OAKLEY
CALIFORNIA

STAFF REPORT

DATE: April 13, 2021

TO: Bryan Montgomery, City Manager

Approved and Forwarded to the City Council

FROM: Tim Przybyla, Finance Director

SUBJECT: Consideration of a Resolution Approving of the City's Investment Policy for Fiscal Year 2020/2021

Background and Analysis

California Government Code Section 53646 and good financial practice dictate that local agencies prepare a written investment policy and that the governing body review and approve the policy on an annual basis. The attached proposed investment policy for Fiscal Year 2020/2021 includes revisions that were needed to bring the Policy up to current code. The primary revisions include the addition of the City's listing of authorized and acceptable investments with their respective maximum limits as well as the California Government Code that permits them. The City's policy is the same as or more restrictive with its investments as the State Code. Beginning in January of 2020, the State code allows for up to 50% of the portfolio to be held in placement service certificates of deposit, under certain conditions. That part of the Code is somewhat confusing. The keep our investments less complicated, the City's policy holds the limit on placement service certificates of deposit at the State's previous threshold of 30%.

The Policy being presented incorporates all required elements of the Government Code as well as recommendations of the Municipal Treasurers Association of the United States and Canada and the California Municipal Treasurers Association for Fiscal Year 2020/2021. It identifies Safety, Liquidity and Return on Investment, in that order, as the City's Investment objectives; incorporates the "prudent investor" standard; and limits investments to those specifically approved by Government Code.

As a practical matter for the near term, Investments of funds for operations will remain in short and intermediate term holdings in State Treasurer's Local Agency Investment Fund (LAIF), CalTRUST, and deposits with Wells

Fargo (the City's primary bank). However, with the actions that the Fed is taking to boost the economy, it is expected that the short-term rate of return that LAIF provides will be decreasing considerably over the next year. So, we may need to look at other acceptable investments to provide a better rate of return during Fiscal Year 2020-2021. This Policy sets the guidelines for consideration of such investment decisions.

The 2020/2021 Investment Policy contains virtually all of the same information as the 2019/2020 Investment Policy and adds section 5, regarding Prudence, on page 2 of the Policy. The 2020/2021 Policy also adds more specific information in table format regarding Authorized Suitable Investments on pages 5 and 6 and points out that repurchase agreements are not included in the City's list but would require collateralization if they were. The 2020/2021 Policy also adds sections regarding Review of Investment Portfolio, Investment Portfolio Pools/Mutual Funds, Internal Controls and Performance Standards on pages 8 through 10 and includes a Glossary of Investment Policy Terms, beginning on page 11.

Fiscal Impact

There is no direct fiscal impact of adopting this resolution approving the City's Investment Policy for Fiscal Year 2020/2021.

Staff Recommendation

Staff recommends the Council adopt the attached Resolution approving the City's Investment Policy for Fiscal Year 2020/2021.

Attachments

1. Statement of Investment Policy
2. Resolution

CITY OF OAKLEY
STATEMENT OF INVESTMENT POLICY

1. Purpose:

This statement provides guidelines for the prudent investment of the temporary idle cash of the City of Oakley (hereafter referred to as City), and outlines the policies for maximizing the efficiency of the City's cash management system. The goal is to enhance the economic status of the City while protecting its pooled cash.

2. Scope:

This investment policy applies to all financial assets of the City. For purposes of this policy, the City of Oakley includes the City, as Successor Agency to the Oakley Redevelopment Agency, and the Oakley Financing Authority, which are component units of the City of Oakley, controlled by the City Council, share the same administrative services of the City, and are "related entities" of the City. These funds are accounted for in the City's Comprehensive Annual Financial Report and include:

General Fund
Special Revenue Funds
Debt Service Funds
Capital Project Funds
Internal Service Funds
Trust and Agency Funds

The investment of bond proceeds held with trustees is directed by the City, but is governed by the restrictions on permitted investments in the applicable bond indenture or similar agreements.

The City retirement plans are with the California Public Employees Retirement System, and the City has no authority or oversight over the investments in any of the plans. Further, the City administers a deferred compensation plan through the ICMA-Retirement Corporation (ICMA-RC). Assets held in the ICMA plan are held in trust for the participants, and are not assets managed by the City. The City does not have any authority over the investments held in these trusts.

3. Policy:

The City's cash management system should accurately monitor and forecast expenditures and revenues, and allow the City to invest funds to the fullest extent possible. The City attempts to obtain the highest possible yield while meeting the criteria established for safety and liquidity.

It is the policy of the City of Oakley, a general law city, to invest public funds in a manner which will provide maximum security with the highest investment return while meeting the daily cash flow demands of the City. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent investor" standard (Govt. Code Section 53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the City's investment policy and exercising due diligence and prudence shall be relieved of personal liability for an individual security credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

4. Objectives:

The primary objectives, in priority order, of the City's investment activities shall be:

4.1. Safety: Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

4.2. Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

4.3. Return on investment: The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

5. Prudence

In accordance with California Government Code ("CGC") §53600.3, the Treasurer and/or his designee, who are authorized to make investment decisions on the City's behalf, are trustees and therefore fiduciaries subject to the "prudent investor standard":

"When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with the 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."

6. Delegation of Authority:
Authority to manage the City's investment program is derived from the California Government Code Sections 53600 through 53609. Management responsibility for the investment program is hereby delegated to the Finance Director, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. 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. The Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

7. Ethics and Conflicts of Interest:
The investment responsibility carries with it the added duties of insuring that investments placed are done so without the appearance of improper influence. Finance personnel involved in the investment function shall adhere to the state's Code of Economic Interest and to the following:

7.1. All persons authorized to place or approve investments shall not personally or through a close relative maintain any accounts, interest, or private dealings with any firm through which the City places investments, with the exception of regular savings, checking and money market accounts, or other similar transactions that are offered on a non-negotiable basis to the general public. Such accounts shall be disclosed annually to the City Clerk in conjunction with annual disclosure statements of economic interest.

7.2. All persons authorized to place or approve investments shall report to the City Clerk, kinship relations with principal employees of firms with which the City places investments.

7.3. Return on Investment: The investment portfolio of the City of Oakley shall be designed to attain a market average rate of return during budgetary and economic cycles, taking into account the City's investment risk constraint and the cash flow characteristics of the portfolio. The City should strive to maintain a high investment level of idle funds, less required reserve, through projected cash flow determinations. Cash management of idle funds is the responsibility of the Finance Department.

7.4. Maintaining the Public Trust: All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the City of Oakley's ability to govern effectively.

8. Authorized Financial Dealers and Institutions:
Should the City engage in investments outside of the use of savings, money market funds, and policy compliant investment pools (LAIF and CalTrust), the Director will establish and maintain a list of financial institutions authorized to provide investment services, and a list of approved security broker/dealers selected by credit worthiness, who maintain an office in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by State laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions on the Director's list, must supply the Director with the following: Proof of National Security Dealers certification, trading resolution, proof of State of California registration, personal resume, certification of having read the City's investment policy, and depository contracts.

At a minimum, the task of maintaining a list of financial institutions and approved security broker/dealers shall include the Director's annual review of the financial condition and registrations of qualified bidders.

In addition, a current audited financial statement is required to be on file for each financial institution and broker/dealer through which the City invests.

Before engaging in investment transactions with a broker/dealer, the Director shall have received from said firm a signed letter, attesting that the individual responsible for the City's account with that firm has reviewed the City of Oakley's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the City that are appropriate under the terms and conditions of the Investment Policy.

9. Authorized & Suitable Investments:

Investment of City funds is governed by the California Government Code Sections 53600 et seq. Within the context of such limitations, the following investments are authorized with their respective limitations:

INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS	GOV'T CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations—CA and Others	5 years	None	None	53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S Agency Obligations	5 years	None	None	53601(f)
Commercial Paper—Non-Pooled Funds	270 days or less	25%	Highest letter and number rating by an NRSRO	53601(h)(2)(C)
Commercial Paper—Pooled Funds	270 days or less	40%	Highest letter and number rating by an NRSRO	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30%	FDIC coverage limited to $250k per institution	53601(i)
Placement Service Certificates of Deposit	5 years	30%	FDIC coverage limited to $250k per institution	53601.8 and 53635.8

Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Medium-Term Notes	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple	53601(l) and 53601.6(b)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Investment Trust of California (CalTRUST)	N/A	None	None	53601(o)
Supranational Obligations	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)

Prohibited Investments: Under the provisions of Government Code Sections 53601.6 and 53631.5, the City shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity.

10. Collateralization:

Collateralization will be required on investments in certificates of deposit over $250,000. Repurchase agreements are authorized and suitable investments, per California Code. However, the City does not choose to include them in its list of authorized and suitable investments, at this time. If repurchase agreements were included in the list, they would also require collateralization. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be one hundred two percent (102%) of market value of principal and accrued interest.

Collateral must be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

The right of collateral substitution is granted.

11. Safekeeping and Custody:
All security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Director and evidenced by safekeeping receipts.

12. Diversification:
The City will diversify its investments by security type and institution. With the exception of U. S. Treasury securities and authorized pools, no more than 33% of the City's total investment portfolio will be invested in a single security, U.S. Government agency, or with a single financial institution.

13. Maximum Maturities:
To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow and approved by the City Council, the City will not directly invest in securities maturing more than 5 years from the date of purchase.

14. Reporting:
The Director is charged with the responsibility of including investment activities in the City's Comprehensive Annual Financial Report, as well as a quarterly summary report to the City Council. Reports will include performance, market sector and interest accruals, and shall be on the basis of both cost and market.

The policy recognizes that reporting on a market basis will periodically cause market gains or losses to be reported. In most instances such gains or losses will not be realized since individual securities with specific maturities are purchased based upon projected cash flows and normally will not be liquidated prior to maturity.

15. Investment Policy Review:
The City's investment policy shall be reviewed by the Finance Director and adopted by resolution annually by the City Council.

16. Other Constraints:
The City shall operate its investment pool within the many State and self-imposed constraints. It shall buy no stocks, shall not speculate, nor shall it deal in futures or options, or buy on margin. The City will not purchase inverse floaters, range notes, interest only strips or any security having an interest rate derived from an index, commodity price or other variable i.e. securities commonly known as derivatives.

17. Review of Investment Portfolio

The City's investment portfolio must be in compliance with Section 8 of this Policy at the time an investment is purchased. However, it is possible that, subsequently, the portfolio may be in breach of compliance even without any purchase activity due to a downgrade in a security's ratings, redemptions or maturities resulting in exceeding stipulated maximum percentages of a particular investment type, fluctuation in total portfolio size, or a change in California Government Code.

The portfolio shall be monitored, as often as practical, but at least quarterly. The Treasurer shall report any major and critical incidences of portfolio non-compliance either with statutes or Policy to the City Council and the Investment Policy Advisory Committee and provide recommendations to remedy at least quarterly.

18. Investment Pools/Mutual Funds

A thorough investigation of any government-sponsored pool and/or mutual fund is required prior to investing and on a continual basis. There shall be a questionnaire developed which will request the following information:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of how interest is calculated and distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, and what size of deposits and withdrawals are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves or retained earnings utilized?
- A fee schedule, and method for assessing fee
- Does the pool accept bond proceeds?

19. Internal Controls

The Finance Director is responsible for establishing and maintaining a system of internal controls to ensure that City assets are protected from loss arising from fraud, employee error, imprudent actions, theft or misuse, and to ensure compliance with this Policy, City-mandated procedures and federal and state laws. An internal control structure should include written procedures that encompass the following principles:

- Segregation of duties,
- Explicit delegation of authority and responsibility
- Timely reconciliation and balancing,
- Documentation, recording, and record keeping, • Management control and oversight,
- Dual or secondary authorization.

The control structure should cover timely projections of cash flow and funding needs, cash collection and disbursements, wire transfers, anti-theft and anti-fraud practices, depository and custody services, collateral management, broker/dealer services, trading and confirmation, and master repurchase agreements (if appropriate).

It should 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.

The Finance Director shall establish an annual process for independent review of these controls, including cash and investment testing, by an external auditor. This review will help to ensure compliance with the City's investment policies and procedures.

***20.* Performance Standards**

The investment portfolio shall be designed with the objective of principal preservation, liquidity and obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The City's investment strategy is passive, i.e. securities are purchased with the intent to hold to maturity. Given this strategy and given that the portfolio strategy may change over time due to the City's cash flow needs or due to market conditions, the Finance Director shall select an appropriate benchmark approximating the portfolio's weighted average maturity or select an appropriate combination of benchmarks that reflects the portfolio composition, such as the yield of the 2yr Treasury and LAIF's apportionment rate.

Glossary of Investment Policy Terms

Amortization of Costs: Reconciliation of the purchase price of a security and par value resulting in net interest.

Bank Deposit: Deposits in banks or other depository institutions that may be in the form of demand accounts (checking) or investments in accounts that have a fixed term and negotiated rate of interest

Bankers' Acceptance: A draft or bill or exchange accepted by a bank or trust company. The accepting institution, as well as the issuer, guarantees payment of the bill.

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

Book Value: The value at which an asset is carried on a balance sheet.

Broker: A person or firm that acts as an intermediary by purchasing and selling securities for others rather than for its own account.

Buy and Hold Strategy: A strategy based on holding all securities until maturity, regardless of fluctuations in the market.

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

Certificate of Deposit (CD): 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.

CD Placement Service: A service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution while still maintaining FDIC insurance coverage.

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

Collateralization of Deposit: Process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing the repayment of deposited funds.

Commercial Paper (CP): An unsecured short-term promissory note issued by corporations or municipalities, with maturities ranging from 2 to 270 days.

Comprehensive Annual Financial Report (CAFR): The official annual report for the City. It includes combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

County Pooled Investment Funds: The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

Coupon: The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Rating: Various alphabetical and numerical designations used by credit rating or nationally recognized statistical rating organizations (NRSROs), institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness.

Long-term Ratings

The three most commonly used NRSROs are Standard & Poor's, Fitch Ratings, and Moody's. 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, and Ca.

The top four letter categories are considered investment grade ratings.

Each of the services use pluses (+), minuses (-), or numerical modifiers to indicate steps within each category. The S&P ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Short-term Ratings

Standard & Poor's short-term ratings system is A-1+, A-3, B, C, and / for default. Fitch Ratings use F1+, F3, B, C, and / for default. Finally, Moody's uses P1 and P3, anything below P3 is considered not prime.

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 an issuer/borrower's credit will cause the market value of a security to fall, even if default is not expected.

Custodian: A bank or other financial institution that keeps custody of stock certificates and other assets.

Dealer: Someone who acts as a principal in all transactions, including underwriting, buying, and selling securities, including from his/her own account.

Default Risk: The risk that issuers/borrowers will be unable to make the required payments on their debt obligations.

Delivery vs. Payment: The payment of cash for securities as they are delivered and accepted for settlement.

Diversification: The allocation of different types of assets in a portfolio to mitigate risks and improve overall portfolio performance.

Duration: Indicator of the effect of an interest rate change on a bond price. The longer the duration, the greater the expected change in a portfolio's value when interest rates change.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per entity.

Financial Industry Regulatory Authority (FINRA): FINRA is the successor to the National Association of Securities Dealers (NASD) and the member regulation, enforcement and arbitration operations of the New York Stock Exchange. It is a non-governmental organization that regulates member brokerage firms and exchange markets. The government agency which acts as the ultimate regulator of the securities industry, including FINRA, is the Securities and Exchange Commission.

Government Sponsored Enterprises (GSE): Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Securities issued by GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over Treasuries. Examples of GSEs currently include: Federal Home Loan Bank System (FHLB), Federal Farm Credit Banks Funding Corporation
(FFCB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Federal Agricultural Mortgage Corporation (FAMCA), Resolution Funding Corporation (REFCO), Tennessee Valley Authority (TVA), Government Trust Certificates (GTC).

Interest: The amount a borrower pays to a lender for the use of his or her money.

Interest Rate Risk: Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, spread between two rates, shape of the yield curve, or any other interest rate relationship.

Joint Powers Authority California Asset Management Program (JPA CAMP): A pooled asset management program for California public agencies with professional investment services provided by PFM Asset Management LLC.

Liquidity: The measure of the ability to convert an instrument to cash on a given date at full face or par value.

Liquidity Risk: The risk 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.

Local Agency Investment Fund (LAIF): A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

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.

Market Value: The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase/reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer/lender to liquidate the underlying securities in the event of default by the seller/borrower.

Maturity: The date on which the principal or stated value of an investment becomes due and payable.

Medium Term Note: Corporate or depository institution debt securities meeting certain minimum quality standards (as specified in the California Government Code) with a remaining maturity of five years or less.

Money Market Mutual Funds: MMF's are mutual funds that invest exclusively in short-term money market instruments. MMF's seek the preservation of capital as a primary goal while maintaining a high degree of liquidity and providing income representative of the market for short- term investments.

Mutual Fund: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

National Credit Union Administration (NCUA): an independent federal agency that insures deposits at federally insured credit unions, currently up to $250,000.

Nationally Recognized Statistical Rating Organization (NRSRO): A rating organization designated by the SEC as being nationally recognized.

Negotiable Certificates of Deposit: Generally, short-term debt instrument that usually pays interest and is 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). Negotiable CDs are insured by FDIC up to $250,000, but they are not collateralized beyond that amount.

Non-Negotiable Certificates of Deposit: CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for non-negotiable CDs, but redemption includes 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.

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.

Portfolio: Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

Premium: Premium means the difference between the par value of a security and the cost of the security, when the cost is above par. Investors pay a premium to purchase a security when the return to the investor (yield) is lower than the stated coupon (interest rate) on the investment.

Price: Price is the amount of monetary consideration required by a willing seller and a willing buyer to sell an investment on a particular date.

Principal: The face value or par value of a debt instrument, or the amount of capital invested in a given security.

Prudent Investor Standard: A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

Public Bank: A corporation, organized as either a nonprofit mutual benefit corporation or a nonprofit public benefit corporation for the purpose of engaging in the commercial banking business or industrial banking business, that is wholly owned by a local agency, as specified, local agencies, or a joint powers authority.

Qualified Public Depository: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price.

Repurchase Agreement: An agreement of one party (for example, a financial institution) to sell securities to a second party (such as a local agency) and simultaneous agreement by the first party to repurchase the securities at a specified price from the second party on demand or at a specified date.

Safekeeping: Offers storage and protection of assets provided by an institution serving as an agent.

Safety: In the context of investing public funds, safety relates to preserving the principal of an investment in an investment portfolio; local agencies address the concerns of safety by controlling exposure to risks.

Secondary Market: A market made for the purchase and sale of outstanding issues following the initial distribution.

Supranational Institutions: International institutions formed by two or more governments that transcend boundaries to pursue mutually beneficial economic or social goals. There are three supranational institutions that issue obligations that are eligible investments for California local agencies: the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).

Total Return: Total return includes interest, realized gains and losses, and unrealized gains and losses over a given period of time.

U.S. Agency Obligations: Agencies of the Federal government set up to supply credit to various classes of institutions (e.g. savings & loans, small business firms, students, farmers, housing agencies). Examples include: US International Development Finance Corporation (DFC), US Agency for International Development (USAID), Private Export Funding Corporation (PEFCO), US Department of Housing and Urban Development (HUD), Small Business Administration (SBA).

U.S. Treasury Obligations: Debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less and are sold at a discount. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

Weighted Average Maturity: The average maturity of all the securities that comprise a portfolio, typically expressed in days or years.

Yield: The current rate of return on an investment security generally expressed as a percentage of the securities current price.