

TOWN OF RYE, NEW HAMPSHIRE
INVESTMENT POLICY

I. PREFACE

This investment policy (the “Investment Policy”) is adopted by the Board of Selectmen of the Town of Rye (the “Town”) pursuant to RSA 41:9, VII. The purpose of the Investment Policy is to provide a framework for the safe and prudent investment of public funds.

The Investment Policy provides specific guidelines and requirements, consistent with the requirements of RSA 41:29, which the Town Treasurer (the “Treasurer”) as custodian of all moneys belonging to the Town shall hereby be obligated to follow, as well as any other person working for or under the direction of the Treasurer, in the conduct of depositing and investing the Town’s public funds.

The Investment Policy shall be reviewed and approved by the Board of Selectmen not later than on the anniversary date hereof in conformance with applicable statutes and a copy of the reviewed and adopted Policy shall be provided to the Treasurer and, pursuant to RSA 31:25, to the New Hampshire Attorney General as soon as practicable thereafter. A copy of the approved Investment Policy shall be retained by the Town’s Finance Director as part of the Town’s official records.

The Investment Policy may from time to time be revised or amended by the Board of Selectmen and any such revision or amendment shall be communicated to the Treasurer and to the New Hampshire Attorney General, in writing, as soon as practicable following the approval of any such revision or amendment.

II. SCOPE

The Investment Policy applies to all deposits and investments (hereinafter sometimes referred to as “Invested Assets”) of public funds including, but not limited to, time and demand accounts, overnight accounts, certificates of deposits and repurchase agreements placed with or purchased from federally insured banks. Public funds are those funds under the control and authority of the Treasurer and include:

- General Fund
- Sewer Fund
- Conservation Fund
- Recreation Fund
- Special Revenue Funds
- Capital Project Funds

- Any new funds created by the Town, unless specifically exempted by the governing body, in accordance with law, or by law.

Funds held by the Trustees of Public Trust Funds or Trustees of the Rye Public Library are not covered under this Investment Policy. Such Trustees should adopt a separate investment policy in accordance with their investment authority under RSA 31:25.

III. INVESTMENT OBJECTIVES

The preservation and safety of capital and investment principal is the foremost objective of the Investment Policy. Other investment objectives include:

1. To maintain sufficient liquidity to meet the reasonably anticipated cash demands and operating requirements of the Town.
2. To attain market-average rates of return on deposits and investments taking into consideration investment and credit risk, liquidity and cash flow considerations.

All investments made by the Treasurer shall at all time comply with all applicable statutes and any regulations or administrative rules promulgated by the New Hampshire Banking Commissioner or any other New Hampshire governmental agency.

IV. AUTHORIZED FINANCIAL INSTITUTIONS

In accordance with the provisions of the Investment Policy, the Treasurer shall deposit all public funds in one or more “Authorized Financial Institutions” expressly designated in writing for such purpose by the Board of Selectmen. Each Authorized Financial Institution shall be a federally insured bank chartered under the laws of New Hampshire or the federal government with a branch within the state. Although RSA 41:29, II permits deposits with federally insured banks which do not have a branch in New Hampshire subject to certain collateral security requirements, the Treasurer shall not be authorized to deposit funds in such out-of-state financial institutions.

The current list of Authorized Financial Institutions approved by the Board of Selectmen is attached as Appendix A. Such list may be amended by action of the Board of Selectmen in the exercise of its discretion, either at the request of the Treasurer or on the initiative of the Board of Selectmen.

V. PERMITTED DEPOSITS AND INVESTMENTS

The Treasurer shall be permitted to make the following deposits and investments of public funds in Authorized Financial Institutions:

A. Deposits

- Time and savings accounts
- Demand accounts
- Interest bearing accounts
- Money market accounts

- Certificates of deposit
- Overnight, sweep or similar accounts

B. Investments (hereinafter collectively referred to as “Eligible Securities”)

- Obligations of the US government and obligations which carry the full faith and credit guarantee of the US government, including US Treasury bills notes and bonds, Zero Coupon Bonds, US Savings Bonds and obligations of US government agencies, including the Government National Mortgage Association (“GNMA” or “Ginnie Mae”)
- Debt obligations issued by the following government sponsored enterprises:
 - Export-Import Bank of the United States (“Eximbank”)
 - Farmers Home Administration (“FHA”)
 - General Services Administration (“GSA”)
 - Small Business Administration (“SBA”)
 - Federal Farm Credit Bank (“FFCB”)
 - Federal Home Loan Banks (“FHLB”)
 - Federal Home Loan Mortgage Association (“FHLMC or Freddie Mac”)
 - Federal National Mortgage Association (“FNMA or Fannie Mae”)
 - United States Postal Service (“USPS”)
 - Banks for Cooperatives
 - Federal Intermediate Credit Banks
 - Federal Land Banks
- Repurchase agreements provided such agreements involve the purchase and repurchase of Eligible Securities as set forth in this paragraph B

C. New Hampshire Public Deposit Investment Pool

In accordance with the provisions of RSA 41:29, II, the Treasurer shall be authorized to place public funds in participation units in the New Hampshire Public Deposit Investment Pool established pursuant to RSA 383:22. (Appendix B)

VI. FDIC INSURANCE

To the extent possible, FDIC insurance should be maximized for time and savings accounts as well as demand deposits. Pursuant to Section 330.15 of the FDIC regulations, “public units” include state, county, municipality or any political subdivision thereof. Under section 330.15, the “official custodian” of the funds belonging to the public unit – rather than the public unit itself – is insured as the depositor.

Current FDIA regulations qualify the Town, the Library and the Public Trusts Funds as separate public units; therefore the applicable FDIA insured limits are separately available to each of the Town, the Library and the Public Trust Funds.

Permanent Rule - Appendix C. New and Temporary Provisions under the Dodd-Frank Wall Street Reform and Consumer Protection Act – Appendix D.

VII. COLLATERALIZATION

All deposits and investments of public funds placed with an Authorized Financial Institution in excess of FDIC insured limits must be fully collateralized by (a) Eligible Securities or (b) a letter of credit issued by a fully creditworthy financial institution including a government sponsored enterprise.

A. Eligible Securities

To fully protect public funds on deposit or invested with an Authorized Financial Institution, the following requirements must be fully satisfied:

- The Authorized Financial Institution must enter into a written agreement granting the Town a security interest in the Eligible Securities pledged by the bank to the Town;
- Such security interest must be perfected under applicable law, including Article 8 and 9 of the Uniform Commercial Code, to provide the Town with a valid and perfected first priority lien on and control of the pledged securities;
- A certificate or resolution evidencing the approval by the Authorized Financial Institution’s board of directors or its loan committee of the granting of a security interest in the Eligible Securities pledged by the Authorized Financial Institution to the town, which certificate or resolution must be continuously part of the official records of the Authorized Financial Institution; and
- The Authorized Financial Institution must deliver to the Town a certificate of authorization which indicates which officer(s) or official(s) are duly authorized to enter into the security interest agreement covering the Eligible Securities pledged by the Authorized Financial Institution to the Town.

B. Letter of Credit

To be acceptable a letter of credit (“LOC”) must meet all of the following criteria:

- It must be issued by a bank separate from and independent of the bank which holds the Invested Assets and deemed by the Board of Selectmen to be fully creditworthy and approved by the Board.
- It must be issued as an irrevocable standby LOC in accordance with the Uniform Customs and Practices published by the International Chamber of Commerce (commonly referred to as “UCP 600”) or Article 5 of the Uniform Commercial Code and in form and substance approved by the Board of Selectmen or its designee.
- It must designate the Town of Rye or a third party trustee as the beneficiary of the LOC.

VIII. THIRD-PARTY CUSTODIAN REQUIREMENT

In cases where collateralization of public funds in excess of the FDIC insured limit requires the pledge of securities, it is a requirement under the Policy that Authorized Financial Institution uses a third-party custodian acceptable to and approved by the Treasurer of the Town of Rye.

The third-party custodian agreement must be acceptable in form and substance to the Board of Selectmen.

IX. COLLATERAL MARGIN REQUIREMENT

All Eligible Securities pledged as collateral must be marked to market at least monthly and verified by a report provided by the bank or its custodian. The market value of pledged securities must be greater than the amount of the public funds on deposit or invested to provide for:

- Accrued and unpaid interest earned over the life of the investment through its maturity date, plus
- An additional sixty (60) days of interest beyond the maturity date should delays be encountered in liquidating the pledged securities in the event of a bank failure; plus
- An additional 100 basis points (1%) to provide for market risk fluctuations in collateral value given that the banks will only mark to market collateral on a monthly basis.

The margin calculation is the sum of (i) the principal amount of the Invested Asset plus the interest to be earned through the maturity date plus (ii) an additional sixty (60) days at the interest rate payable on the Invested divided by (iii) the principal amount of the deposit or investment, rounded upward to the next higher percentage point plus 100 basis points. For example, if the investment is a certificate of deposit in the amount of \$500,000 which pays 3% interest per annum and if the deposit has a maturity date of 180 days, then the margin calculation would be as follows:

Step 1: $\$500,000 \times .03 \times (180+60)$ divided by 365 = \$9,863.01

Step 2: \$500,000 plus \$9,863.01 = \$509,863.01

Step 3: \$509,863.01 divided by \$500,000 = 101.97% rounded 102%

Step 4. Add 1% to the result from Step 3.

Thus, the collateral margin requirement for the above hypothetical investment would require collateral on a market value basis equal to 103% of the principal amount deposited or invested.

Because RSA 41:29, V does not require banks to secure public funds in excess of 100% of such funds, some banks may be reluctant to provide the necessary collateral margin required under this Article VI. However, every reasonable effort must be made to assure sufficient collateral as determine in the aforementioned calculation, but in no event should the collateral margin for pledged securities be less than 102% of the principal amount of the Invested Assets.

A letter of credit is issued for a fixed and certain amount and is not subject to market value fluctuations. Nonetheless, the amount of the LOC in relationship to the Invested Assets it secures must be calculated using the same aforementioned collateral margin calculation but excludes the 1% additional margin for market fluctuations. In no event should the collateral margin requirement for letters of credit be less than 100% of the principal amount of Invested Assets.

X. INVESTMENT PARAMETERS

1. Mitigating credit risk in the portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The Town of Rye shall mitigate credit risk by adopting the following:

The investments shall be diversified by:

- Limiting investments to avoid overconcentration in securities from a specific issuer
- Sector (excluding U.S. Treasury securities),
- Limiting investment in securities that have higher credit risks,
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

2. Mitigating market risk in the portfolio

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The Town of Rye recognizes that, over time, longer-term/core portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of the return. The Town shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The Town further recognizes that certain types of securities, including variable rate securities, securities with principal pay downs prior to maturity, and securities with embedded

options, will affect the market risk profile of the portfolio differently in different interest rate environments.

After determining the amount and timing of the Town's cash requirements, no Invested Assets should be invested for a period exceeding one (1) year. The duration of the Town's Invested Assets should be in accordance with the following guidelines:

- For cash requirements anticipated over a 30 day period, an amount equal to 100% of such cash requirements should be maintained in overnight investments
- For projected cash requirements beyond 30 days up to 90 days, 50% of the projected cash requirements for this 30 to 90 day period should be kept in 30 day investments, 35% in 60 day investments and 15% in 90 day investments.
- For projected cash requirements beyond 90 days up to 180 days, 50% should be invested in 90 day investments, 35% in 120 day investments and 15% in 180 day investments
- For projected cash requirements beyond 180 up to one year, cash equal to 75% should be invested in 180 day investments, 15% up to 270 days and 5% invested in investments not exceeding one year.

1. PRUDENCE

Any deposit or investment made pursuant to this Policy shall be in accordance with the "prudent person" rule of investment and shall be the standard of care applicable hereunder. As recommended by the Government Finance Officers Association (GFOA), the prudent person rule of investment requires that:

"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

2. CONFLICT OF INTEREST

Any elected officials, officers and employees of the Town involved in the implementation of this Policy shall disclose to the Board of Selectmen in writing any personal or pecuniary interest which could conflict (or appear to conflict) with any matters related to or arising from this Policy and any implementation or execution thereof or which could impair their ability to make impartial judgments regarding any aspect of this Policy or its implementation. The Board of Selectmen shall take such action as may be necessary and prudent to prevent any such conflict of interest, or the appearance of a conflict, from interfering with the proper implementation of this Policy.

3. DELEGATION OF AUTHORITY

In accordance with RSA 41:29, VI, the Treasurer may delegate deposit, recordkeeping or reconciliation functions to other Town officials or employees provided that such delegation is in writing and sets forth written procedures approved in advance by the Board of Selectmen. Any such delegation shall only be made to a Town official or employee bonded in accordance with RSA 41:6 and rules adopted by the Commissioner of Revenue Administration under RSA 541-A. Such

delegation shall not eliminate the responsibility of the Treasurer to comply with all statutory duties required by law nor shall such delegation relieve the Treasurer from compliance with the Policy.

4. SURETY BOND

A. Indemnifications: In accordance with RSA 41:6 (Surety Bond Required)

“Town Treasurers... Shall be bonded by position under a blanket bond from a surety company authorized to do business in this state. The bond shall indemnify against losses through:

- (1) The failure of officers covered to faithfully perform their duties or to account properly for all moneys or property received by virtue of their positions, or
- (2) Fraudulent or dishonest acts committed by the covered officers.”

B. A blanket bond may exclude the Treasurer if a separate fidelity bond for the faithful performance of his/her duties is furnished by the surety writing the blanket bond.

C. Premiums shall be paid by the Town.

D. The required bonds shall provide for at least a 2-year discovery period from the date their coverage terminates.

E. The surety bond shall otherwise comply with any rules adopted by the Commissioner of Revenue Administration pursuant to RSA 541-A, including any rules concerning the amount and form of the surety bond.

5. INTERNAL CONTROLS

The Board of Selectmen is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse. The Board of Selectmen shall provide written internal controls with regard to investment procedures which shall be reviewed annually by the Town’s independent auditors and revised as needed.

The internal controls shall address the following points:

- Control of collusion
- Separation of transactional authority from accounting and recordkeeping
- Periodic audit of securities pledged to secure Town assets
- Written confirmation of transactions for investment and if applicable, wire transfers
- Dual authorizations of all wire transfers
- Such other controls or procedures as may be appropriate

6. SAFEKEEPING

The original of any letter of credit, bank instruments, bank resolutions/approvals/authorizations, evidence of investments, certificated securities, shall be kept with the Town Office in a secure, fireproof cabinet access to which shall be limited to the Treasurer and Town Administrator or their designee.

7. ACCOUNTING

All cash balances will be reconciled monthly by the Treasurer and reported to the Town Administrator or his designee on a monthly basis. General ledger entries will be posted timely but in no event less than weekly to the general ledger system in order to reflect accurately the Town's current cash position.

8. REPORTING

Within thirty (30) days after the end of each calendar quarter, the Treasurer shall submit to the Board of Selectmen and to the Town Administrator an investment report which summarizes the following as of the end of such calendar quarter:

- By bank, a schedule of all deposits and investments and, if applicable, the maturity date of each;
- By bank, a description of all securities pledged as collateral including the type of security, the amount (on a market value basis) and the maturity date;
- By bank, a calculation showing the excess over the FDIC insured limit necessary to fully secure moneys on deposit or invested with the bank;
- By bank, the collateral margin;
- A summary of all transactions which occurred during the quarter;
- The Treasurer's certification that the investment of public funds during the period covered by the report was administered in accordance with the Investment Policy with appropriate explanation of any and all non-compliance with the Policy.

9. FINANCIAL INSTITUTION REPORTING

The Town shall require, from any Financial Institution which holds Invested Assets, sufficient routine reports to provide an accurate breakdown of all such Assets including, but not limited to, a schedule showing the amount and type of deposits or investments, the maturity date, the market value, type and description of Eligible Securities pledged as collateral and the amount of FDIC insurance applicable to any such deposits or investments.

Any Financial Institution holding Invested Assets of the Town secured by Eligible Securities must provide a report to the Town mark to market the value of such Securities no less than once a month.

10. OTHER

This Investment policy is available for public review and inspection. A copy may be obtained by contacting the Town Administrator.

11. INVESTMENT POLICY APPROVAL/AMENDMENTS

The Board of Selectmen approved adoption of the Town of Rye Investment Policy at this:

SELECT BOARD MEETING: MARCH 14, 2022

William Epperson, Chairman

Philip D. Winslow, Vice-Chairman

Thomas King, Selectman

APPENDIX A – Authorized Financial Institutions

TD Bank

The Bank of New York Mellon

APPENDIX B

Public Deposit Investment Pool

Section 383:22

383:22 Public Deposit Investment Pool. –

I. The commissioner shall, with the assistance of the advisory committee created under RSA 383:24, establish and operate, beginning on January 1, 1992, a public deposit investment pool, for the purpose of investing funds of the state, and funds under the custody of governmental units, pooled risk management programs established pursuant to RSA 5-B, agencies, authorities, commissions, boards, political subdivisions and all other public units within or instrumentalities of the state.

II. The public deposit investment pool shall be operated under contract with a private investment advisor, approved by the bank commissioner and advisory committee. The commissioner and advisory committee shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted by rule under RSA 383:23.

III. The commissioner shall make available to prospective depositors detailed information on the public deposit investment pool, similar to that information generally contained in a securities prospectus. The commissioner shall also ensure that periodic statements of accounts and reports on holdings are provided to pool participants relative to their proportionate share of the pool.

IV. The commissioner shall cause an independent audit of the pool to be conducted on an annual basis. The auditor shall be selected by the advisory committee.

Source. 1991, 268:1, eff. Aug. 9, 1991.

Section 383:23

383:23 Rulemaking. – Prior to January 1, 1992, the commissioner shall, with the approval of the advisory committee, adopt rules, pursuant to RSA 541-A, relative to:

I. Formulation of a disclosure policy and materials to be included in a prospectus and in periodic reports to participants, including:

- (a) A written statement of policy and pool objectives;
- (b) Investment objectives designed to meet the pool objectives;
- (c) A description of eligible investment instruments;
- (d) The credit standard of investment;
- (e) Allowable maturity range of investments;
- (f) The limits of portfolio concentration permitted for each type of security;
- (g) Safekeeping practices;
- (h) Definition of pool participant eligibility;
- (i) Disclosure of size of accounts, size of transactions and administrative costs; and
- (j) Instructions for establishing and utilizing accounts.

II. Investment and administrative policies, practices and restrictions, including the frequency and method used for calculating valuation, yields and earnings.

III. Requests for proposals from investment managers and criteria for reviewing such proposals.

Source. 1991, 268:1, eff. Aug. 9, 1991.

Section 383:24

383:24 Advisory Committee. –

I. There is established an advisory committee on the public deposit investment pool, consisting of the following members:

- (a) The state treasurer.
- (b) The commissioner of the department of revenue administration or designee.
- (c) Two members appointed by the New Hampshire Government Finance Officers Association.

Association.

- (d) Two members appointed by the New Hampshire Bankers Association.
- (e) One county finance officer appointed by the New Hampshire Association of Counties.
- (f) One city finance officer, appointed by the New Hampshire Municipal Association.
- (g) One school district finance officer, appointed by the New Hampshire School Boards Association.

Association.

II. The advisory committee shall assist and advise the commissioner on the establishment and operation of the investment pool, including:

- (a) Formulating the disclosure policy.
- (b) Determining eligible investment vehicles.
- (c) Establishing performance standards.
- (d) Monitoring the outflow of funds from financial institutions.
- (e) Determining compliance with written investment policies.
- (f) Conducting periodic reviews of the public deposit investment pool.

Source. 1991, 268:1, eff. Aug. 9, 1991.

APPENDIX C

FDIC PERMANENT RULE

Insurance coverage of public unit accounts depends upon the type of deposit and the location of the insured depository institution. All time and savings deposits owned by a public unit and held by the same official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to \$250,000. Separately, all demand deposits owned by a public unit and held by the same official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to \$250,000. For the purpose of these rules, the term ‘savings deposits’ includes NOW accounts, Money Market deposit accounts and interest-bearing demand deposit accounts as outlined in Appendix C, - New and Temporary Provisions under the Dodd-Frank Wall Street Reform and Consumer Protection Act. The term ‘demand deposits’ means deposits payable on demand and for which the depository institution does not reserve the right to require advance notice of an intended withdrawal. The insurance coverage of accounts held by government depositors is different if the depository institution is located outside the State in which the public unit is located. In that case all deposits owned by the public unit and held by the same official custodian are added together and insured up to \$250,000. Time and savings deposits are not insured separately from demand deposits.

A political subdivision (through its official custodian) is entitled to its own insurance coverage. The term “political subdivision” is defined to include drainage, irrigation, navigation, improvement, levee, sanitary, school or power districts and bridge or port authorities and other special districts created by state statute or compacts between the states. The term “political subdivision” also includes any subdivision or principal department of a public unit (state, county, or municipality) if the subdivision or department meets the following tests:

- The creation of the subdivision or department has been expressly authorized by the law of such public unit;
- Some functions of government have been delegated to the subdivision or department by such law; and
- The subdivision or department is empowered to exercise exclusive control over funds for its exclusive use.

The term “political subdivision” does not include subordinated or non-autonomous divisions, agencies, or boards within subdivisions of principal departments.

A public unit (including a political subdivision) is insured through its official custodian. If the same individual is an official custodian for more than one public unit, he or she is separately insured for the deposits belonging to each public unit. On the other hand, two or more individuals are treated as one official custodian if action or consent by all of these individuals is required for the exercise of control over funds of a single public unit.

An official custodian is an officer, employee, or agent of a public unit having official custody of public funds and lawfully depositing the funds in an insured institution. In order to qualify as an official custodian, a person must have plenary authority – including control – over the funds. Control of public funds includes possession as well as the authority to establish accounts in insured depository institutions and to make deposits, withdrawals and disbursements.

Deposit insurance coverage cannot be increased by dividing funds among several putative official custodians who lack plenary authority over such funds. Likewise, coverage cannot be increased by dividing funds among several accounts controlled by the same official custodian for the same public unit.

APPENDIX D

NEW AND TEMPORARY PROVISIONS WALL STREET REFORM AND CONSUMER PROTECTION ACT

For the period from December 31, 2010 through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) provides separate and unlimited deposit insurance coverage for accounts that meet the definition of a 'noninterest-bearing transaction account.' This unlimited coverage for such accounts is separate from the \$250,000 coverage provided for other types of accounts. Also, beginning on July 21, 2011, the Dodd-Frank Act provides that insured depository institutions will be permitted to pay interest on demand deposit accounts.

As a result of these provisions of the Dodd-Frank Act, coverage of government accounts through December 31, 2012, will be as follows:

In-State Accounts: An official custodian will receive coverage up to \$250,000 for the combined amount of all time and savings accounts; coverage up to \$250,000 for the combined amount of all interest-bearing demand deposit accounts (which are not permitted prior to July 21, 2011); and unlimited coverage for noninterest-bearing demand account deposit accounts.

Out-of-State Accounts: An official custodian will receive coverage up to \$250,000 for the combined amount of all time accounts, savings accounts and interest-bearing demand deposit accounts (with interest-bearing demand accounts being permissible as of July 21, 2011); and unlimited coverage for noninterest-bearing demand deposit accounts.

Beginning on January 1, 2013, accounts held by government depositors will be insured in accordance with the 'Permanent Rule'. Appendix C.

