RESOLUTION NO. 95-116

A RESOLUTION OF THE LODI CITY COUNCIL
APPROVING THE ANNUAL INVESTMENT POLICY AND INTERNAL
CONTROL GUIDELINES FOR THE CITY OF LODI

BE IT RESOLVED, by the Lodi City Council that the City's Annual Investment Policy and Internal Control Guidelines are hereby reviewed and approved, effective this date.

Dated: September 6, 1995

I hereby certify that Resolution No. 95-116 was passed and adopted by the City Council of the City of Lodi in a regular meeting held September 6, 1995, by the following vote:

AYES:	COUNCIL MEMBERS -	Davenport, Pennino, Sieglock, Warner and Mann (Mayor)
NOES:	COUNCIL MEMBERS -	None
ABSENT:	COUNCIL MEMBERS -	None
ABSTAIN:	COUNCIL MEMBERS -	None

JENNIFER M. PERRIN
City Clerk

CITY OF LODI

INVESTMENT POLICY
AND
INTERNAL CONTROL GUIDELINES

September, 1995

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INVESTMENT POLICIES

INVESTMENT POLICY

1. PURPOSE

The purpose of this policy is to state the City's policies and procedures to be used for the investment of surplus funds in a prudent and systematic manner and to formalize investment-related activities.

2. SCOPE

This policy covers all funds, surplus cash and investment activities under the direct authority of the City of Lodi.

3. OBJECTIVES

Funds of the City will be invested in accordance with California Government Code 53635. The City's investment portfolio will be maintained to achieve a "market average" rate of return that protects these funds from the effects of inflation and the risks associated with higher returns while preserving and protecting capital in the overall portfolio.

The "market-average" rate of return targeted to achieve this objective is a return which ranges between the annual rate of return for U.S. Treasury Notes and the annual rate of return for the Local Agency Investment Fund (LAIF) managed by the State Treasurer's Office.

Funds held for future projects (i.e. bond proceeds) will be invested to produce enough income to offset increases in construction costs due to inflation. Where possible prepayment funds for long-term debt services will be invested to ensure a rate of return at least equal to the interest being paid on the bonds.

4. DELEGATION OF AUTHORITY

The Treasurer is designated as the investment officer of the City and is responsible for the investment decisions and activities of the City, under the direction of the City Manager and as outlined in Investment Policy adopted by the City Council. The Treasurer will develop and maintain written administrative procedures for the operation of the investment program, consistent with these policies. In order to optimize total return through active portfolio management, resources shall be allocated to the cash management program. This commitment of resources will include financial and staffing considerations.

5. PRUDENCE

The standard of prudence to be applied by the Treasurer will be the "prudent investor" rule, which states "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 investments, considering the probable safety of their capital as well as the probable income to be derived". The prudent investor rule will be applied in the context of managing the overall portfolio.

The Treasurer, acting in accordance with written procedures and exercising due diligence, will not be held personally responsible for a specific security's risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

6. MONITORING AND ADJUSTING THE PORTFOLIO

The Treasurer will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments, and will adjust the portfolio accordingly.

7. INTERNAL CONTROLS

The Finance Director will establish a system of written internal controls, which will be reviewed annually by the City's independent audit firm. The controls will be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions.

8. REPORTING

The Treasurer will submit a monthly investment report to the City Council, in accordance with Government Code Section 53646, to disclose the following information:

- Type of investment
- Institution
- Date of maturity
- Amount of deposit or cost of the security
- Current market value of securities with maturity in excess of 12 months
- Rate of interest
- Ownership risk
- Performance

9. AUTHORIZED INVESTMENTS

The City will invest surplus funds not required to finance the immediate needs of the City as provided in California Government Code 53601. A list of these instruments is provided below. These limitations, diversification and maturity scheduling will depend upon whether the funds being invested are considered short-term or long-term funds. All funds will be considered short-term except those reserved for capital projects (i.e. bond sale proceeds) and special assessment prepayments being held for debt retirement.

Short-Term Portfolio Diversification

The City will diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions or maturities.

Permitted Investments	Maximum Maturity
U.S. Treasury Obligations (Bills, notes and bonds)	5 Years
U.S. Government Agency Securities and Instrumentalities	5 Years
Bankers Acceptances	270 days
Certificates of Deposit	5 Years
Negotiable Certificates of Deposit	5 Years
Commercial Paper	180 days
California State Local Agency Investment Fund	Indefinite
Passbook Deposits	Indefinite
Repurchase Agreements	Not Authorized
Reverse Repurchase agreements	Not Authorized
Mutual Funds	Indefinite
Medium Term Notes	5 Years

The City Treasurer will not investin in Repurchase Agreements and Reverse Repurchase agreements. Pooled funds invested for the City by entities such as California State Local Agency Investment Fund, and NCPA may invest in repurchase and reverse repurchase agreements.

Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment will be made in any security which at the time of the investment has a term remaining to maturity in excess of five years, unless the City Council has granted express authority to make that investment either specifically or as part of an investment program and approved by the City Council no less than three months prior to the investment.

Diversification by Instrument	Percent of Portfolio
U.S. Treasury Obligations (Bills, notes and bonds)	100%
U.S. Government Agency Securities and Instrumentalities	100%
Bankers Acceptances	40%
Certificates of Deposit	100%
Negotiable Certificates of Deposit	100%
Commercial Paper	30%
California State Local Agency Investment Fund	100%
Passbook Deposits	100%
Repurchase Agreements	Not Authorized
Reverse Repurchase agreements	Not Authorized
Mutual Funds	15%
Medium Term Notes	30%

Diversification by Financial Institution

Bankers' Acceptances (Bas)

No more than 25% of the total portfolio with any one institution.

Certificates of Deposit (CDs)

No more than 33% of the total portfolio with any one institution.

California State Local Agency Investment Fund

No more than $20 million in any one account.

Maturity Scheduling

Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (payroll, bond payments) as well as considering sizable blocks of anticipated revenue (taxes, franchise fees). Maturities in this category will be timed to comply with the following guidelines:

Under 30 days	10% minimum
Under 90 days	25% minimum
Under 270 days	50% minimum
Under 1 year	75% minimum
Under 18 months	90% minimum
Under 2 years	95% minimum
Under 5 years	100% minimum

Long-Term Portfolio Diversification

Investments and diversification for the long-term portfolio will be the same as the short-term portfolio. Maturity scheduling will be timed according to anticipated need. For example, investment of capital project funds will be timed to meet contractor payments, usually for a term not to exceed three years. Investment of prepaid assessment funds will be tied to bond payment dates, after cash flow projections are made using a forecasting model which considers prepayment rate, delinquency rate, interest on bonds and income on investments.

10. BANKS AND SECURITY DEALERS

The Treasurer will consider the credit worthiness of institutions in selecting financial institutions for the deposit or investment of City funds. These institutions will be monitored to ensure their continued stability and credit worthiness.

Investment transactions will only be made with pre-approved financial institutions. Banks will provide their most recent Consolidated Report of Condition ("call report") at the request of the Treasurer.

The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will be maintained of approved security brokers/dealers selected for credit worthiness, who maintain an office in the State of California. This includes primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with the following:

- Audited financial statements
- Proof of National Association of Security Dealers Certification.
- Trading Resolution
- Proof of State Registration
- Completed broker/dealer questionnaire
- Certification of having read the City of Lodi's investment policy and depository contracts

An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer. The City will not normally use more than three qualified dealer/brokers to obtain bids.

11 PURCHASE OF CDs FROM LOCAL INSTITUTIONS

To the extent reasonable and within the limits specified above, the Treasurer should purchase a $100,000 Certificates of Deposits from each bank and savings and loan institution located within the corporate limits of the City to promote economic development and as a statement of support for those institutions maintaining an office in Lodi. These investments are limited to those institutions which offer Certificates of Deposit insured by the Federal Deposit Insurance Act.

12. SAFEKEEPING AND COLLATERIALIZATION

All investment securities purchased by the City will be held in third-party safekeeping by an institution designated as primary agent. The custodian will hold these securities in a manner that establishes the City's right of ownership. The primary agent will issue a safekeeping receipt to the City listing the specific instruments, rate, maturity and other pertinent information.

Deposit type securities (i.e., certificates of deposit) will be collateralized. Collateral for time deposits in savings and loans will be held by the Federal Home Loan Bank or an approved Agent of Depository. If collateral is government securities, 110% of market value to the face amount of the deposit is required. Promissory notes secured by first mortgages and first trust deeds used as collateral require 150% of market value to the face amount of the deposit. An irrevocable letter of credit issued by the Federal Home Loan Bank of San Francisco requires 105% of market value to the face amount of the public deposit.

The collateral for time deposits in banks should be held in the City's name in the bank's Trust Department, or alternately, in the Federal Reserve Bank. The City may waive collateral requirements for deposits which are fully insured up to $100,000 by the Federal Deposit Insurance Corporation (FDIC).

The amount of securities placed with an agent of depository will at all times be maintained in accordance with California Government Code 53652.

13. ADMINISTRATION

The following administrative policies will be strictly observed:

a. **Payment**

All transactions will be executed on a delivery versus payment basis which should be done by the City's safekeeping agent.

b. **Bid**

A competitive bid process, when practical, will be used to place all investment purchases. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments which meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which maturities would be most advantageous.

c. **Wire Transfers**

All wire transfers will be approved by the Treasurer or Deputy Treasurer. The City's bank will verify each transaction with a predetermined City employee other than the individual sending the wire transfer.

Pre-formatted wire transfers will be used to restrict the transfer of funds with preauthorized accounts only.

d. **Confirmations**

Receipts for confirmation of a purchase of authorized securities should include the following information: trade date; par value; maturity; rate; price; yield; settlement date; description of securities purchased; net amount due; third-party custodial information. Confirmations of all investment transactions are to be received by the Treasurer within three business days.

e. **Pooled Cash**

The City will consolidate into one bank account and invest on a pooled concept basis. Interest earnings will be allocated semi-annually based on current cash balances.

INTERNAL CONTROL

INTERNAL CONTROLS

GENERAL

Through this system of internal control, the City is adopting procedures and establishing safeguards to prevent or limit the loss of funds invested or held for investment due to errors, losses, misjudgments and improper acts. Internal control procedures are not intended to address every possible situation but are intended to provide a reasonable and prudent level of protection for the City's funds.

1. **Objectives**

   These procedures and policies are established to ensure:

   - the orderly and efficient conduct of investment practices, including adherence to investment policies
   - the safeguarding of surplus cash
   - the prevention or detection of errors and fraud
   - the accuracy and completeness of investment records
   - the timely preparation of reliable investment reports

2. **General Control Policies**

   The following policies are to be used to safeguard investments:

   - **Organization**

     A description of responsibilities and procedures for the investment of City funds, lines of authority and reporting requirement will be maintained.

   - **Personnel**

     Only qualified and assigned personnel will be authorized to approve investment transactions; make and liquidate investments; maintain investment records; and maintain custody of negotiable instruments. Personnel assigned responsibility for the investment of City surplus funds will maintain their professional qualifications by continued education and membership in professional associations.

   - **Segregation of functions**

     No one having general ledger functions will have responsibility for the investment of City funds.

   - **Safekeeping**

     All securities are to be held in the name of the City of Lodi. The City will contract with a third party, usually a bank, to provide custodial services and securities safekeeping. Although a cost is involved, the risk of losing physical securities outweighs the fees involved. Preference should be given to custodial services which include reporting services as part of their service, including marking the portfolio to market value, performance evaluation and internal reporting.

INTERNAL CONTROLS

- **Reconciliation of records**
  Regular and timely reconciliation will be made of detailed securities records with the general ledger control account.

- **Performance evaluation**
  Performance statistics will be maintained and reported monthly as provided in the Investment Policies. The indices to be used is the annual rate of return for U.S. Treasury Notes.

PROCEDURES

1. **Assigned Responsibilities**

a. City Council responsibilities:
- Adoption of City's investment policies by Resolution
- Review and evaluation of investment performance

b. Finance Director/Treasurer duties and responsibilities:
- Formulating, recommending and implementing the City's investment policies.
- Approves all investment transactions prior to execution of any transaction.
- Approves broker/dealer arrangements.

c. Revenue Manager/Deputy Treasurer duties and responsibilities:
- Recommends broker/dealer arrangements
- Recommends investments
- Excecutes investment transactions
- Maintains records of all investment transactions
- Prepares monthly investment report for City Council review
- Prepare fiscal year end investment reports for City's independent audit firm review
- Review's financial condition of the City's depositories (banks) at least annual for compliance with collaterialization requirements under government code and financial condition and reports results to City Manager.

d. Accounting Manager duties and responsibilities:
- Maintains general ledger control account and duplicate records of investment transactions.
- Verifies investment records and reconciles detailed securities records with general ledger control accounts.

e. City's independent audit firm.
- Will review the City's investment policies and procedures and make appropriate recommendations and findings as to compliance and steps to be taken to improve internal controls.

TREASURY FUNCTION RESPONSIBILITIES

FUNCTION	RESPONSIBILITIES
1. Recommendations:	
• Recommends broker/dealer arrangements	Revenue Manager/Deputy Treasurer
• Recommends investments	Revenue Manager/Deputy Treasurer
2. Authorization of Investment Transactions	
• Formal investment policy prepared by	Finance Director/Treasurer
• Formal investment policy approved by	City Council
• Investment transactions approved by	Finance Director/Treasurer
• Broker/deal arrangements approved by	Finance Director/Treasurer
3. Execution of Investment Transactions	Revenue Manager/Deputy Treasurer
4. Recording of Investment Transactions	
• Recording of transactions in Treasurer's records	Revenue Manager/Deputy Treasurer
• Recording of transactions in Accounting records	Accounting Manager
5. Safeguarding of assets and records	
• Maintenance of Treasurer's records	Revenue Manager/Deputy Treasurer
• Reconciliation of Treasurer's records to accounting records	Accounting Manager
• Review of (a) financial institution's financial condition, (b) safety, liquidity, and potential yields of investment instruments, and (c) reputation and financial condition of investment brokers	Revenue Manager/Deputy Treasurer
• Periodic reviews of collateral	Revenue Manager/Deputy Treasurer
• Review and evaluation of performance	City Council
6. Preparation of reports	Revenue Manager/Deputy Treasurer
7. Periodic review of investment portfolio for conformance to City's investment policy	City's Audit Firm

SAMPLE
INVESTMENT FORMS

CITY OF LODI
INVESTMENT BID SHEET

Cycle to: Accounting Manager_____

Finance Director_____

ate:
ransaction

	Invest	Withdraw	Invest	Sell	Invest	Sell
ecommended Selection						
rimary Dealer						
uotes:						
irm						
ealer						
elephone #						
ecurity Type						
rice						
aturity Date						
st call date						
ield to Maturity						
urchase Price						
usip #						
rincipal						
iscount						
ccrued Interest						
nterest Rate						
nterest Perio ***						
isk Catagory						
rade Date						
ettlement Date						
alculation						
nvstmnt.--Fund #						
nvestment Fund #						
ssuer Code						
ert./Acct. #						
erm of Days						

**
E(Month end in advance)
E (Month end in arrears)
(Monthly in advance)
M (Monthly in arrears)
E (Quarter end)
(Semi-annual Actual)
C (Semi-Annual Equal)
A (Maturity)
D(Maturity Discount)
AIF BALANCE

Approval:
Finance Director: _____

Revenue Manager: _____

Approval Date: _____

Transaction Date: _____

iring Instructions: _____

omments: _____

otus,bid _____

BROKER/DEALER QUESTIONNAIRE

CITY OF LODI TREASURER'S OFFICE
P. O. Box 3006
Lodi, California 95241

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1. Name:_____

2 Branch Address:_____

3. Telephone No:_____

4. Primary Account Representative_____

   Name:_____

   Title:_____

   Telephone #:_____

5. If your firm a primary dealer in US Government Securities? Y/N

6. Identify the personnel who will be trading with or quoting securities to our agency's employees:

Name	Title	Telephone #

7. Ntl. Headquarter Address:
   Corporate Contact: _____
   Phone:_____
   Compliance Officer (Name, Address, Phone):
   _____

8. What was your firm's total volume in US Government and Agency securities trading last calendar year?

   _____

9. Which securities are offered by your firm?

( ) US Treasury
( ) US Treasury Notes
( ) US Treasury Bonds
( ) Agencies (specify)

( ) Negotiable CDs
( ) Commercial Paper
( ) BAs Domestic
( ) BAs Foreign
( ) Repurchase Agreements
( ) Reverse Repurchase Agreements

10. List your personnel who have read the City of Lodi Treasurer's Investment Policy

_____

_____

_____

_____.

11. Please identify your public-sector clients in our geographical area who are most comparable to our government with which you currently do business.

_____

_____

_____

_____

_____

_____

_____

12. Have any of your clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of the instrument? If so, please explain.

_____

_____

_____

13. Have any of your public-sector clients ever reported to your firm, its officers or employees, orally or in writing, that they sustained a loss exceeding 10% of the original purchase price in a single year on any individual security purchased through your firm? Explain._____

_____

_____

_____

14. Has your firm ever been subject to a regulatory or state/federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of securities? Have any of your employees ever been so investigated? Explain.

15. Has a public sector client ever claimed in writing that your firm or members of your firm were responsible for investment losses?

16. Please include samples of research reports that your firm regularly provides to public-sector clients.

17. Please explain your normal delivery process. Who audits these fiduciary systems?

18. Please provide certified financial statements and other indicators regarding your firm's capitalization.

19. Describe the capital line and trading limits that support/limit the office that would conduct business with our government.

20. What training would you provide to our employees and investment officers?

21. Has your firm consistently complied with the Federal Reserve Bank's capital adequacy guidelines? As of this date, does your firm comply with the guidelines? Has your capital position every fallen short? By what factor (1.5x, 2x, etc.) Does your firm presently exceed the capital adequacy guidelines, measure of risk? Include certified documentation of your capital adequacy as measured by the Federal Reserve standards.

22. Do you participate in the SIPC insurance program? If not, why?

23. What portfolio information do you require from your clients?

24. What reports, confirmations and paper trail will we receive?

25. Enclose a complete schedule of fees and charges for various transactions.

26. How many and what percentage of your transactions failed last month? Last year?

27. Describe the precautions taken by your firm to protect the interest of the public when dealing with governmental agencies as investors.

28. Is your firm licensed by the State of California as a broker/dealer? Y/N_____

CERTIFICATION ATTACHED

CERTIFICATION

I hereby certify that I have personally read the latest adopted Resolution investment policies and objectives of the City of Lodi Treasurer and the California Government Codes pertaining to the investments of the City of Lodi, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and the City of Lodi. All sales personnel will be routinely informed of the City of Lodi's investment objectives, horizon, outlook, strategies and risk constraints whenever we are so advised. We pledge to exercise due diligence in informing the City of Lodi of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

SIGNED_____ TITLE_____DATE_____

COUNTERSIGNED_____ DATE_____
(Person in charge of government securities operations)

NOTE: Completion of Questionnaire is only part of the City of Lodi's Certification process and DOES NOT guarantee that the applicant will be approved to do business with the City of Lodi.

On this_____day of_____19_____before me_____

the undersigned Notary Public, personally appeared_____

( ) personally known to me

( ) proved to me on the basis of satisfactory evidence to be the person(s) whose name(s)_____subscribed to the within instrument, and acknowledged that_____executed it.

State of_____

County of_____

WITNESS my hand and official seal.

Notary's Signature_____

GLOSSARY

GLOSSARY OF COMMONLY USED FINANCIAL TERMS

AGENT: an agent is a firm or individual which executes orders for others or acts on behalf of others (the principal). The agent is subject to the control of the principal and does not have title to the principal's property. The agent may charge a fee or commission for this service.

AGREEMENT: an agreement is an arrangement or understanding between individual traders to honor market quotes within predetermined limits on dollar amount and size.

AMORTIZATION: a straight-line reduction of debt by means of periodic payments sufficient to meet current interest charges and to pay off the debt at maturity.

ARBITRAGE: a technique used to take advantage of price differences in separate markets. This is accomplished by purchasing securities, negotiable instruments or currencies in one market for immediate sale in another market at a better price.

AT THE MARKET: a trading term for the buying or selling of securities at the current market price rather than at a predetermined price.

BANKERS ACCEPTANCE (BA): a bearer time draft for a specified amount payable on a specified date. It is drawn on a bank by an individual or business seeking to finance domestic or international trade. The BA is collateralized by commodity products. Sale of goods is usually the source of the borrower's repayment to the bank. The bank finances the borrower's transaction and then often sells the BA on a discount basis to an investor. At maturity, the bank is repaid and the investor holding the BA receives par value from the bank.

BASIS PRICE: price expressed in yield-to-maturity or the annual rate of return on the investment.

BEAR MARKET: a period of generally pessimistic attitudes and declining market prices. (Compare: Bull market)

BELOW THE MARKET: a price below the current market price for a particular security.

BID AND ASKED OR BID AND OFFER: the price at which an owner offers to sell (asked or offer) and the price at which a prospective buyer offers to buy (bid). It is often referred to as a quotation or a quote. The difference between the two is called the spread.

BOND: an interest-bearing security issued by a corporation, government, governmental agency or other body, which can be executed through a bank or trust company. A bond is a form of debt with an interest rate, maturity, and face value, and is usually secured by specific assets. Most bonds have a maturity of greater than one year, and generally pay interest semiannually.

GLOSSARY OF COMMONLY USED FINANCIAL TERMS

BOND ANTICIPATION NOTE (BAN): short-term notes sold by states and municipalities to obtain interim financing for projects which will eventually be financed by the sale of bonds.

BOND DISCOUNT: the difference between a bond's face value and a selling price, when the selling price is lower than the face value.

BOND RATING: the classification of a bond's investment quality. (See: Rating).

BOND RESOLUTION: a legal order or contract by a governmental unit to authorize a bond issue. A bond resolution carefully details the rights of the bondholders and the obligation of the issuer.

BOOK VALUE: the amount at which a security is carried on the books of the holder or issuer. The book value is often the cost, plus or minus amortization, and may differ significantly from the market value.

BROKER: a middleman who brings buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

BULL MARKET: a period of generally optimistic attitudes and increasing market prices. (Compare: Bear Market).

BUYERS MARKET: a market where supply is greater than demand, giving buyers an advantage in purchase price and terms.

CALL: an option to buy a specific asset at a certain price within a particular period.

CALLABLE: a feature which states a bond or preferred stock may be redeemed by the issuer prior to maturity under terms designated prior to issuance.

CALL DATE: the date on which a bond may be redeemed before maturity a the option of the issuer.

CALLED BONDS: bonds redeemed before maturity.

CALL PREMIUM: the excess paid for a bond or security over its face value.

CALL PRICE: the price paid for a security when it is called. The call price is equal to the face value of the security, plus the call premium.

CALL PROVISION: the call provision describes the details by which a bond may be redeemed by the issuer, in whole or in part, prior to maturity. A Security with such a provision will usually have a higher interest rate than comparable, but noncallable securities.

GLOSSARY OF COMMONLY USED FINANCIAL TERMS

CAPITAL GAIN OR LOSS: the amount that is made or lost, depending upon the difference between the sale price and the purchase price of any capital asset or security.

CAPITAL MARKET: the market in which buyers and sellers, including institutions, banks, governments, corporations and individuals, trade debt and equity securities.

CASH SALE: a transaction calling for the delivery and payment of the securities on the same day that the transaction takes place.

CERTIFICATE OF DEPOSIT (CD): debt instrument issued by a bank that usually pays interest. Institutional CD's are issued in denominations of $100,000 or more. Maturities range from a few weeks to several years. Interest rates are set by competitive forces in the marketplace.

COLLATERAL: securities or other property which a borrower pledges for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERAL NOTE: a promissory note which specifically mentions the collateral pledged by the borrower for the repayment of an obligation.

COMMERCIAL PAPER: short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted, although some are interest-bearing.

COMMISSION: the brokers or agent's fee for purchasing or selling securities for a client.

COVENANT: a pledge in the bond resolution or indenture of the issuing government to perform in a way that may benefit the bondholders, or to refrain from doing something that might be disadvantageous to them.

COVER: the spread between the winning bid (or offer) and the next highest bid (or the next lowest offer). It is useful as a basis for evaluation of the bides.

COVERAGE RATIO: the ratio of income available to pay a specific obligation versus the total amount obligated. This is a measure of financial stability.

CREDIT ANALYSIS: a critical review and appraisal of the economic and financial condition of a government agency or corporation. The credit analysis evaluates the issuing entity's ability to meet its debt obligations, and the suitability of such obligations for underwriting or investment.

CURRENT MATURITY: amount of time left to the maturity of an obligation.

GLOSSARY OF COMMONLY USED FINANCIAL TERMS

DEBENTURE: a bond secured by the general credit of the issuer rather than being backed by a specific lien on property as in mortgage bonds.

DEBT COVERAGE: this term is normally used in connection with revenue and corporate bonds. It indicates the margin of safety for payment of debt, reflecting the number of times by which earnings for a certain period of time exceed debt payable during the same period.

DEBT LIMIT (OR CEILING): the maximum amount of debt that can legally be acquired under the debt-incurring power of a state or municipality.

DEBT SERVICE: interest and principal obligation on an outstanding debt. This is usually for a one-year period.

DEFAULT: failure to pay principal or interest promptly when due.

DELIVERY VERSUS PAYMENT: securities industry procedure, common with institutional accounts, whereby delivery of securities sold is made to the buying customer's bank in exchange for payment, usually in the form of cash. (Institutions are required by law to require "assets of equal value" in exchange for delivery.) Also called Cash on Delivery.

DERIVATIVE: contracts written between a City and a counter party such as a bank, insurance company or brokerage firm. Their value is derived from the value of some underlying assets such as Treasury Bonds or a market index such as LIBOR. Derivatives are used to create financial instruments to meet special market needs. Two contrasting reasons for the use of derivatives are: 1) to limit risk or transfer it to those willing to bear it; and, 2) to speculate about future interest rates and leverage in hope of increasing returns.

DISCOUNT: a reduction in the price of a security -- the difference between the selling price of a security and its face value at maturity when it is selling below face value.

DUE DILIGENCE: exercising of due professional care in the performance of duties.

FACE VALUE: the principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

FANNIE MAE: trade name for the Federal National Mortgage Association.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): federal agency established in 1933 that guarantees (within limits) funds on deposit in member banks and performs other functions such as making loans to or buying assets from members banks to facilitate mergers or prevent failures.

GLOSSARY OF COMMONLY USED FINANCIAL TERMS

FIDUCIARY: an individual or group, such as a bank or trust company, which acts for the benefit of another party or to which certain property is given to hold in trust, according the trust agreement.

FISCAL YEAR: an accounting or tax period comprising any twelve-month period. The City's fiscal year starts July 1.

FREDDIE MAC: trade name for the Federal Home Loan Mortgage Corporation.

FULL FAITH AND CREDIT: the unconditional guarantee of the United States government backing a debt for repayment.

GENERAL OBLIGATION BONDS (GO's): bonds secured by the pledge of the municipal issuer's full faith and credit, usually including unlimited taxing power.

GINNIE MAE: trade name for the Government National Mortgage Association.

HOLDER: the person or entity which is in possession of a negotiable instrument.

INDEBTEDNESS: the obligation assumed by a borrower, guarantor, endorser, etc. to repay funds which have been or will be paid out on the borrower's behalf.

INDENTURE: a written agreement used in connection with a security issue. The document sets the maturity date, interest rate, security and other terms for both the issue holder, issuer and, when appropriate, the trustee.

INTEREST RATE: the interest payable each year on borrowed funds, expressed as a percentage of the principal.

INVESTMENT: use of capital to create more money, either through income-producing vehicles or through more risk-oriented ventures designed to result in capital gains.

INVESTMENT PORTFOLIO: a collection of securities held by a bank, individual, institution, or government agency for investment purposes.

IRREVOCABLE LETTER OF CREDIT: instrument or document issued by a bank guaranteeing the payment of a customer's drafts up to a stated amount for a specified period. It substitutes the bank's credit for the buyer's and eliminates the seller's risk. This arrangement cannot be changed or terminated by the one who created it without the agreement of the beneficiary.

ISSUE PRICE: the price at which a new issue of securities is put on the market.

ISSUER: any corporation or governmental unit which borrows money through the sale of securities.

GLOSSARY OF COMMONLY USED FINANCIAL TERMS

JOINT AND SEVERAL OBLIGATION: a guarantee to the holder in which the liability for a bond or note issue may be enforced against all parties jointly or any one of them individually so that one, several or all may be held responsible for its payment.

LAIF: trade name for California State Local Agency Investment Fund.

LEGAL INVESTMENT: a list of securities in which certain institutions and fiduciaries may invest as determined by regulatory agencies.

LEGAL OPINION: an opinion concerning the legality of a bond issue, usually written by a recognized law firm specializing in the approval of public borrowings.

LIQUIDITY: the ability to convert a security into cash promptly with minimum risk of principal.

MARKETABILITY: the measure of ease with which a security can be sold in the secondary market.

MARKET ORDER: an order to buy or sell securities at the prevailing bid or ask price on the market.

MARKET VALUE: the price at which a security is currently being sold in the market.

MARKET VS. QUOTE: quote designates the current bid and ask on a security, as opposed to the price at which the last security order was sold.

MATURITY: the date that the principal or stated value of debt instrument becomes due and payable. It is also used as the length of time between the issue date and the due date.

MORTGAGE BOND: a bond secured by a mortgage on property. The value of the property used as collateral usually exceeds that of the mortgage bond issued against it.

NEGOTIABLE: a term used to designate a security, the title to which is transferable by delivery. Also used to refer to the ability to exchange securities for cash or near-cash instruments.

NO PAR VALUE: a security issued with no face or par value.

NON-NEGOTIABLE: a security whose title or ownership is not transferable through a simple delivery or endorsement. (See: Negotiable.)

OBLIGATION: a responsibility for paying back a debt.

OFFER: the price of a security at which a person is willing to sell.

OFFERING: placing securities for sale to buyers. The offering usually states the price and terms.

GLOSSARY OF COMMONLY USED FINANCIAL TERMS

PAR VALUE: the stated or face value of a security expressed as a specific dollar amount marked on the face of the security; the amount of money due at maturity. Par value should not be confused with market value.

PAYING AGENT: the agency, usually a commercial bank, which dispenses the principal and interest payable on a maturing issue.

PORTFOLIO: the collection of securities held by an individual or institution.

PREMIUM: the amount by which the price paid for a security exceeds the par value. Also, the amount that must be paid over the par value to call an issue before maturity.

PRINCIPAL: the face or par value of an instrument. It does not include accrued interest.

PRUDENT MAN RULE: an investment standard established in 1630. It states that a trustee who is investing for another should behave in the same way as a prudent individual of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUOTATION (QUOTE): the highest bid to buy or the lowest offer to sell a security in any market at a particular time.

RATE OF RETURN: 1) the yield which can be attained on a security based on its purchase price or its current market price. 2) income earned on an investment, expressed as a percentage of the cost of the investment.

RATING: the designation used by investors' services to rate the quality of a security's creditworthiness. Moody's ratings range form the highest Aaa, down through Aa, A, Baa, Ba, B, etc., while Standard and Poor's ratings range from the highest AAA, down through AA, A, BBB, BB, B, etc.

REFINANCING: rolling over the principal on securities that have reached maturity or replacing them with the sale of new issues. The object may be to save interest costs or to extend the maturity of the loan.

REGISTERED BOND: a bond whose principal and/or interest is payable only to that person or organization which is registered with the issuer. This form is not negotiable and it can be transferred only when endorsed by the registered owner.

REPURCHASE AGREEMENT (REPO): agreement between a seller and a buyer, usually of U.S. Government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time. The attraction of repos is the flexibility of maturities that makes them an ideal place to "park" funds on a very temporary basis. Dealers also arrange *reverse repurchase*

agreements, whereby they agree to buy the securities and the investor agrees to repurchase them at a later date.

REVENUE ANTICIPATION NOTES (RAN): short-term notes sold in anticipation of receiving future revenues. The notes are to be paid from the proceeds of those revenues.

REVENUE BOND: a state or local bond secured by revenues derived from the operations of specific public enterprises, such as utilities. Such bonds are not generally backed by the taxation power of the issuer unless otherwise specified in the bond indenture.

SAFEKEEPING: a service banks offer to customers for a fee, where securities are held in the bank's vaults for protection.

SECURED DEPOSIT: bank deposits of state or local government funds which, under the laws of certain jurisdictions, must be secured by the pledge of acceptable securities.

SECURITIES: investment instruments such as bonds, stocks and other instruments of indebtedness or equity.

SERIAL BOND: bonds of the same issue which have different maturities coming due over a number of years rather than all at once. This allows the issuer to retire the issue in small amounts over a long period of time.

SETTLEMENT DATE: date by which an executed order must be settled, either by buyer paying for the securities with cash or by a seller delivering the securities and receiving the proceeds of the sale for them.

SINKING FUND: a reserve fund set aside over a period of time for the purpose of liquidating or retiring an obligation, such as a bond issue, at maturity.

SPECIAL ASSESSMENT BONDS: bonds which are paid back from taxes on the property that is benefiting from the improvement being financed. The issuing governmental entity agrees to make the assessments and earmark the tax proceeds to repay the debt on these bonds.

SPREAD: the difference between two figures or percentages. For example, it may be the difference between the bid and asked prices of a quote, or between the amount paid when bought and the amount received when sold.

TAX ANTICIPATION NOTES (TAN): short-term notes issued by states or municipalities to finance current operations in anticipation of future tax collections which would be used to repay the debt.

GLOSSARY OF COMMONLY USED FINANCIAL TERMS

TAX-EXEMPT BONDS: interest paid on municipal bonds issued by state and local governments or agencies is usually exempt from federal taxes, and in some cases, the state and/or local taxes. The interest rate paid on these bonds is generally lower than rates on non-exempt securities.

TERMS: the conditions of the sale or purchase of a security.

TREASURY BILL (T-BILL) : obligation of the US government with a maturity of one year or less. T-bills bear no interest, but are sold at discount.

TREASURY BONDS AND NOTES: obligations of the U. S. government which bear interest. Notes have maturities of one to seven years, while bonds have longer maturities.

TRUSTEE: a bank designated as the custodian of funds and the official representative for bondholders.

UNDERWRITER: a dealer bank or other financial institution which arranges for the sale and distribution of a large batch of securities and assumes the responsibility for paying the net purchase price.

YIELD: the annual rate of return on an investment, expressed as a percentage of the investment.

YIELD CURVE: graph showing the term structure of interest rates by plotting the yields of all bonds of the same quality with maturities ranging from the shortest to the longest available. The resulting curve shows if short-term interest rates are higher or lower than long-term rates. For the most part, the yield curve is positive (short-term rates are lower), since investors who are willing to tie up their money for a longer period of time usually are compensated for the extra risk they are taking by receiving a higher yield.