

CITY OF YUBA CITY
STAFF REPORT

Date: December 15, 2020
To: Honorable Mayor & Members of the City Council
From: City Treasurer
Presentation By: Spencer Morrison, City Treasurer

Summary

Subject: Annual Investment Policy Adoption
Recommendation: Approve Investment Policy as presented
Fiscal Impact: None

Purpose:

To review the City's Investment Policy to ensure that it continues to meet statutory requirements and reflects treasury best practices.

Background:

In accordance with the City's Investment Policy ("Policy") and Government Code Section 53646 (a) (1), the Policy is submitted annually to the City Council for review and approval.

Each year, the City Treasurer and the City's investment advisors review the policy for updates to present to City Council.

Analysis:

Upon completion of this year's review, the City Treasurer is recommending small changes to the policy from Senate Bill 998 amending certain sections of the Government Code becoming effective on January 1, 2021 and a sunset on January 1, 2026, in addition to language calling out document dates. The only Code change which applies to Yuba City's policy (see the policy, page 6) authorizes cities and special districts that have more than \$100 million in investment assets to increase the commercial paper limit from 25% to 40%. This change aligns cities and special districts with what counties are doing, currently. Both of the City's investment advisors, PFM and Insight Investments, have reviewed the document. The final policy draft will be posted to the City's website.

Fiscal Impact:

None.

Alternatives:

1. Approve with modifications as desired by the Council.
2. Do not change the language in the policy.

Recommendation:

Staff recommends approval of the Investment Policy as presented.

Attachments:

1. Proposed Investment Policy for 2021

Prepared and Submitted By:

/s/ Spencer Morrison

Spencer Morrison
Finance Director/City Treasurer

Reviewed By:

Interim City Manager

DL

City Attorney

SLC by email

ATTACHMENT 1



City of Yuba City

Investment Policy

TABLE OF CONTENTS

	<u>Page</u>
I. PURPOSE	1
II. SCOPE	1
III. OBJECTIVES	1
IV. STANDARD OF CARE	1
Prudence	
V. INVESTMENT AUTHORITY AND RESPONSIBILITIES	2
Delegation of Authority	
Internal Controls	
Investment Procedures	
Ethics and Conflicts of Interest	
VI. PROVIDERS OF FINANCIAL SERVICES	3
Authorized Brokers/Dealers	
Contracted Investment Advisor Services	
Safekeeping and Custody	
VII. SUITABLE AND AUTHORIZED INVESTMENTS	4
Investment Types	
Due Diligence Requirement	
Legislative Changes	
VIII. INVESTMENT PARAMETERS	8
Diversification	
Maximum Maturities	
Sale of Investments Prior to Maturity	
IX. EVALUATION OF INVESTMENT PERFORMANCE	9
X. REPORTING	9
XI. POLICY REVIEW AND ADOPTION	9
GLOSSARY	10

I. PURPOSE

It is the policy of the City of Yuba City to invest public funds in a prudent manner which will provide maximum security while meeting daily cash flow demands and conforming to all statutes governing the investment of public funds. Within these parameters, funds will be invested to optimize investment return.

II. SCOPE

This Investment Policy (“the Policy”) shall apply to all financial assets, other than proceeds of debt issues, of the City of Yuba City and the Successor Agency to the Redevelopment Agency of Yuba City (collectively “the City”). These funds are accounted for in the City’s comprehensive annual financial report and include:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Trust and Agency Funds
- Any new fund created by the governing body, unless specifically exempted by the governing body

This Policy applies to all transactions involving the financial assets and related activity of all the foregoing funds, with the exception of the proceeds of debt issuance. Investment of bond proceeds will be governed by the permitted investment section of bond documents.

III. OBJECTIVES

The City’s funds shall be invested in accordance with all applicable City policies, ordinances, and codes, State statutes, and Federal regulations, and in the manner designed to accomplish the following primary objectives, in priority order:

- Preservation of capital and protection of investment principal
- Maintenance of sufficient liquidity to meet anticipated cash flows
- Diversification to avoid incurring unreasonable market risks
- Attainment of a market rate of return
- Conformance with all applicable City ordinances, State statutes and Federal regulations

IV. STANDARD OF CARE

Prudence. The standard of prudence to be used by investment officials shall be the “prudent investor standard” which states:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, 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.”

Investment officers acting in accordance with written procedures and this Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this Policy.

V. INVESTMENT AUTHORITY AND RESPONSIBILITIES

Delegation of Authority. Authority to manage the investment program is granted to the City Treasurer and derived from the California Government Code Section 53607 and the City of Yuba City Municipal Code Section 3-7.201. The City Treasurer serves as the Chief Investment Officer for the City and the Successor Agency to the Redevelopment Agency of Yuba City, and is authorized to invest or deposit the City's funds in accordance with this Policy, California Government Code Sections 53600 and 53630 et seq., and all other related federal and State laws.

The City Finance Director is responsible for the day-to-day administration and implementation of the Investment Policy.

Internal Controls. An internal control structure shall be established and maintained to ensure that the financial assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Internal controls shall be subject to an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

Investment Procedures. Written investment procedures for the operation of the investment program shall be established that are consistent with this Policy. The procedures should include reference to:

- Safekeeping
- Master repurchase agreements
- Wire transfer agreements
- Banking service contracts

- 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 established procedures set forth.

Ethics and Conflicts of Interest. City employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees shall disclose to the City Manager any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio, and they shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

VI. PROVIDERS OF FINANCIAL SERVICES

Authorized Broker/Dealers. A list of broker/dealers from which the City purchases investments directly shall be maintained. It shall be the policy of the City to purchase securities only from those authorized firms. To be eligible, a firm must have minimum capital of \$10,000,000 and at least five years of operation. These may include “primary” dealers, financial firms that have a primary dealer within their holding company structure, or regional dealers. All must qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

All approved broker/dealers must supply the following annually:

- (1) Audited financial statements
- (2) Proof of Financial Industry Regulatory Authority (FINRA) registration
- (3) Proof of State registration

The City may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria for commercial paper in the Suitable and Authorized Investments section of this Policy.

An annual review of the minimum capital requirement and registration of qualified financial institutions and broker/dealers will be conducted.

From time to time, the City Treasurer may choose to invest in instruments offered by minority and community financial institutions. In such situations, a waiver to the criteria above may be granted. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with State or local law. These types of investment purchases should be approved by the City Council in advance.

Contracted Investment Advisor Services. The City Treasurer may engage the services of registered external investment advisors in regard to the City’s investment program. The City Treasurer may, by written agreement with investment advisors, delegate the day-to-day placement of investments. Investment advisors shall make all investment decisions and transactions in strict accordance with State law and this Investment Policy.

If the City has granted to an outside investment advisor authority to buy or sell securities, the

investment advisor may place orders for the execution of such transactions with the broker/dealers of its choice.

Safekeeping and Custody. One or more banks shall be selected to provide safekeeping and custodial services for the City. A Safekeeping Agreement approved by the City shall be executed with each custodian bank prior to utilizing the bank's safekeeping services. Custodian banks will be selected on the basis of their ability to provide services for the City's account and the competitive pricing of their safekeeping-related services.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. All securities, except non-negotiable Certificates of Deposit, Money Market Funds, LAIF and CAMP will be delivered by book entry to be held by the City's custodian bank or its Depository Trust Company (DTC) participant account.

VII. SUITABLE AND AUTHORIZED INVESTMENTS

All investments and deposits of the City shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686. Percentage limits and credit criteria, where listed, are applied at the time of purchase. Credit ratings, where shown, specify the minimum credit rating category required at purchase without regard to +/- or 1, 2, 3 modifiers, if any. In the event a security held by the City is subject to a credit rating change that brings it below the minimum credit ratings specified in this Policy, the City Treasurer will review the security with the course of action to be determined on a case-by-case basis, considering such factors as the reason for the credit rating change, prognosis for recovery or further rate drops, and the market price of the security. The City has further restricted authorized investments to the following:

Government Obligations.

United States Treasury bills, notes, bonds, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest, with a final maturity not exceeding five years from the date of trade settlement.

Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government sponsored enterprises securities, with a final maturity not exceeding five years from the date of trade settlement. There is no limit to that amount of the City's portfolio that may be invested in Federal Agency or GSE securities, except that the aggregate investment in Federal Agency mortgage-backed securities shall not exceed 20% of the City's total portfolio.

State and Local Agency Obligations.

1. California Obligations.

- a. **State Obligations.** Registered State warrants or treasury notes or bonds of this State, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the State or by a department, board, agency, or authority of the State. Such obligations must have a final maturity not exceeding five years from the date of trade settlement, and rated in a rating category of “A-1”, or the equivalent or higher short-term; or “A”, or the equivalent or higher long-term by a Nationally Recognized Statistical Rating Organization (NRSRO) at the time of trade settlement.
- b. **Local Agency Obligations.** (1) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this State, 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 with a final maturity not exceeding five years from the date of trade settlement, and rated in a rating category of “A-1”, or the equivalent or higher short-term; or “A” or the equivalent or higher long-term by a NRSRO at the time of trade settlement; and (2) Obligations of the City of Yuba City and the Successor Agency to the Redevelopment Agency of the City of Yuba City, including RDA tax allocation bonds.

2. **Other 49 state Obligations.** Registered treasury notes or bonds of any of the other 49 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 other 49 states, in addition to California. Such obligations must have a final maturity not exceeding five years from the date of trade settlement, and rated in a rating category of “A-1”, or the equivalent or higher short-term; or “A”, or the equivalent or higher long-term by a NRSRO at the time of trade settlement.

Supranationals. United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a final maturity not exceeding five years from the trade settlement, and eligible for purchase and sale within the United States. Supranationals shall be rated in a rating category of “AA” or the equivalent or higher by a NRSRO at the time of purchase. The aggregate investment in supranationals shall not exceed 30% of the City’s total portfolio.

Special Assessment District Obligations. Limited Obligation Improvement Bonds issued by the City of Yuba City related to special assessment districts. Investment in such obligations requires the approval of the City Council and maturities may extend to 30 years from the date of trade settlement.

Bankers’ Acceptances. Eligible Banker’s Acceptances with a maturity not exceeding 180 days from the date of trade settlement, rated in a rating category of “A-1” or the equivalent or higher by a NRSRO, drawn on or accepted by a commercial bank with combined capital and surplus of at least \$250 million, whose deposits are insured by the FDIC, and whose senior long-term debt is rated in a rating category of “A” or the equivalent or higher by a NRSRO at the time of trade

settlement. The aggregate investment in banker's acceptances shall not exceed 40% of the City's total portfolio.

Commercial Paper. Prime Commercial Paper with a maturity not exceeding 270 days from the date of trade settlement with the highest ranking or of 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 five hundred million dollars (\$500,000,000) and (3) have debt other than commercial paper, if any, that is rated in a rating category of "A" or higher 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, overcollateralization, letters of credit or a surety bond and (3) have commercial paper that is rated in a rating category of "A-1" or higher, or the equivalent, by a NRSRO.

The aggregate investment in commercial paper shall not exceed 2540% of the City's total portfolio. ~~The City may purchase no more than 10% of the outstanding commercial paper of any single issuer.~~

Negotiable Certificates of Deposit. Negotiable Certificates of Deposit with a maturity not exceeding five years from the date of trade settlement, issued by a nationally or State-chartered bank, a savings association or a federal association, a State or federal credit union, or by a federally licensed or State licensed branch of a foreign bank. Purchases are limited to institutions which have long-term debt rating in a rating category of "A" or the equivalent or higher by a NRSRO. The aggregate investment in Negotiable Certificates of Deposit shall not exceed 30% of the City's total portfolio.

Bank Deposits. Deposits in FDIC insured financial institutions located in California including, but not limited to, demand deposit accounts, savings accounts, market rate accounts, negotiable order of withdrawal accounts, and non-negotiable certificates of deposits are required to be collateralized as specified under Government Code. Collateral may be waived for any portion that is covered by federal deposit insurance. The amount on deposit shall not exceed the shareholder's equity of any depository bank, nor shall the deposit exceed the total net worth of any institution. In addition, the financial institution must have received a minimum overall satisfactory rating for meeting the needs of California Communities in its most recent evaluation under the Community Reinvestment Act. For non-negotiable certificates of deposit, the maximum maturity is five years from the date of trade settlement and the maximum allocation is 30% of the City's total portfolio.

Placement Service Certificates of Deposit. The City may invest in Placement Service Certificates of Deposit with a "Selected Depository Institution" in accordance with California Government Code Section 53601.8. The aggregate investment in Placement Service Certificates of Deposit shall not exceed 30% of the City's total portfolio. AB 283, which takes effect on January 1, 2016, extends the authorization established by AB 279 for the City to use

placement services, such as CDARS, to invest in FDIC insured certificates of deposit until January 1, 2021.

Repurchase Agreements. Repurchase Agreements with a final termination date not exceeding 30 days and collateralized by U.S. Treasury obligations, Federal Agency securities, or Federal Instrumentality securities listed above with the maturity of the collateral not exceeding five years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the City's Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the funds borrowed. The market value of the collateral securities shall be marked-to-the-market daily. All collateral securing Repurchase Agreement must be delivered to the City's custodian bank, or be handled under a tri-party repurchase agreement. The City or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

Repurchase Agreements shall be entered into only with broker/dealers who are recognized as Primary Dealers with the Federal Reserve Bank of New York, or with financial firms that have a primary dealer within their holding company structure. A copy of the City's Master Repurchase Agreement shall be maintained along with a list of the broker/dealers who have executed the same.

Medium-Term Notes. Medium-Term Notes ("Corporate Notes") issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a final maturity not exceeding five years from the trade settlement, and rated in a rating category of "A" or the equivalent or higher by a NRSRO at the time of purchase. The aggregate investment in medium term notes shall not exceed 30% of the City's total portfolio.

Asset Backed Securities. A mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum remaining maturity of five years. Eligible securities shall be rated in a rating category of "AA" or its equivalent rating or higher by an NRSRO. The aggregate investment in asset backed securities shall not exceed 20% of the City's total portfolio.

Money Market Funds. Money Market Funds registered under the Investment Company Act of 1940 that (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) have a constant daily net asset value per share of \$1.00; (3) invest only in the securities and obligations authorized in this Policy and (4) have a rating of "AAAm" or the equivalent by at least two NRSROs. The aggregate investment in money market funds shall not exceed 20% of the City's total portfolio and no more than 10% may be invested in any one Money Market Fund.

Local Government Investment Pools. State of California's Local Agency Investment Fund (LAIF) and shares of beneficial interest issued by a joint powers authority such as the California Asset Management Program (CAMP), as authorized respectively in Government Code Sections 16429.1 and 53601 (p), up to the maximum allowed by the pools.

Due Diligence Requirement. A thorough investigation of an investment pool is required prior to investing and on a continual basis. At a minimum, the following information shall be required for each pool:

- A description of eligible investment securities, and a written statement of investment policy and objectives
- A description of interest calculations, how interest is distributed, and how gains and losses are treated
- A description of how these securities are safeguarded (including the settlement process), and how often these securities are priced and the program audited
- A description of who may invest in the program, how often, and the size of deposits and withdrawals
- A schedule for receiving statements and portfolio listings
- Whether reserves, retained earnings, etc. are utilized by the pool/fund
- A fee schedule, and when and how fees are assessed
- Whether the pool/fund is eligible for bond proceeds and/or will it accept such proceeds

Legislative Changes. Any State of California legislative action that further restricts allowable maturities, investment types or percentage allocations will be incorporated into this Policy and supersede any and all previous applicable language. If the City is holding an investment that is subsequently prohibited by a legislative change, the City may hold that investment until the maturity date to avoid an unnecessary loss.

VIII. INVESTMENT PARAMETERS

Diversification. The City shall diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. The asset allocation in the portfolio should be flexible depending upon the outlook for the economy, the securities markets, and the City's anticipated cash flow needs. Notwithstanding anything herein to the contrary, no more than 5% of the City's total portfolio may be deposited with or invested in securities issued by one corporate, financial, or municipal issuer with the exception of the U.S. Treasury, federal agency institutions, government sponsored enterprises, and investment pools.

Maximum Maturities. To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements and known future liabilities. The City will invest in securities maturing within five years from the date of trade settlement. Notwithstanding the five-year maturity limitation, the City Council grants its express authority per Government Code Section 53601, to invest in Special Assessment District obligations and obligations of the City of Yuba City and the Successor Agency to the Redevelopment Agency of the City of Yuba City with maturities extending beyond five years.

Sale of Investments Prior to Maturity. The City recognizes that investments occasionally may be sold prior to maturity and measured losses may be desirable in a diversified portfolio as long as such sales are consistent with the overall objectives of the City and the guidelines established by this Policy. Such sales shall be considered within the context of the overall portfolio's return, provided that the sale of a security is in the best long term interest of the City.

IX. EVALUATION OF INVESTMENT PERFORMANCE

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. An appropriate performance benchmark shall be established against which portfolio performance shall be compared on a regular basis. The selected performance shall be representative of the City's overall investment objectives and liquidity requirements.

X. REPORTING

The City Treasurer shall prepare and present a quarterly investment report to the City Council. This report will include the following elements relative to the investments held at quarter-end:

- Type of Investment
- Issuer of Investment
- Maturity date
- Coupon rate
- Yield to maturity
- Face value
- Market value
- A list of monthly transactions
- A description of investments that are under the management of contracted parties
- A statement of compliance of the City's portfolio with this Policy
- A statement of the City's ability to meet expenditure requirements for the following six months, or an explanation of why sufficient funds may not be available
- Other information regarding the City's portfolio as appropriate

XI. POLICY REVIEW AND ADOPTION

This Investment Policy shall be submitted annually to the City Council for adoption. The Policy shall be reviewed at least annually to ensure its consistency with the overall objectives of the City and its relevance to current law and financial and economic trends. Any modifications made thereto must be approved by the City Council.

GLOSSARY OF SELECTED TERMS*

Benchmark

A passive index used to compare the performance, relative to risk and return, of an investor's portfolio.

Cash Flow

A comparison of cash receipts (revenues) to required payments (debt service, operating expenses, etc.).

CDARS

The Certificate of Deposit Account Registry Service: a convenient way for safety-conscious investors to earn interest and access FDIC insurance on certificates of deposit larger than the \$250,000 FDIC limit.

Credit Rating

Various alphabetical and numerical designations used by institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness. Standard & Poor's and Fitch Ratings use the same system, starting with their highest rating, of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Service uses Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C, and D. Each of the services use pluses (+), minuses (-), or numerical modifiers to indicate steps within each category. The top four letter categories are considered investment grade ratings.

Credit Risk

The chance that an issuer will be unable to make scheduled payments of interest and principal on an outstanding obligation. Another concern for investors is that the market's perception of a corporation's credit will cause the market value of a security to fall, even if default is not expected.

Duration

A measure of the timing of cash flows to be received from a security that provides the foundation for a measure of the interest rate sensitivity of a bond. Duration is an elasticity measure and represents the percentage change in price divided by the percentage change in interest rates. A high duration measure indicates that for a given level of movement in interest rates, prices of securities will vary considerably.

FDIC

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protection, and managing receiverships.

Fiduciary

An individual who holds something in trust for another and bears liability for its safekeeping.

Liquidity

The ease with which an investment may be converted to cash, either by selling it in the secondary market or by demanding its repurchase pursuant to a put or other prearranged agreement with the issuer or another party.

Liquidity Risk

The chance that a security, sold prior to maturity, will be sold at a loss of value. For a local agency, the liquidity risk of an individual investment may not be as critical as how the overall liquidity of the portfolio allows the agency to meet its cash needs.

Market Risk

The chance that the value of a security will decline as interest rates rise. In general, as interest rates fall,

prices of fixed income securities rise. Similarly, as interest rates rise, prices fall. Market risk also is referred to as systematic risk or risk that affects all securities within an asset class similarly.

Maturity

The stated date on which all or a stated portion of the principal amount of a security becomes due and payable.

Net Present Value

An amount that equates future cash flows with their value in present terms.

Par Amount or Par Value

The principal amount of a note or bond which must be paid at maturity. Par, also referred to as the “face amount” of a security, is the principal value stated on the face of the security. A par bond is one sold at a price of 100 percent of its principal amount.

Pooled Investment

A market institution authorized under various sections of state law that represents the combined deposits of more than one local agency and pays returns based upon each local agency’s share of investment in the pool.

Portfolio

The combined holdings of all investment assets held by an investor.

Principal Amount

The face amount or par amount of a bond or issue of bonds payable on stated dates of maturity.

Put

The ability of a holder of an investment security to sell at a specified time and for a specified price the security back to the issuer or prior holder.

Return

The principal plus interest on an investment or portfolio of investments. In certain unfavorable market environments or due to risk factors, income derived from principal and interest may be less than the original amount invested.

Risk

The uncertainty of maintaining the principal or interest associated with an investment due to a variety of factors.

Yield

For the purposes of this publication, return and yield are synonymous.

*Excerpted from Understanding Public Investment Reporting - A Handbook For Local Elected Officials, California Debt and Investment Advisory Commission, 2003.

GLOSSARY OF INVESTMENT INSTRUMENTS*

Asset-Backed Securities

Securities that are supported by pools of assets, such as installment loans or leases, or by pools of revolving lines of credits. Asset-backed securities are structured as trusts in order to perfect a security interest in the underlying assets.

Bank Note

A senior, unsecured, direct obligation of a bank or U.S. branch of a foreign bank.

Banker's Acceptance

Normally, a short-term bill of exchange that is accepted as payment by banks engaged in financing trade of physical assets or merchandise.

Bond

A debt obligation of a firm or public entity. A bond represents the agreement to repay the debt in principal and, typically, in interest on the principal.

Callable Security

An investment security that contains an option allowing the issuer to retire the security prior to its final maturity date.

Certificate of Deposit

A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender at the end of the loan period. Certificates of Deposit (CDs) differ in terms of collateralization and marketability. Those appropriate to public agency investing include:

Negotiable Certificates of Deposit

Generally, short term debt instruments that usually pay interest and are issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. The majority of negotiable CDs mature within six months while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

Non-Negotiable Certificates of Deposit

CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for these non-negotiable CDs, but include a transaction cost that reduces returns to the investor. Non-negotiable CDs issued by banks and savings and loans are insured by the Federal Deposit Insurance Corporation up to the amount of \$250,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral through an agreement between the investor and the issuer. Collateral may include other securities including Treasuries or agency securities such as those issued by the Federal National Mortgage Association.

Commercial Paper

A short-term, unsecured promissory note issued by a large corporation.

Corporate Notes and Bonds

Debt instruments, typically unsecured, issued by corporations, with original maturities in most cases greater than one year and less than ten years.

Federal Agency and Instrumentality Obligations

Obligations issued by a government-sponsored entity or a federally regulated institution.

Mortgage Pass-Through Obligations

Securities that are created when residential mortgages (or other mortgages) are pooled together and undivided interests or participations in the stream of revenues associated with the mortgages are sold.

Municipal Notes, Bonds, and Other Obligations

Obligations issued by state and local governments to finance capital and operating expenses.

Notes

Debt obligations of a firm or public entity, usually maturing in less than ten years.

Repurchase Agreements

From the perspective of a local agency, the short term, often overnight, purchase of securities with an agreement to resell the securities at an agreed upon price.

Reverse Repurchase Agreements

Differs from a repurchase agreement in the sense that a reverse repurchase agreement is an agreement to sell securities in return for cash with an agreement to repurchase the securities at an agreed upon price.

State and Local Investment Pools

The combined deposits of state and local agencies organized and operated by a state treasurer or a local official. These pools operate much like a mutual fund, with local agencies investing money together in order to increase efficiency and reduce costs.

State Notes, Bonds, and Warrants

Obligations of the State of California or another state government with different maturity lengths.

Supranationals

International financial institutions that are generally established by agreements among nations, with member nations contributing capital and participating in management. Supranational bonds finance economic and infrastructure development and support environmental protection, poverty reduction, and renewable energy around the globe.

Zero-Interest Bond

A bond on which interest is not payable until maturity (or earlier redemption), but compounds periodically to accumulate to a stated maturity amount. Zero-interest bonds are typically issued at a discount and repaid at par upon maturity.

*Excerpted from Understanding Public Investment Reporting - A Handbook For Local Elected Officials, California Debt and Investment Advisory Commission, 2003.