

1 RESOLUTION NO. 2017-R____

2
3 A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CULVER
4 CITY, CALIFORNIA, APPROVING AND ADOPTING THE CITY OF
5 CULVER CITY INVESTMENT POLICY.

6 WHEREAS, the Chief Financial Officer/City Treasurer has prepared an
7 updated Investment Policy for the City of Culver City.

8 NOW, THEREFORE, the City Council of the City of Culver City, California,
9 DOES HEREBY RESOLVE as follows:

10 1. The City Council hereby adopts the City of Culver City Investment
11 Policy, attached hereto as Exhibit "A" and incorporated herein by reference.

12 2. Any and all other prior resolutions in conflict with this Resolution are
13 hereby rescinded.

14
15 APPROVED and ADOPTED this _____ day of _____ 2017.

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17
18 JEFFREY COOPER, MAYOR
19 City of Culver City, California

20 ATTEST:

21 APPROVED AS TO FORM:

22 JEREMY GREEN, City Clerk

23 CAROL A. SCHWAB, City Attorney

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“Exhibit A”



City of Culver City

Investment Policy

Jeff Muir
Chief Financial Officer / City Treasurer

City of Culver City Investment Policy

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1. INTRODUCTION

This statement of Investment Policy is intended to provide specific criteria for the prudent investment of City funds. The ultimate investment goal is to enhance the economic status of the City while protecting funds under management and meeting the daily cash flow demands of the City. The investment policy conforms to all Federal, State and local laws governing the investment of monies under the control of the Chief Financial Officer / City Treasurer.

This investment policy applies to the City's Investment Portfolio and Redevelopment Agency Portfolio. These portfolios encompass all monies under the direct oversight of the Chief Financial Officer / City Treasurer and include the General Fund, Reserve Funds, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Proprietary Funds, Trust and Agency Funds, and any other funds that may be created.

2. DELEGATION OF AUTHORITY

The Charter of the City of Culver City and the authority granted by City Council assign the responsibility of investing unexpended cash to the City Treasurer. The Chief Financial Officer has been appointed to also serve as the City Treasurer. The Chief Financial Officer may delegate daily investment such as carrying out the Treasurer's investment instructions, confirming treasury transactions, and other routine activities. The Chief Financial Officer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, PSA repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Chief Financial Officer.

The Chief Financial Officer is responsible for the investment of bond proceeds whether held by the City or with a fiscal agent. The Bond Proceeds portfolio(s) shall be segregated from the Pooled Investment Portfolio of the City and will be structured with maturities (or maintain an average maturity) sufficient to meet construction draws, debt service payments and other short-term liabilities. For purposes of efficiency, the Chief Financial Officer may instruct each fiscal agent to purchase certain securities regarding the investment of bond proceeds.

The Chief Financial Officer has delegated day-to-day management of the

Culver City Investment Portfolio to Insight Investment, who has full authority to execute investment transactions on behalf of the City, within parameters provided by the Chief Financial Officer. In the event Insight Investor Services Corporation is not able to execute investment transactions, the Chief Financial Officer, Assistant Chief Financial Officer and Revenue Division Manager have the authority to execute investment transactions.

3. ETHICS AND CONFLICTS OF INTEREST

Officers, employees and consultants involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or that impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material financial interests that could be related to the performance of the City's investment policy annually or as necessary.

4. PRUDENCE

The Chief Financial Officer operates the City's pooled cash investment program under the Prudent Investor Rule, Government Code Section 53600.3, and applicable State laws. This affords a broad spectrum of investment opportunities so long as the investment is deemed prudent and permissible by the State of California, various bond indentures and this policy. The Chief Financial Officer strives to invest 100% of idle funds.

5. PRUDENT INVESTOR RULE

When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the Chief Financial Officer shall act with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims to safeguard the principal and maintain the liquidity needs of the agency. All such investments, reinvestments, purchases, acquisitions, exchanges, and sales shall be made subject to and in accordance with this policy and the provisions of Sections 16429.1 and 53600 through 53684 of the Government Code and other applicable laws and regulations.

6. INTERNAL CONTROLS

The Chief Financial Officer shall establish procedures that separate the internal responsibility for management and accounting of the investment portfolio. An analysis by an external independent auditor shall be conducted annually to review internal controls, account activity and compliance with policies and procedures.

7. INVESTMENT OBJECTIVES

The City's cash management system is designed to accurately monitor and forecast revenues and expenditures, thus enabling the Chief Financial Officer to invest funds to the fullest extent possible. The Chief Financial Officer maintains a diversified portfolio to accomplish the primary objectives in the order of safety, liquidity, and yield.

Safety: The safety/risk associated with an investment refers to the potential loss of principal, accrued interest or a combination of these. The Chief Financial Officer seeks to mitigate credit risk by monitoring financial institutions with which he/she will do business, and by careful scrutiny of the credit worthiness of the investment instruments as well as the institutions. Such resources as Moody's and Standard & Poor's rating services are utilized for this review. The Treasurer seeks to mitigate interest rate risk through diversification of instruments as well as maturities.

Liquidity: The portfolio will be structured with sufficient liquidity to allow the Chief Financial Officer to meet anticipated cash requirements. This will be accomplished through the purchase of a diversity of instruments to include those with active secondary markets, those that can match maturities to expected cash needs, and the State Local Agency Investment Fund with immediate withdrawal provisions.

Yield: A competitive market rate of return is the third objective of the investment program after the fundamental requirements of safety and liquidity have been met. The portfolio shall be managed to consistently attain a market rate of return throughout budgetary and economic cycles. Whenever possible, and consistent with risk limitations and prudent investment management, the City will seek to augment returns above the market average rate of return through the implementation of active portfolio management strategies.

8. PERFORMANCE EVALUATION

Investment performance is continually monitored and evaluated by the Chief Financial Officer. Investment portfolio reports are generated on a quarterly basis and submitted to the City Council, City Manager and Investment Committee.

The investment portfolio reports are to be submitted within 30 days of the end of the reporting period. The monthly average yield of the Culver City Pooled Investment Portfolio will be compared to the monthly average 6-month CMT (Constant Maturity Treasury) as calculated by the Federal Reserve Bank of New York. As an added reference, the monthly average yield of the Culver City Pooled Investment Portfolio will be compared to the monthly average 2-year CMT as calculated by the Federal Reserve Bank of New York.

9. DIVERSIFICATION

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

Market price volatility shall be controlled through maturity diversification, as well as ensuring adequate liquidity is available to meet cash flow requirements, thereby precluding the need to sell instruments at a market loss.

Risk of default will be controlled by acquiring instruments such as Government Securities, or by diversifying the portfolio within the constraints and parameters of Section 17 of this Policy, Authorized Investments.

10. PORTFOLIO SEGREGATION

Within the overall funds managed by the Chief Financial Officer, bond funds shall be invested in conformance with the permitted investment criteria documented in each bond indenture or guiding resolution. Furthermore, bond proceeds held by fiscal agents shall also be segregated and invested in accordance with each indenture.

The primary purpose in managing bond proceeds is to structure investment maturities to meet current and future liabilities. The preservation of principal and the maintenance of liquidity are the most important factors regarding the investment of bond proceeds. Portfolio yield is not a primary factor

since the portfolio structure, eligible investment assets and maturity restrictions are governed by draws and expenditure schedules of the issues. Performance will be based upon maximizing permitted positive arbitrage within the context of principal preservation as a first priority (pre-1986 Tax Reform Act issuances) or minimizing or eliminating negative arbitrage (yield-restricted issues).

11. BOND ISSUANCE ARBITRAGE REBATE

The U.S. Tax Reform Act of 1986 requires the City to perform annual arbitrage calculations and rebate excess earnings to the U.S. Treasury for investment returns that exceed the allowable interest earnings limit of each bond issue. The arbitrage calculation process must be conducted for the investment of proceeds of bond issues sold after the effective date of this law. This arbitrage calculation will be contracted out to provide the necessary technical expertise to comply with this regulation. The City's investment position relative to the interest rate arbitrage restrictions is to have safety and the highest permitted return the law allows as the highest priority while ensuring the preservation of principal and liquidity.

12. MAXIMUM MATURITIES

(1) Operating Portfolio

In accordance to California Government Code Section 53601, the City will not invest in any securities maturing more than five (5) years from the settlement date of purchase. If the Chief Financial Officer desires to make investments longer than five years, express authority to make those investments, either specifically or as part of an investment program, must be approved by the City Council no less than three months prior to the investment. In no event will securities with maximum maturities beyond four years exceed 40% of the portfolio's total carrying cost at the time of purchase.

(2) Bond Proceeds

The Bond Proceeds portfolio held by the City and/or fiscal agents will be structured with maturities sufficient to meet current and future disbursements and other liabilities consistent with the purpose of each bond issue. The Chief Financial Officer may match maturities to defined future liabilities or may structure the portfolio in such a manner as to maintain an average maturity and a defined liquidity percentage necessary to meet estimated liabilities. In no event will

securities be purchased with final maturities that exceed a specifically defined future liquidity requirement (such as bond reserve fund availability requirement) or liability.

13. PORTFOLIO REPORTING

On a quarterly basis, or as otherwise requested by the City Manager, the Chief Financial Officer shall provide to the City Council an investment portfolio report indicating each of the City's investments (a description that adequately describes the security), the purchase date, maturity date, cost basis, current cost value (book value), interest rate, weighted average maturity, and current unrealized loss or gain. Various investment types will be categorized and grouped in the same structure as the qualified investment categories identified in this policy. The portfolio report shall include a statement certifying the ability of the City to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available. The report will also include comments on the fixed income markets and economic conditions, and the effect, if any, on the portfolio structure and investment strategy. The report shall also detail all repurchase and reverse repurchase positions and associated liabilities.

The investment portfolio report shall include mark-to-market information for all investments. A monthly market value will be obtained for each security owned by the City. For purposes of reporting, the market value of each security may be obtained from the City's custodian bank or other pricing source(s) utilized by the City's designated investment management firm (registered investment advisor).

The City shall record interest revenue on a modified accrual basis of accounting that is typical for reporting and recording of interest earnings, accretions and premium amortizations. Securities held by a fiscal agent shall also be recorded on a modified accrual basis of accounting. The Chief Financial Officer will report year-end investments in conformance with GASB 31 and GASB 40.

The Chief Financial Officer will perform a monthly reconciliation of all funds included in the investment portfolios. The reconciliation shall utilize all available information including the City's books, the Demand Deposit Bank account, the custodian's statement and the fiscal agent's statement.

14. QUALIFIED DEALERS

The Chief Financial Officer shall transact business only with Registered Investment Advisors, banks, savings and loans, and broker dealers. The dealers should be primary dealers regularly reporting to the New York Federal Reserve Bank, or approved regional or secondary market dealers that qualify under the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

A list of security broker/dealers approved to conduct business with the City shall be maintained by Insight Investor Services Corporation.

The Chief Financial Officer may direct a fiscal agent to execute investment transactions on behalf of the City for funds held by that fiscal agent.

The City may purchase A₁, P₁ rated commercial paper from its direct issuer if it presents a higher return than in the secondary market.

Insight Investor Services Corporation shall send annually a copy of the current investment policy by electronic mail to all broker/dealers approved to do business with the City.

15. SAFEKEEPING OF SECURITIES

To protect against losses caused by the collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a custody agreement or Master Repurchase Agreement (repurchase agreement collateral) or, in the case of funds held by the fiscal agent, the fiscal agent shall segregate and report securities held on the City's behalf. Any trade executed by a dealer is required to settle on a delivery versus payment basis with the City's safekeeping agent.

Fiscal agents in receipt of City of Culver City bond proceeds will settle security transactions on a delivery versus payment method based upon instructions provided by the Chief Financial Officer or the City's investment advisor. The fiscal agents will issue monthly custodian statements evidencing securities held in safekeeping, including the receipt of interest and maturity proceeds, the disbursement of funds for the purchase of securities, and the receipt of any sale proceeds.

16. COLLATERALIZATION

All demand deposits, time deposits and repurchase agreements are to be

fully collateralized with securities authorized by the California Government Code and the City.

- (1) The eligible collateral for repurchase agreements must be those investments authorized by Section 53651 of the California Government Code. The Chief Financial Officer may specify the type of eligible collateral for use in repurchase agreements. Eligible collateral must be in book entry form. Collateral is valued at current market plus accrued interest through the date of valuation.

- (a) The cost value (book value) of collateral pledged for demand deposits must at all time be equal to or greater than the amount on deposit, plus accrued interest, in accordance with the following ratio:

U.S. Treasury Securities	110%
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- (b) The cost value (book value) of collateral pledged for repurchase agreements must at all time be equal to or greater than the par amount, plus accrued interest, with the following ratios:

U.S. Treasury Securities	102%
U.S. Government Agencies	102%
Cash (in immediately available funds)	100%

- (2) It is the policy of the City to require reports at least on a quarterly basis from institutions with which the Chief Financial Officer has pledged security interest. The Chief Financial Officer shall monitor the adequacy of collateralization to ensure that balances are collateralized in accordance with the ratios approved herein.
- (3) With regard to repurchase agreements, it is the policy of the City to initiate a margin call in the event pledged collateral falls below the appropriate ratio.
- (4) Collateralized investments and deposits often require substitution of collateral. Any broker or financial institution requesting substitution must contact the City for approval in the event the counterparty to the transaction is not authorized under agreement with the City to make substitutions.

17. AUTHORIZED INVESTMENTS

The City's investments and deposits are governed by the California Government Code, Sections 16429.1, 53600-53609 and 53630-53686 et. seq. Within the context of these limitations and based on the cost at the time of purchase, the following investments are authorized as further limited herein:

Authorized Investment Summary Matrix

<u>Category</u>	<u>Percent</u>
A. US Treasuries	no limit
B. US Agencies	no limit
C. Bankers' Acceptances	25%
D. Commercial Paper	25%
E. Repurchase Agreements	25%
F. Reverse Repurchase Agreements	15%
G. Local Agency Investment Fund (LAIF)	Per State limit
H. Municipal Bonds	30%
I. Corporate Medium Term Notes	30%
J. Money Market Mutual Funds	20%
K. CalTrust MMF and Short-Term Funds	no limit
L. CalTrust Medium-Term Fund	15%

- A. United States Treasury Bills, Bonds, and Notes, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the portfolio that can be invested in this category.
- B. United States Agency (government sponsored enterprise) debentures, discount notes, callable and step-up securities. There is no limitation as to the percentage of the portfolio that can be invested in this category.. Although there is no percentage limitation on these issues, no more than 30% of the cost (book) value of the portfolio will be invested in any one agency.
- C. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as Bankers' Acceptances. Bankers' Acceptances purchased may not exceed 180 days to maturity or 25% of the cost (book) value of the portfolio. No more than 5% of the cost (book) value of the portfolio may be invested in Bankers' Acceptances issued by any one bank. Prior to the purchase of any Banker's Acceptance, the portfolio manager shall review the rating of the issuing bank. Bankers' Acceptances of issuing financial institutions shall have both a short and long term rating of at least A -1

or the equivalent by at least one nationally recognized statistical rating organization (NRSRO) at the time of purchase.

- D. Prime Commercial Paper with a maturity not exceeding 270 days from the date of trade settlement with the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph A. or sub-paragraph B. below:

A. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of \$500,000,000 and (3) have debt other than commercial paper, if any, that is rated at least A or the equivalent by a NRSRO.

B. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond and (3) have commercial paper that is rated at least A-1 or the equivalent by a NRSRO.

The aggregate investment in commercial paper may not exceed 25% of the cost value of the portfolio, and no more than 5% of the of the cost value of the portfolio may be invested in the commercial paper of any one issuer.

- E. Repurchase agreements. The City may invest in repurchase agreements with banks and primary dealers with whom the City has entered into a master repurchase agreement that specifies terms and conditions of repurchase agreements. No more than 25% of the cost value of the portfolio may be invested in repurchase agreements at any time. The maturity of repurchase agreements shall not exceed 75 days.

The cost value of securities used as collateral for repurchase agreements shall be monitored daily by the Chief Financial Officer and will not be allowed to fall below the margin ratios specified in Section 16 (1)(b) of this policy. In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of, or that are fully guaranteed as to principal and interest by, the United States Government such as Treasury bills, Treasury notes or Treasury bonds with less than a five-year maturity.

- F. Reverse repurchase agreements. The City may invest in reverse repurchase agreements only with those banks and primary dealers with whom the City has entered into a master repurchase agreement outlining terms and conditions of repurchase and reverse repurchase agreements. The City may only invest in reverse repurchase agreements for the following purpose:
1. The City may enter into reverse repurchase agreements when funds obtained through the reverse can be reinvested in a higher yielding security to obtain additional interest income for the City at a spread deemed to be acceptable by the Chief Financial Officer under then prevailing market conditions. Reverse repurchase agreements entered into in accordance with this paragraph may not exceed 75 days to maturity and must be matched as to maturity and dollars invested with its corresponding reinvestment. No more than 15% of the cost value (book value) of the portfolio may be invested in reverse repurchase agreements.
 2. Reverse repurchase agreements may be used for liquidity purposes when it is determined that the portfolio has sufficient additional collateral coming due within the term of the reverse repurchase agreement equal to or exceeding the amount of the reverse repurchase agreement.
- G. Local Agency Investment Fund (LAIF). The City may invest in the LAIF established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law.
- H. Municipal bonds including registered treasury notes or bonds of any of the 50 states, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the 50 states.

In addition, bonds, notes, warrants, or other evidences of indebtedness of any local agency in California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

Obligations rated "A" or the equivalent by a NRSRO at the time of purchase shall be limited to 36 month maturities, and obligations

rated "AA" or the equivalent by a NRSRO at the time of purchase shall be limited to five-year maturities. The aggregate investment in municipal bonds may not exceed 30% of the cost value of the portfolio, and no more than 5% of the cost value of the portfolio may be invested in any single issuer.

- I. Corporate medium term notes issued by a domestic corporation having assets in excess of \$500 million and having a rating of at least "A" or the equivalent by a NRSRO at the time of purchase on its long-term debentures. Purchase of corporate medium term notes from corporations on negative credit watch by a major rating agency shall be prohibited. Obligations rated "A" or the equivalent by a NRSRO at the time of purchase shall be limited to 36 month maturities, and obligations rated "AA" or the equivalent by a NRSRO at the time of purchase shall be limited to five-year maturities. The aggregate total of all purchased medium term notes may not exceed 30% of the cost value of the portfolio. No more than 5% of the cost value of the portfolio may be invested in corporate medium term notes issued by any one corporation. Commercial Paper and bankers' acceptance holdings shall be considered when calculating the maximum percentage in any issuer name.
- J. Money Market Mutual funds having a rating of AAA/Aaa or an equivalent by one or more NRSROs with no load. Only Money Market Mutual Funds that invest in government securities and maintain a \$1 stable net asset value are permitted. No more than 20% of portfolio value should be invested in this category; investment in a single mutual fund will not to exceed 10% of the cost value (book value) of the total portfolio exclusive of the fiscal agent cash portfolio, and the City's investment in any specific mutual fund will not exceed 2% of that mutual fund's total assets.
- K. Investment Trust of California (CalTrust). The City may invest in the Money Market Fund and Short-Term fund established by this Joint Powers Authority. There is no limit on the percentage of the portfolio that can be invested in these funds.
- L. Investment Trust of California (CalTrust). The City may invest in the Medium-Term fund established by this Joint Powers Authority. No more than 15% of portfolio value should be invested in this category.

Upon any announcement of negative credit watch or downgrade by a major rating agency of any issue within the portfolio, the investment manager should contact the Chief Financial Officer and recommend a course of action.

Securities that have been downgraded to a level that is below the minimum ratings described herein may be sold or held at the City's discretion. The portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

18. INELIGIBLE INVESTMENTS

Investments not described herein including, but not limited to, equity securities such as common stocks, preferred stocks, convertibles, inverse floaters, range notes and interest-only strips that are derived from a pool of mortgages are prohibited from use in this portfolio. The City is prohibited from entering into a margin agreement and/or borrowing on margin.

19. INVESTMENT COMMITTEE

An Investment Committee shall be established consisting of but not limited to the Chief Financial Officer, members of the Chief Financial Officer's staff, two City Council members, and the City Manager.

20. INVESTMENT POLICY ADOPTION

The City Council shall review and adopt this Investment Policy annually or as necessary.

GLOSSARY

AGENCIES - Agencies of the Federal government set up to supply credit to various classes of institutions (e.g., S&L's, small business firms, students, farmers, housing agencies, etc.) Examples include Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB) and Federal Farm Credit Bank (FFCB).

ASK/OFFER - The price at which securities are offered. (The price at which a firm will sell a security to an investor)

BANKERS' ACCEPTANCE (BA) - A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the issuer.

BASIS POINT - One one-hundredth of a percent (i.e., 0.01%)

BEAR MARKET - A period of generally pessimistic attitudes and declining market prices.

BID PRICE - The price at which a broker/dealer will buy securities from an investor.

BOND EQUIVALENT YIELD - The basis on which yields on notes and bonds are quoted.

BOOK VALUE (COST VALUE) - The purchase price of the security as recorded on the City's books.

BROKER/DEALER - An individual or firm acting as principal in a securities transaction.

BULL MARKET - A period of generally optimistic attitudes and increasing market prices.

CALLABLES - Securities that the issuer has the right to redeem prior to maturity.

CERTIFICATE OF DEPOSIT (CD) - A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

CMT - Constant Maturity Treasury - An index of the average yield on United States Treasury securities adjusted to a constant maturity.

COLLATERAL - Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER - Commercial Paper is issued by leading industrial and financial firms to raise working capital. The maturities are from 3 to 180 days, usually sold on a discount basis. The City and Redevelopment Agency only buys Commercial Paper issued by corporations with the highest possible credit rating. Investments in Commercial Paper may not exceed 25% of the City or Redevelopment Agency's surplus funds.

CORPORATE MEDIUM TERM NOTE - A security issued by a corporation doing business in the U.S. with a maturity not to exceed five years.

COST VALUE (BOOK VALUE) - The purchase price of the security as recorded on the City's books.

COUPON - a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value; b) a certificate attached to a bond evidencing interest due on a payment date.

DEALER - A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE - A bond secured only by the general credit of the issuer.

DELIVERY VS PAYMENT - Delivery of securities with a simultaneous exchange of money.

DEMAND ACCOUNT - An account with a commercial bank from which check withdrawals may be made at any time.

DERIVATIVES - Financial products that are dependent for their value on (or derived from) an underlying financial instrument, a commodity, or an index representing values of groups of such instruments or assets.

DISCOUNT - The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DIVERSIFICATION - Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES - Agencies of the Federal government set up to supply credit to various classes of institutions and individuals; e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) - A federal agency that insures bank deposits, currently up to \$250,000 100,000 per deposit. Note that this is set to revert back to \$100,000 per deposit on December 31, 2009 unless extended by Congress.

FEDERAL FUNDS RATE – Interest rate charged by one institution lending federal funds to another.

FEDERAL HOME LOAN BANKS (FHLB) - Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA) - FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC) - Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FINANCIAL ADVISOR - A firm or bank that acts in a financial advisory capacity with respect to a new issue of municipal securities pursuant to a written contract.

FISCAL AGENT - A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms

of the bond contract.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae)

- Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

INTERNAL RATE OF RETURN - Rate of return over the life of a security on variables.

INVESTMENT TRUST OF CALIFORNIA (dba CalTRUST) – A Joint Powers

Authority investment pool administered by the California State Association of Counties, and sponsored by the League of California Cities.

LIQUIDITY - A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL AGENCY INVESTMENT FUND (LAIF) - The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE - The price at which a security is trading, usually the liquidation value.

MONEY MARKET MUTUAL FUNDS – Open-ended mutual fund that invests in commercial paper, banker's acceptances, repurchase agreements, government securities, certificates of deposit and other highly liquid and safe securities, and pays money market rates of interest. The fund's net asset value remains a constant \$1 a share, with the interest rate increasing or decreasing.

OFFER PRICE - The price at which a broker/dealer will offer securities to an investor.

OPEN MARKET OPERATIONS - Federal Reserve activity. Under the Federal Reserve Act, the Fed uses purchases and sales of Government and Federal Agency securities to add to or subtract from commercial bank reserves. Goals are to sustain economic growth, high employment and reasonable price stability.

PAPER GAIN OR LOSS - Term used for unrealized gain or loss on securities being held in a portfolio based on comparison of current market quotes and their original cost. This situation exists as long as the security is held while there is a difference between cost value (book value) and the market value.

PRIMARY DEALER - A group of government securities dealers that submits daily reports of market activity, positions and monthly financial statements to the Federal Reserve Bank of New York, and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker/dealers, banks and a few unregulated firms.

PSA - The Public Securities Association is the international organization of banks, dealers and brokers that underwrite, trade and sell municipal securities, mortgage-backed securities, money market securities and U.S. government and federal agency securities.

RATE OF RETURN - The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity; on a bond, the current income return.

SAFEKEEPING - The service provided by banks and trust companies for clients when the bank or trust company stores the securities, takes in coupon payments, and redeems issues at maturity.

SPREAD - a) The yield or price difference between the bid and offer on an issue; b) the yield or price difference between different issues.

SWAP - The sale of one issue and the simultaneous purchase of another for some perceived advantage.

TREASURY BILLS - A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

TREASURY BONDS - U.S. Treasury securities that have initial maturities of more than ten years.

TREASURY NOTES - Intermediate-term coupon bearing U.S. Treasury securities having initial maturities of from one year to ten years.

TRUSTEE - A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

WHEN ISSUED BASIS (WI) - A term applied to securities that are traded before they are actually issued with the stipulation that transactions are null and void if securities are not issued.

YIELD CURVE - Yield calculations of various maturities at a given time to observe spread difference.

YIELD TO MATURITY - The current coupon yield minus any premium above par, or plus any discount from par in the purchase price with the adjustment spread over the period from date of purchase to maturity.