by the Bank. Bank shall be entitled to income on the Collateral.

VII. Collateral held by Trustees, and Trustees may dispose of such income as directed by Bank without approval of Depositor, provided a breach of contract does not exist.

VIII . Bank shall cause Trustees to promptly forward within three business days to Depositor copies of safekeeping or trust receipts covering all such Collateral held for Bank, including substitute Collateral as provided for herein.

IX. If at any time the Collateral in the hands of Trustees shall have a market value in excess of the sum of balances due Depositor by Bank, the Depositor shall authorize the withdrawal of a specified amount of Collateral if withdrawal is requested by the Bank and Trustees may deliver

this amount of Collateral (and no more) to Bank, taking its receipt therefore, and Trustees shall have no further liability for Collateral so redelivered to Bank. Either Depositor or Bank shall have the right to terminate this Agreement by advance written notice to the other of its election to do so, and this Agreement shall be void from and after the expiration of sixty days after the receipt of such notice, provided all provisions of this Agreement have been fulfilled.

X. When the relationship of Depositor and Bank shall have ceased to exist between Depositor and Bank, and when the Bank shall have properly paid out all deposits of Depositor, it shall be the duty of Depositor to give the Trustee written notice to that effect, whereupon the Trustee shall, with the approval of Depositor, redeliver to Bank all Collateral then in their possession belonging to Bank, taking its receipt therefore.

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