

State Board of Finance
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<https://www.nmdfa.state.nm.us/board-of-finance/>

SBOF Policy 21-02

January 20, 2021

Interest Rate Policy on Public Funds

- I. This policy was approved by the State Board of Finance on January 20, 2021.
- II. **Applicability.** The State Board of Finance public funds policy, as set forth herein, shall apply to all public funds over which the State Board of Finance exercises supervision. This policy does not apply to the severance tax permanent fund or to the daily balances of state funds held by the state fiscal agent. These policies shall apply to the deposits or investments of all public funds made, or to be made, in state or national banks having their principal office in the State of New Mexico, to all state or federal savings and loan associations having their principal office in the State of New Mexico and, to all state and federal credit unions insured by the National Credit Union Administration having their principal office in the State of New Mexico. As used in this policy, the term *deposit* shall mean *deposit or investment*.
- III. **Interest Rate to be Paid.** The rate of interest set by the State Board of Finance governs all public money deposited in interest bearing accounts in banks, savings and loan associations, and credit unions. Any bank, savings and loan association or credit union that fails to pay the minimum rate provided for below for any respective deposit forfeits its right to an equitable share of that deposit. Such deposit may then be deposited in qualified depositories in other areas within the state under the same requirements for payment of interest as if the money were deposited within the geographical boundaries of the governmental unit or may be invested as provided by law.
 - A. **Demand Deposit Accounts.** Certain public entities are authorized to make deposits in demand deposit accounts (checking accounts). Interest paid on these demand deposit accounts shall be as permitted by federal regulations.
 - B. **Time Deposits of One Year or Less.** The rate of interest to be paid on certificates of deposit and other similar deposits of 365 days or less shall not be less than the bond equivalent yield on United States treasury bills of the same maturity on the day of deposit. Where there is no quotation on a United States treasury bill of the same maturity, the interest rate to be paid shall not be less than the bond equivalent yield on United States treasury bills of the closest maturity.
 - C. **Time Deposits of Longer than One Year.** The rate of interest to be paid on certificates of deposit and other similar deposits in excess of 365 days shall not be less than the current offering yield on actively traded United States treasury notes or bonds of the same maturity on the day of deposit. Where there is no quotation of the United States Treasury note or bond of the same maturity, the interest rate to be paid shall not

be less than the current offering yield on actively traded United States treasury notes or bonds of the closest maturity.

D. Procedures to Establish Quoted Rate.

1. The bond equivalent yield on United States treasury bonds, notes and bills, as set forth on the State Treasurer's website (www.nmsto.gov), will determine the base rate for the appropriate maturity. A margin will be applied to the base rate.
2. Where the local public body is unable to access the State Treasurer's website or there is a recognizable error in the quotation, the local public body may telephone the office of the State Treasurer at (505) 955-1120, and the State Treasurer or the State Treasurer's authorized representative shall provide an oral quotation.

E. Additional Requirements.

1. On a quarterly basis, the banks, savings and loan associations and credit unions holding state fund deposits will provide a report to the State Treasurer containing the information required by NMAC 2.60.4, which is the State Board of Finance rule governing collateral that must be held by financial institutions holding public fund deposits.
2. Quarterly, the State Treasurer shall report to the State Board of Finance regarding the dollar amount of investments in certificates of deposit, their maturity and the rate being paid on certificates of deposit by maturity. The State Treasurer shall also report on the availability of funds under the State Treasurer's management and, on a quarterly basis, shall submit a list of all deposit accounts of state agencies established pursuant to Section 6-1-13 NMSA 1978.

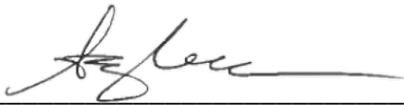
IV. Exceptions on Rate of Interest to be Paid.

- A. Interest Limited to Maximum Permitted by Federal Law or Regulation.** Notwithstanding any provisions to the contrary in this policy statement, no deposit of public funds shall bear interest in excess of the maximum amount which a state or national bank, or a state or federal savings and loan association or a state or federal credit union is permitted to pay by any federal law or regulation.
- B. Protection of Tax Exempt Status of Bonds.** Notwithstanding any other provision to the contrary in this policy statement, the interest rate established by this policy statement shall not apply to any deposits of the proceeds of any bond issue if the deposit of all or part of the bond issue would lose its tax-exempt status under Section 103(a) of the Internal Revenue Code of 1986, as amended.
- C. Linked Deposit Program.** Pursuant to 6-10-24.2 NMSA 1978, the State Treasurer may invest up to 14 percent of state deposits, not to exceed \$49 million, in qualified depository institutions with a qualifying branch located in a financially at risk rural community. No more than \$10 million may be deposited in any one qualified

depository institution pursuant to the linked deposit program. For funds invested in qualified depository institutions pursuant to the linked deposit program, the State Treasurer is authorized to accept a rate of return that is not more than 1 percent below the rate set in section III of this policy statement. The Financial Institutions Division of the Regulation and Licensing Department has promulgated NMAC 12.15.15 implementing the provisions of section 6-10-24.2 NMSA 1978, including eligibility criteria, application procedures, and verification criteria.

V. **Federal Insurance of Deposit.** Governmental units should verify the portion of their deposits insured by an agency of the United States. Public money may be deposited in credit unions only to the extent the deposits are completely insured by an agency of the United States. However, relating to the portion of public money deposited in banks and savings and loan associations insured by an agency of the United States, federal insurance coverage extends only to each officer of a political subdivision or public unit who has official custody of public funds and who lawfully makes deposits therefore rather than to the deposit. If the various public funds deposited by a governmental unit do not qualify as separately belonging to political subdivisions or public units as defined by federal regulations, the deposits may only be collectively insured to \$250,000 per financial institution regardless of the number of accounts of the governmental unit within the financial institution.

VI. **Effective Date.** This policy statement shall be effective January 20, 2021, and will remain in effect until a new policy statement is adopted.



Ashley Leach, Division Director