Exhibit A
Resolution No. 5878(13)

CITY OF LOMPOC
INVESTMENT POLICY

I. INTRODUCTION

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment process and to organize and formalize investment-related activities. Related activities that comprise sound cash management include: accurate cash flow projections, control of disbursements, expedient collection of revenues, and cost-effective banking relations. The ultimate goal is to enhance the economic status of the City of Lompoc (City), while protecting its pooled cash resources.

The investment policy and practices of the City are based on State law and prudent money management. All funds will be invested in accordance with the City's Investment Policy and the authority governing investments for municipal governments, as set forth in the California Government Code sections 53600 through 53659. The investments of bond proceeds are restricted by the provisions of relevant bond documents.

II. SCOPE

It is intended this policy cover all short-term operating funds and investment activities of the City. These funds are accounted for in the annual audit report, and include:

- ◊ General Fund;
- ◊ Special Revenue Funds;
- ◊ Debt Service Funds;
- ◊ Capital Projects Funds;
- ◊ Enterprise Funds;
- ◊ Internal Service Funds; and
- ◊ Fiduciary Funds.

This investment policy applies to all City transactions involving the financial assets and related activity of the above-mentioned funds. Any additional funds that may be created from time-to-time shall also be administered with the provisions of this policy and comply with the then current State Government Code. The only exception is funds invested in the City’s deferred compensation plan, which is controlled by federal law, specific provisions of the City’s adopted plan and individual employee decisions.

III. PRUDENCE (Standard of Care)

The City operates its pooled idle cash investments under the prudent person rule (Probate Code subsection 16040(b)). In addition, Government Code section 53600.3 provides those persons to whom investment decisions have been delegated are trustees with a fiduciary responsibility to act as a prudent investor.

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. This affords a broad spectrum of investment opportunities, as long as the investment is deemed prudent under current law.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. All persons investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds shall act with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person, acting in a like capacity and with familiarity of 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 City.

It is the City's intent at the time of purchase to hold all investments until maturity to ensure the return of all invested principal dollars, but sales prior to maturity are permitted.

IV. OBJECTIVES

A. Investment Criteria:

Government Code section 53600.5 states: "When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objective of the trustee shall be to safeguard the principal of funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve <u>a return</u> on the funds under its control". (Emphasis added.)

Simply stated, safety of principal is the foremost objective, followed by liquidity and return on investment (known as yield). Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from market erosion or security defaults. This objective coincides with the investing priorities defined in the City's Financial Management Policies.

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

1. ***<u>Safety</u>*** – Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Investment decisions should not incur unreasonable credit or market risks in order to obtain current investment income.

Credit Risk is the risk of loss due to the failure of the security issuer or broker.

Credit risk can be mitigated by:

- Limiting investments to the safest types of securities;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which an entity will do business; and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

Market risk is the risk the market value of securities in the portfolio will fall, due to changes in general level of interest rates.

Market risk can be mitigated by:

- Structuring the portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market before maturity; and
- Investing operating funds primarily in shorter-term securities.

2. ***Liquidity*** - The City's investment portfolio will remain sufficiently liquid to enable the City to meet its cash flow requirements. An adequate portion of the portfolio should be maintained in liquid short-term securities, which can be converted to cash and guarantee the City's ability to meet operating expenditures.

3. ***Return on Investment (Yield)*** – The City's investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations. Yield is to be a consideration, only after the basic requirements of adequate safety and liquidity have been met.

B. Market Rate of Return

The investment portfolio shall be managed to attain a market average rate of return throughout budgetary and economic cycles. This takes into account the City's cash flow requirements and investment risk constraints, State and local laws and ordinances, or resolutions that restrict the placement of short-term funds.

C. Performance Standards

The investment portfolio shall be managed with the objective of producing a yield meeting or exceeding the average return on the three-month U.S. Treasury bill. This index is considered a benchmark for low to moderate risk investment transactions. Therefore, this rate comprises a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles. This benchmark will be reviewed thoroughly and may be adjusted as required by market conditions, to prevent incurring unreasonable risks to attain yield.

D. Diversification & Credit Worthiness Standards

The following general criteria relating to portfolio diversification and credit worthiness will be used in selecting depositories and broker/dealers (financial institutions) in the placement of City investments:

- The financial capacity and credit worthiness of the financial institution shall be considered before the placement of City investments;
- Current financial statements shall be maintained for each institution in which, or through which, cash is invested;
- No more than 25 percent of the City's portfolio (exclusive of government agency issues) shall be placed with any financial institution;
- No more than 10 percent of the portfolio value shall be invested in the corporate bonds of any single corporate entity (exclusive of government agency issues);
- Certificates of deposit (negotiable and collateralized) placed by the City shall not constitute more than 15 percent of the total assets of the institution; and negotiable certificates of deposit will only be placed with institutions with total assets in excess of $200 million and maintain a ratio of equity to total assets of at least five percent.

E. Public Trust

Public Trust – All participants in the investment process shall act responsibly as custodians of the public trust. Investment officials shall recognize the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of public trust.

V. DELEGATION OF AUTHORITY

The management responsibility for the investment program is hereby delegated to the City Treasurer, who shall monitor and review all investments for consistency with this investment policy. The City Treasurer shall establish procedures to implement and monitor this investment policy. Such procedures shall include explicit delegation for investment transactions to the Financial Services Manager and the Accounting Supervisor. No person may engage in an investment transaction, except as provided under the limits of this policy.

VI. ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or that could impair their ability to make impartial decisions.

VII. SELECTION OF FINANCIAL INSTITUTIONS AND BROKER/DEALERS

To provide for the optimum yield in the City's portfolio, the City's procedures shall be designed to encourage multiple bids and offers on investment transactions from an approved list of broker/dealers. The City Treasurer will maintain a list of broker/dealers (qualified Institutions) authorized to provide investment services to the City. Any permitted investment, not purchased from the issuer, shall be purchased either from a "primary" or regional broker/dealer qualifying under SEC Rule 15c3-1 (uniform net capital rule). Broker/dealers must be licensed in the State of California and headquartered or have a branch office in California.

All broker/dealers who desire to become qualified bidders for investment transactions must provide a current audited financial statement and complete the appropriate questionnaire.

All broker/dealers shall carry Errors and Omissions insurance, with a limit of not less than $1 Million per occurrence. Proof of existence of that insurance shall be provided to the City at its request; and the City shall be notified if the policy is cancelled or coverage is reduced below $1 Million.

In order to assist in identifying qualified broker/dealers, the City Treasurer shall forward copies of the City's investment policy on an annual basis to those with which the City is interested in doing business and which meet the criteria specified in the above paragraphs. The City Treasurer's staff shall annually investigate all institutions who wish to do business with the City, in order to determine if they are adequately capitalized, make markets in securities appropriate to the City's needs, and agree in writing to abide by the conditions set forth in the City of Lompoc's investment policy. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the City invests.

Any agreement/contract entered into between the City and the broker/dealer shall contain a venue clause, lodging venue in the Superior Court for the County of Santa Barbara and mandating California law apply to all aspects of the agreement/contract. Further, any such agreement/contract shall contain a provision awarding reasonable attorney's fees, costs, and all expenses of litigation and appeal, if any, to the prevailing party.

VIII. PERMITTED INVESTMENT INSTRUMENTS

Allowable investment instruments are defined in California Government Code sections 53601 *et seq.*, as amended. If the Code is further revised to allow additional investments or is changed regarding the limits on certain categories of investments, the City is authorized to conform to those changes, excluding those changes that may be prohibited by this policy. Where a Government Code section specifies a percentage limitation for a particular category of investments, that percentage is only applicable at the date of purchase.

Investments may be made in the following instruments:

1. Government obligations pledged by the full faith and credit of the United States for the payment of principal and interest. United States Government Agencies: Federal agency

or United States government-sponsored enterprise obligations, participations, or other instruments. The obligations are issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. Issuers include, but may not be limited to, Fannie Mae, Farmer Mac, Federal Farm Credit Banks, Freddie Mac, Federal Home Loan Banks, Financing Corporation, Tennessee Valley Authority, and Resolution Trust Funding Corporation.

2. Obligations issued by Agencies or Instrumentalities of the U.S. Government.

3. Repurchase Agreements used solely as short-term investments not to exceed one year.

   The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the City's custodian bank versus payment.

   The market value of securities that underlay a Repurchase Agreement shall be valued at 102 percent or greater, of the funds borrowed against those securities and the value shall be reviewed on a regular basis and adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investment in repurchase agreements shall be in compliance if the value of the underlying securities is brought back to 102 percent, no later than the next business day.

4. Banker's Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by Moody's Investors Services or by Standard & Poor's Corporation.

   Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the book value of the City’s investment portfolios. However, no more than $1 Million may be invested in the Banker's Acceptance of any one commercial bank.

5. Commercial paper rated in the highest short-term rating category, as provided by Moody's Investors Service, Inc. (P-1) or Standard & Poor's Corporation (A-1) provided that the issuing corporation is organized and operating within the United States, has total assets in excess of $500 Million, and has an "AA" or higher rating for its long-term debt, if any (as provided by Moody's or Standard & Poor's).

   Purchases of eligible commercial paper may not exceed 270 days maturity, nor represent more than 10 percent of the book value of the City’s investment portfolio with an issuing corporation.

   Purchases of commercial paper may not exceed 15 percent of the book value of the City’s investment portfolio.

6. Medium-term corporate notes with a remaining maximum-term to maturity of five years or less after the date of purchase 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. Medium-term corporate notes shall be rated in a rating category of "AA" or its equivalent or better, by Moody's or Standard & Poor's.

Investments will be limited to a maximum of 25 percent of the book value of the City's investment portfolios. The maximum principal amount in any one company will not exceed 10 percent of the book value of the City's investment portfolio with an issuing company.

7. FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California, including United States branches of foreign banks licensed to do business in California. The maximum maturity of a time deposit shall not exceed five years. Any time deposit over the FDIC Deposit Insurance limit plus accrued interest, however, shall be collateralized in accordance with Government Code sections 53651 and 53652 either using:

   a) 150 percent of promissory notes secured by first mortgages and first trust deeds upon improved residential property in California eligible under subsection 53601(m); or

   b) 110 percent of eligible marketable securities listed in subsections (b) through (l) and (n).

   There shall be no concentration limit on the purchase of such securities.

8. Negotiable certificates of deposit or deposit notes issued by a nationally or state chartered bank or a state or federal savings and loan association or by a state licensed branch of a foreign bank, provided that the senior debt obligations of the issuing institution are rated "AA" or better, by Moody's or Standard & Poor's. The maximum maturity of a negotiable certificate of deposit shall not exceed five years.

   Purchase of negotiable certificates of deposit may not exceed 30 percent of the book value of the City's portfolio.

9. As authorized in Government Code section 16429.1, local agencies may invest in the Local Agency Investment Fund (LAIF), a money market fund that allows local agencies to pool their investment resources. Current policies of LAIF set minimum and maximum amounts of monies that may be invested, as well as maximum numbers of transactions that are allowed per month.

10. As authorized under Government Code section 53601, local agencies may pool their money in deposits or investments with other local agencies in joint investment pools, such as CalTRUST. Chapter 470, statutes of 2004 (Assembly Bill 969) provides an explicit grant of authority for local agencies to invest in shares of beneficial interest issued by a Joint Powers Authority. Eligible investment accounts that meet the current investment policy would include CalTRUST – Heritage Money Market, Short-Term, and Medium-Term Accounts.

11. Shares of beneficial interest issued by diversified management companies (Money Market Mutual Funds) investing in the securities and obligations authorized by sections a through l of Government Code section 53601. To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized rating services, or (2) have an investment advisor registered with the Securities and Exchange Commission with not less than five years experience investing in securities and obligations authorized by Government Code section 53601 and with assets under management in excess of $500 Million.

    The purchase price of shares shall not exceed 10 percent of the book value of the City's investment portfolios.

Table A summarizes the maximum percentage and maturity limits, plus other constraints, by instrument, established for the City's total pooled funds portfolio.

IX. SAFEKEEPING OF SECURITIES

To protect against fraud or embezzlement, or losses caused by collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a third-party bank trust department. Designated third-parties shall act as agents for the City under the terms of a custody agreement or PSA agreement (repurchase agreement collateral). All trades executed by a dealer will settle delivery vs. payment (DVP) through the City's safekeeping agent. Original copies on non-negotiable certificates of deposit and confirming copies (safekeeping receipts) of all other investment transactions must be delivered to the City. Investment officials shall be bonded to protect the public against possible embezzlement or malice.

Securities held in custody for the City shall be independently audited on an annual basis to verify investment holdings.

X. MAXIMUM MATURITY

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the City to meet all projected obligations.

Investments that mature more than five years from the date of purchase cannot occur without prior approval of the City Council. As defined in Government Code section 53601, “no investment shall be made in any security… that at the time of investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment approved by the legislative body no less than three months prior to the investment.”

XI. INELEGIBLE INVESTMENTS

Certain investments are prohibited under Government Code sections 53601.6 and 53631.5.

Security types which are prohibited include, but are not limited to:

1. "Complex" derivative structures such as range notes, dual index notes, inverse floaters, leveraged or deleveraged floating rate notes, or any other complex variable rate or structured note;

2. Interest-only strips that are derived from a pool of mortgages or any security that could result in zero interest accrual if held to maturity; and

3. Reverse Repurchase Agreements.

Purchasing these types of instruments does not coincide with this Policy's objectives and would require a thorough review and monitoring of the underlying security. Although some of these transactions are legal under Government Code, they do not meet the objectives contained herein.

By virtue of the allowable investment in the State Pool (LAIF), the City is investing idle cash with a large number of government agencies. LAIF is managed by outside administrators and is subject to the Government Code, as well as policies put in place by their governing boards. The LAIF investment policy may allow for investment in some of the prohibitions noted above for Lompoc. Investment in LAIF is permitted, assuming a diminutive portion of their portfolio's (10 percent or less) are tied to the high-risk products noted above. The Treasurer is responsible to monitor and review the LAIF fund's portfolio on an ongoing basis. The City shall take any necessary action should LAIF exceed the allowable 10 percent limit.

XII. REPORTING REQUIREMENTS

Pursuant to Government Code section 53646, the Treasurer shall render to the City Council a separate quarterly investment report, which shall include, at a minimum, the following information for each individual investment:

- Type of investment instruments (*i.e.*, Treasury Bill, medium-term note);
- Issuer names (*i.e.*, General Electric);
- Purchase date (trade and settlement date);
- Maturity date;
- Current book value;
- Par value;
- Certificate or reference number, if applicable;
- Current rate of interest;
- Current market value and the source of the valuation;
- Overall portfolio yield based on cost; and
- Weighted average days to maturity.

The quarterly report also shall (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of the City's funds, investments or programs that are under the management of contracted parties, and (iii) include a statement denoting 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.

Market value adjustments, as required under Government Accounting Standards Board (GASB) Statement No. 31, may be treated as year-end accounting adjustments to the financial records of the City. Quarterly investment reports will demonstrate market fluctuations and continue to compare purchase price versus market value status. Accounting adjustments under GASB Statement No. 31, which compare changes to beginning and ending par market value in each fiscal year, are not included as part of monthly investment reports.

This quarterly report shall be submitted to the City Council within 45 days following the end of the final month of the quarter.

XIII. INVESTMENT OVERSIGHT COMMITTEE

The City Council hereby authorizes and directs the City Administrator to establish an Investment Oversight Committee whose responsibility shall be to:

- Review the City's portfolio to determine compliance with the investment policy; and

  (The review cycle shall be at least semi-annually unless all investments are held in eligible instruments identified in section IIX (9) (LAIF) and section IIX (10) CalTRUST above.)

- Review and make recommendations as appropriate regarding the City's investment policies and practices at least annually.

It is important to note the distinction between the committee's oversight responsibility in ensuring compliance with the policies, and the responsibility of the City Treasurer in managing the City's investment portfolio in accordance with this policy.

XIV. POLICY ADOPTING CHANGES AND UPDATES

The City Treasurer shall render to the City Council a statement of investment policy, which the Council shall consider at a public meeting. The review and approval shall be completed as required by State law, Government Code section 53646, whenever there are required changes.

The policy shall be reviewed annually by the City Treasurer to ensure its consistency with the global objective of preservation of investment principal, sufficient liquidity, rate of return and relevance to current laws and financial trends. Any modifications to the policy must be approved by the City Council.

XV. INTERNAL CONTROLS

The City Treasurer is responsible for ensuring compliance with the City's investment policies, as well as for establishing systems of internal control designed to prevent losses due to fraud, employee error, misrepresentations by third-parties, unanticipated changes in financial markets, or imprudent actions by City officers and employees. Additionally, the Treasurer's Department is responsible for the physical security of City investments and shall use custodial safekeeping for negotiable and bearer instruments whenever possible.

The concept of reasonable assurance recognizes that the:

- Cost of a control procedure should not exceed the benefits likely to be derived;

- Valuation of costs and benefits requires estimates and judgments by management. Accordingly, the City Treasurer shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures.

Internal controls shall address the following points:

- **Separating transaction authority from accounting and record keeping**. By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

- **Custodial safekeeping**. Securities purchased from any bank or dealer, including appropriate collateral (as defined by State Law), shall be placed with an independent third-party for custodial safekeeping.

- **Avoiding physical delivery securities**. Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

- **Delivery versus payment**. All trades where applicable will be executed by delivery versus payment. This ensures that securities are deposited in the eligible financial institution before the release of funds. Securities will be held by a third-party custodian, as evidenced by safekeeping receipts.

- **Clearly delegating authority to subordinate staff members**. Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

- **Confirming telephone transactions for investments and wire transfers in writing**. Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be faxed if on letterhead and the safekeeping institution has a list of authorized signatures.

- **Developing wire transfer agreements with the lead bank or third-party custodian**. This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

XVI. DEPOSITORIES

The City Treasurer shall establish selection criteria for pre-approval of institutions that do business with the City. To qualify for consideration, an institution must have an office in California and that office must perform the transactions with the City. The City Treasurer will maintain a listing of approved institutions.

XVII. RISK TOLERANCE

The City recognizes investment risk can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to minimize and control these risks.

Glossary of Terms

Bankers' Acceptances – negotiable time drafts or bills of exchange drawn on and accepted by a commercial bank. Acceptance of the draft obligates the bank to pay the bearer the face amount of the draft at maturity. In addition to the guarantee by the accepting bank, the transaction is identified with a specific commodity. The sale of the underlying goods will generate the funds necessary to liquidate the indebtedness. Banker's Acceptances are usually created to finance the import and export of goods, the shipment of goods within the United States and the storage of readily marketable staple commodities. Banker's Acceptances are sold at a discount from par and the amount and maturity dates are fixed. Bankers' Acceptances have the backing of both the bank and the pledged commodities, with no known principal loss in over 70 years. State law permits cities to invest up to 40 percent in bankers' acceptances.

CalTRUST – Established by the CSAC Finance Corporation and the League of Cities to provide a convenient method for local agencies to pool their assets for investments. CalTRUST has established a minimum investment of $250,000 with no maximum. CalTRUST is a more flexible alternative to LAIF, offering different account options – Money Market, Short-Term, Medium-Term, and soon-to-be-opened Long-Term Accounts. Agencies can select account options that match their time constraints and cash flow needs, which are best in line with the City's investment goals and objectives.

Certificate of Deposit – A deposit insured up to $250,000 by the FDIC at a set rate for a specified period of time.

Collateral – Securities, evidences of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Corporate Medium Term Notes – Unsecured promissory notes issued by corporations operating within the United States. The notes mature in one to five year periods. Purchase of these notes may not exceed 25 percent of the book value of the City's portfolios and the notes must have at least an "AA" rating by a nationally recognized rating service.

Commercial Paper – An unsecured promissory note of industrial corporations, utilities and bank holding companies having assets in excess of $500 Million and an "AA" or higher rating for the issuer's debentures. Interest is discounted from par and calculated using the actual number of days on a 360-day year. The notes are in bearer form, mature from one to 270 days and generally start at $100,000. There is a secondary market for commercial paper and an investor may sell them prior to maturity. Unused lines of credit back commercial paper from major banks. State law permits cities to invest up to 30 percent in commercial paper.

Credit Risk – Defined as the risk-of-loss due to failure of the issuer of a security. This loss shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the City's capital base and cash flow.

Current Yield – The interest paid on an investment expressed as a percentage of the current price of the security.

Custody – A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement, which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment (DVP) – Delivery of securities with a simultaneous exchange of money for the securities.

Fannie Mae – Trade name for the Federal National Mortgage Association (FNMA), a United States sponsored corporation.

Federal Reserve System – The central bank of the United States which consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

Federal Deposit Insurance Corporation (FDIC) – Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit. (Currently the standard insurance amount is $250,000 per depositor, per insured bank, for each ownership category, while the current maximum is $250,000, the FDIC can adjust this from time-to-time.)

Freddie Mac – Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a United States sponsored corporation.

Ginnie Mae – Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the United States Government.

Interest Rate – The annual yield earned on an investment, expressed as a percentage.

Liquidity – Refers to the ability to rapidly convert an investment into cash.

Local Agency Investment Fund (LAIF) Demand Deposit – Established by the state to enable treasurers to place idle funds in a pool for investment. Each agency is currently limited by LAIF to an investment of $50 Million plus any bond proceeds. While the limit is currently $50 Million, LAIF can adjust this limit from time-to-time.

Market Risk – Defined as market value fluctuations due to overall changes in the general level of interest rates. Adverse fluctuation possibilities shall be mitigated by limiting the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis, and eliminating the need to sell securities prior to maturity. Also, avoiding the purchase of long-term securities for the sole purpose of short-term speculation mitigates market risk.

Market Value – The price at which a security is trading and could presumably be purchased or sold.

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

Portfolio – Collection of securities held by an investor.

Purchase Date – The date in which a security is purchased for settlement on that, or a later date.

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 or the current income return.

Repurchase Agreement (REPO) – Contractual arrangements between a financial institution or dealer and an investor. The investor puts up their funds for a certain number of days at a stated yield. In return, they take title to a given block of securities as collateral. At maturity, the securities are repurchased and the funds are repaid with interest.

Reverse Repurchase Agreement (Reverse REPO) – A transaction where the seller (City) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

Sallie Mae – Trade name for the Student Loan Marketing Association (SLMA), a United States sponsored corporation.

Treasury Bills – United States Treasury Bills (T-Bills) are short-term, direct obligations of the United States Government issued with original maturities of 4 weeks, 13 weeks, 26 weeks and 52 weeks. T-Bills are issued in book entry form only and are sold on a discount basis.

United States Government Agencies – Instruments issued by various United States Government Agencies most of which are secured only by the credit worthiness of the particular agency.

Permitted Investments

Table A

Permitted Investments	State Code Legal Limit (% or $)	City Policy Legal Limit (% or $)	Maximum Maturity Constraints	City Policy Other Constraints
U.S. Government Obligations	Unlimited	Unlimited	5 years *	None
U.S. Government Agencies and Instruments	Unlimited	Unlimited	5 years *	None
Repurchase Agreements	Unlimited	Unlimited	1 year	102 percent Market value on underlying securities
Bankers Acceptances	40%	40%	180 days	No more than $1 Million invested in any one commercial bank
CalTRUST	Unlimited	Unlimited	5 years	Minimum $250,000; No limit to the number of transactions; No maximum
Commercial Paper	30%	15%	270 days	U.S. Corporations with assets in excess of $500 Million; "AA" debt rating; maximum of 10 percent of portfolio value from an issuing corporation
Medium-Term Corporate Notes	30%	25%	5 years	U.S. Corporations; "AA" debt rating maximum of 10 percent of portfolio value per issuing company
Certificates of Deposit	Unlimited	Unlimited	5 years *	Investments over $250,000 must be collateralized to 110 percent of the CD value by other eligible securities or 150 percent by promissory notes secured by California Deeds and Mortgages
Negotiable Certificates of Deposit	30%	30%	5 years *	State and Federally chartered banks and savings institutions, "AA" rating by one agency
LAIF State Pool	$50 Million**	$50 Million**	N/A	Limited to 15 transactions per month, per account, per State Policy – last updated 11/16/09
Mutual Funds	20%	10%	N/A	Funds invested as defined in subsections 53601 (a) to (l); highest debt rating from 2 of top 3 national rating services OR investment advisor registered with SEC for at least 5 years and assets under management in excess of $500 Million.

* Maximum terms unless the City Council expressly authorizes longer maturities and within the prescribed timeframe for the approval.

** Not set by Government Code, but instead by LAIF Governing Board.