



City of Santa Clara  
**2022**  
**Investment Policy**



**City of  
Santa Clara**  
The Center of What's Possible



## **CITY OF SANTA CLARA INVESTMENT POLICY**

### **A. Introduction**

The investment policy of the City of Santa Clara (the "Investment Policy") is intended to provide for the prudent and efficient investment of the City of Santa Clara's temporarily idle cash while safely maximizing returns within carefully defined investment parameters. The City of Santa Clara (the "City") shall invest public funds, including bond proceeds, reserves and other special City funds, in a manner consistent with this Investment Policy while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

It is the City's full intent, at the time of purchase, to hold all investments until maturity in order to ensure the return of all invested principal. Through the maintenance of sufficient diversification of investments of varying maturities, the forced liquidation of investments at a loss shall be avoided, if at all possible. However, economic or market conditions may change, making it in the City's best interest to sell or trade a security prior to maturity.

For a list of terms and definitions commonly used in cash management, see "Appendix A - Glossary of Cash Management Terms".

### **B. Authority, Scope and Prudence**

- **Authority** - The City of Santa Clara Charter, Article IX, Section 904 gives the Director of Finance (the "Director") the authority and responsibility to deposit and invest all City funds. It authorizes the Director to invest the City's idle cash in allowable investment vehicles with a maximum remaining maturity of five years at the time of purchase. The City Council may grant express authority either specifically or as part of an approved investment program to invest in securities with remaining maturities that exceed the five-year restriction. Authority must be given to the Director at least three months prior to the investment. California Government Code Section 53601 also allows the City to invest in the same investment securities as authorized by the City Council.
- **Scope** - The Investment Policy applies to all deposits, investments and other assets of the City, its subsidiaries, the Successor Agency for the Redevelopment Agency of the City of Santa Clara, the Sports and Open Space Authority, the Stadium Authority, and the Housing Authority. These funds are reported in the City's Comprehensive Annual Financial Report and include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Trust and Agency Funds, and Enterprise Funds. Deposit of funds is in accordance with the provision of the State Constitution and the laws of the State of California (Government Code Sections 53601 and 53635) governing the handling, depositing and securing of public funds. Investment of City issued debt proceeds and debt reserve funds are separately governed by individual bond indentures adopted by the City Council.

Investment of the Forrest and Evalyne Bentzien Trust Fund is governed by the Agreement By and Between the City of Santa Clara, California and the Mission City Community Fund Regarding the Investment, Disbursement and Distribution of Funds in the Forrest and Evalyne Bentzien Non-Expendable Trust Fund approved by City Council and dated July 25, 2000 (the "Bentzien Trust Fund Agreement"), and is not subject to the provisions of this Investment Policy. The Bentzien Trust Fund Agreement defines the rights and responsibilities of the City in its capacity as Trustee and the Mission



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City Community Fund as the beneficiary of the Trust, to assure compliance with the California Probate Code and the Evalyne Bentzien Will.

- **Prudence** - Employees delegated responsibility for the investment of public monies by the Director ("Investment Personnel"), as trustees of public monies, shall adhere to the "prudent investor" standard when managing the City's funds in light of the purposes, terms, and other circumstances of the City. This standard requires the exercise of reasonable care, skill, and caution, and is to be applied to investments in the context of the total portfolio and as part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the City. Duties must be performed with the care, prudence and diligence that a 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 City.

Investment Personnel shall refrain from engaging in any activity that impairs, or has the potential to impair, their ability to make impartial investment decisions for the City.

Investment Personnel acting in accordance with written procedures and the Investment 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 appropriate action is taken to control adverse developments.

## C. Investment Objectives and Criteria

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

- **Safety** - Safety of principal is the foremost objective of the investment program. Investment of City funds shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The City shall diversify its investments by investing funds among a variety of financial institutions and securities offering independent returns, all in accordance with this Investment Policy.
- **Liquidity** - The investment portfolio will remain sufficiently liquid to enable the City to meet all cash needs, which may be reasonably anticipated, for the operation of the City.
- **Yield** - The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow characteristics of the portfolio.

## D. Delegation of Authority

Authority to manage the City's banking depository and investment program is derived from the City Charter. Management responsibility for the banking depository and investment program is hereby delegated to the Director of Finance who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities and procedures of Investment Personnel.

The City may engage the services of an external investment manager to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives ("External Investment Manager"). The External Investment Manager may be granted discretion to purchase and sell investment securities in accordance with the State Constitution, the laws of the State of California and this Investment Policy. Any External Investment Manager must be registered under the Investment Advisers Act of 1940 and shall act as a fiduciary to the City.



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### **E. Ethics and Conflicts of Interest**

Officers and Investment Personnel involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or impair their ability to make impartial investment decisions. Officers and Investment Personnel shall disclose in their annual conflict of interest statement all material financial interests in financial institutions that conduct business within the City, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City.

### **F. Authorized Financial Institutions**

The Director of Finance, or his/her designee, shall maintain a list of financial institutions and broker/dealers authorized to provide investment services to the City ("Authorized Financial Institutions"). Authorized Financial Institutions must be authorized to provide investment services in the State of California and 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 an Authorized Financial Institution must provide audited financial statements, proof of required licenses or registration, and written confirmation that they have read and shall abide by the City's Investment Policy.

Authorized Financial Institutions shall be expected to actively participate in the bid/offer process for securities in which they are market makers. In addition, it will be expected that the Authorized Financial Institutions will be able to fill the entire order being solicited and that there shall be no delay in completing the transaction on the contractual settlement date.

The Director of Finance, or his/her designee, periodically reviews the financial conditions and registrations of financial institutions and broker/dealers that deal with the City. The City is under no obligation to transact business with any financial institution and may at any time remove a financial institution from the list of Authorized Financial Institutions at the City's discretion.

If the City has contracted with an External Investment Manager, the External Investment Manager may use their own list of approved issuers, brokers/dealers and financial institutions ("Investment Manager Authorized Institutions") to conduct transactions on the City's behalf. All due diligence regarding Investment Manager Authorized Institutions shall be the responsibility of the External Investment Manager, if applicable.

### **G. Competitive Bidding Process**

When practicable, Investment Personnel of the City and any External Investment Manager shall enter into transactions for the purchase or sale of securities on a competitive bid basis, seeking offers or bids from at least three authorized broker/dealers or Investment Manager Authorized Institutions, respectively. From time to time the City may enter into transactions involving securities for which there is not an active secondary market or where other Authorized Financial Institutions do not have the security available for sale and therefore, competitive bidding is not available. If competitive bidding on a security is not practicable or possible, Investment Personnel or any External Investment Manager will seek to verify pricing by other reasonable means.

The bidding process shall be fully documented for all transactions and complete records shall be available for audit and reporting purposes.



In all cases, placement shall be made consistent with the safety, liquidity and yield objectives of this Investment Policy.

## **H. Authorized and Suitable Investments**

Special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle. The City is empowered by the State of California Government Code and the City Charter to invest in the following types of securities. Additionally, bond proceeds are invested in accordance with the requirements outlined in the specific bond indenture of trust. All percentage limitations and credit criteria apply at time of purchase.

➤ ***U.S. Treasury Bills, Notes and Bonds and Securities Guaranteed or Backed by the Full Faith and Credit of the U.S. Government***

Maximum Holdings = 100% of portfolio dollars  
Maximum per Issuer = 100% of portfolio dollars  
Maximum Maturity = 7 year final maturity

➤ ***U.S. Government Agency Securities*** (exclusive of Agency MBS or CMO Securities, see below category) such as the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Farm Credit Bank (FFCB), local agencies, and other U. S. government-sponsored enterprises. These investments must be rated in the top three rating categories by two of the three largest nationally recognized statistical rating organizations (NRSROs).

Maximum Holdings = 80% of portfolio dollars  
Maximum per Issuer = 40% of portfolio dollars  
Maximum Callable = 30% of portfolio dollars  
Maximum Maturity = 7 year final maturity

➤ ***Mortgage-Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO)*** issued or guaranteed by the United States of America or any agency or instrumentality (including government sponsored enterprises) of the United States of America. Defined as a mortgage passthrough security, collateralized mortgage obligation, or mortgage-backed bond). Securities eligible for investment under this subdivision shall be rated AA or its equivalent or better by an NRSRO and rated no lower than AA by any NRSRO.

Maximum Holdings = 15% of portfolio dollars  
Maximum per Issuer = 5% of portfolio dollars  
Maximum Weighted Average Life with Current Public Securities Association (PSA) Prepayment Assumptions = 12 years at time of purchase for MBS and 6 years at time of purchase for CMO  
Maximum Final Maturity for MBS's and CMO's = 30 years with balloon payments considered final

At the time of purchase, a CMO must pass the "high-risk" test, using current prepayment assumptions, mandated by the Federal Financial Institution Examination Council (the "FFIEC") for U.S. Depository Institution investment holdings. Prohibited CMO securities are Interest Only (IO), Principal Only (PO), Residuals and Inverse Floaters. CMO issues must be a Sequential Pay (SEQ), a Planned Amortization Class (PAC), a Very Accurately Defined Maturity (VADM) class or a pass-through CMO.



➤ **Negotiable Certificates of Deposit** 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 by a state-licensed branch of a foreign bank. CDs eligible for investment under this subdivision shall be rated A or its equivalent or better by at least one NRSRO and no lower than A by any NRSRO or if the CD has a maturity less than 1 year then shall be rated A-1 or better by at least one NRSRO and rated no lower than A-1 by any NRSRO.

Maximum Holdings = 30% of portfolio dollars  
Maximum per Issuer = 5% of portfolio dollars  
Maximum Maturity = 5 year final maturity

➤ **Bankers Acceptances** otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.

Maximum Holdings = 25% of portfolio dollars  
Maximum per Issuer = 5% of portfolio dollars  
Maximum Maturity = 180 days

➤ **Commercial Paper** of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by an NRSRO. The entity that issues the commercial paper shall meet all of the conditions in either paragraph (1) or (2) below:

1. The entity meets the following criteria:
  - a. Is organized and operating in the United States as a general corporation.
  - b. Has total assets in excess of five hundred million dollars (\$500,000,000).
  - c. Has debt other than commercial paper, if any, that is rated in a rating category of A or its equivalent or higher by an NRSRO.
2. The entity meets the following criteria:
  - a. Is organized within the United States as a special purpose corporation trust, or limited liability company.
  - b. Has program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.
  - c. Has commercial paper that is rated A-1 or higher, or the equivalent, by an NRSRO.

Maximum Holdings = 25% of portfolio dollars  
Maximum per Issuer = 5% of portfolio dollars and no more than 10% of the outstanding commercial paper of any single issuer  
Maximum Maturity = 270 days

➤ **Local Agency Investment Fund of the State of California.** Purchases may be made up to the maximum amount allowed by the State of California. Securities owned in the Local Agency Investment Fund of the State of California will not count towards maximum percentages of other categories.

➤ **Repurchase Agreements** subject to requirements of the California Government Code Section 53601(j). A Master Repurchase Agreement must be signed with the counterparty. The market value of securities that underlay a repurchase agreement shall be maintained at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted on a daily basis.



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Maximum Holdings = 50% of portfolio dollars  
Maximum per Issuer = 20% of portfolio dollars  
Maximum Maturity = 60 days

➤ **Reverse Repurchase Agreements.** Reverse repurchase agreements with the prior approval of the City Council and subject to requirements of the California Government Code Sections 53601(j).

Maximum Holdings = 20% of portfolio dollars  
Maximum per Issuer = 10% of portfolio dollars  
Maximum Maturity = 92 days

➤ **Municipal Obligations**, including: (1) bonds, notes, warrants and other evidences of indebtedness of any local agency within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency, (2) registered state warrants or treasury notes or bonds of the state of California, 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, and (3) registered treasury notes or bonds of any of the other 49 states in addition to California, 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. These investments shall be rated A or its equivalent or better by at least one NRSRO and rated no lower than A by any NRSRO.

Maximum Holdings = 20% of portfolio dollars  
Maximum per Issuer = 5% of portfolio dollars  
Maximum Maturity = 7 year final maturity

➤ **Medium Term Corporate Notes** defined as all corporate and depository institution debt securities 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. Notes eligible for investment under this subdivision shall be rated A or its equivalent or better by at least one NRSRO and rated no lower than A- by any NRSRO.

Maximum Holdings = 25% of portfolio dollars  
Maximum per Issuer = 5% of portfolio dollars  
Maximum Maturity = 5 year final maturity

➤ **Mutual Funds and Money Market Funds** consisting of investment vehicles permitted under Sections 53601 and 53635 of the California Government Code. To be eligible for City investments, mutual funds shall have the following:

1. The highest rating provided by not less than two of the three largest NRSROs.
2. An investment advisor registered with the Securities and Exchange Commission for not less than five years having investment experience in the underlying securities and with assets under management in excess of \$500 million.
3. The purchase price of the shares shall not include any commission fees.



Money Market Funds must meet either 1 or 2 above and 3. A thorough analysis of the pool/fund is required prior to investing, and on a continual basis. Analysis shall include creditworthiness, size, safety, ease of investment liquidation, frequency of earnings distributions, frequency of account statements, and investment portfolio strategy. Securities owned in mutual funds and investment pools will not count towards maximum percentages of other categories.

Maximum Holdings = 20% of portfolio dollars  
Maximum per Fund = 10% of portfolio dollars

➤ **Joint Powers Authority Investment Pools** organized pursuant to Section 6509.7 that invests in the securities and obligations under Sections 53601 of the California Government Code. To be eligible for City investments, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

1. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
2. The adviser has not less than five years of experience investing in the securities and obligations authorized in under Section 53601.
3. The adviser has assets under management in excess of \$500 million.

Maximum Holdings = 100% of portfolio dollars  
Maximum per Issuer = 100% of portfolio dollars

➤ **Supranational Obligations** defined as 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, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated AA or its equivalent or better by an NRSRO and rated no lower than AA by any NRSRO.

Maximum Holdings = 20% of portfolio dollars  
Maximum per Issuer = 10% of portfolio dollars  
Maximum Maturity = 5 year final maturity

➤ **Asset-Backed Securities** defined as an equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated AA or its equivalent or better by an NRSRO and rated no lower than AA by any NRSRO.

Maximum Holdings = 10% of portfolio dollars  
Maximum per Issuer = 5% of portfolio dollars  
Maximum Maturity = Maximum remaining maturity of 5 years or less

➤ **Non-negotiable Certificates of Deposit** of a public bank, as defined in State of California Government Code Section 57600 and pursuant to collateralization requirements of this Investment Policy.

Maximum Holdings = 10% of portfolio dollars  
Maximum per Issuer = 5% of portfolio dollars  
Maximum Maturity = 5 year final maturity



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## **I. Sustainable Investing**

The City desires to invest in entities that support community well-being through environmentally and socially sound practices and fair labor practices and equality of rights regardless of sex, race, age, disability, or sexual orientation. To meet these environmental and social investment goals the City or External Investment Manager shall apply the following criteria to investment selection:

The City's portfolio shall not include investment in companies in the following industries or subindustries as classified by a global standard taxonomy such as the Global Industry Classification Standard (GICS) or Bloomberg Industry Classification System (BICS) :

- Fossil Fuel Extraction, Refining, and Distribution
- Tobacco Manufacturing and Production
- Firearms Manufacturing

## **J. Security Downgrades**

If securities owned by the City are downgraded to a level below the quality required for purchase under this Investment Policy, the Director of Finance, or his/her designee, shall review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio. Such determination shall be documented and approved by the Director of Finance.

## **K. Collateralization**

Collateralization with marketable securities will be required on non-negotiable certificates of deposit and repurchase (and reverse repurchase) agreements in accordance with California Government Code Section 53601 and 53630 et seq. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be at least 102% of market value of principal and accrued interest for repurchase (and reverse repurchase) agreements and at least 110% of market value for non-negotiable certificates of deposit. The City reserves the right to require additional collateral if the City believes such additional amount is warranted. The City may waive the collateralization requirements for any portion of the deposit that is covered by Federal Deposit Insurance.

Collateral shall always be held by an independent third party with whom the City or the counterparty has a current custodial agreement. Clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. The counterparty shall have the right to substitute substantially the same securities as originally deposited as collateral.

## **L. Safekeeping and Custody**

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities shall be held by a third party custodian designated by the Director of Finance, or his/her designee, and evidenced by safekeeping receipts.



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### M. Diversification

The City will diversify its investments by security type and institution. Maximum percentage holdings for each security type and institution shall conform to this Investment Policy and the maximum allowed under the California Government Code Section 53601.

The minimum percentage of securities portfolio holdings for U.S. Treasury Bills, Notes and Bonds and Securities Guaranteed or Backed by the Full Faith and Credit of the U.S. Government; U.S. Government Agency Securities (not including MBS and CMO), and Municipal Obligations shall be 30%.

All percentage restrictions on authorized investments are based on the amortized cost value of the portfolio as of the trade date of the investment. In the event that portfolio percentage restrictions are violated due to a reduction in cost value of the portfolio, the City may, but will not be required to, liquidate securities to meet the maximum holdings requirements.

### N. Maximum Term of Investment

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. The City will not directly invest in securities maturing more than five years from the date of purchase without Council approval in accordance with State of California Government Code Section 53601. Effective three months following City Council approval of the 2022 Investment Policy, the City Council authorizes the purchase of (a) U.S. Treasury Bills, Notes and Bonds and Securities Guaranteed or Backed by the Full Faith and Credit of the U.S. Government, (b) U.S. Government Agency Securities (not including MBS and CMO), and (c) Municipal Obligations, respectively, with a maximum maturity of seven (7) years. The City Council authorizes the purchase of MBS and CMO with a maximum weighted average life with current PSA prepayment assumptions of up to twelve (12) years at time of purchase for MBS and six (6) years at time of purchase for CMO, respectively, each with a maximum final maturity of thirty (30) years.

No greater than 30% of the portfolio's cost value may include securities with a final maturity greater than five (5) years at any time.

### O. Internal Controls

The City's Finance Department shall establish internal controls that are designed to prevent losses due to fraud, negligence, third-party misrepresentation, and other foreseeable circumstances that may arise in the operations of the investment function. 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.

The internal controls shall address the following points:

- **Collusion** - Collusion is a situation where two or more employees are working together to defraud their employer.
- **Separation of duties** - By separating the persons who perform and authorize the transactions from the people who record or otherwise account for the transactions, a separation of duties is achieved.



- **Safekeeping** - Securities purchased from any broker or dealer shall be placed with the City's depository bank in its trust department for safekeeping. Securities shall be held in a manner that establishes the City's right of ownership. Evidence of ownership shall be demonstrated by a monthly safekeeping statement which shall be reconciled on a timely basis to internal holding reports.
- **Clear Delegation of Authority** - Subordinate staff members must have a clear understanding of their authority and responsibility to avoid improper actions.
- **Written Confirmation** - Due to the potential for error arising from telephone transactions, all telephone transactions shall be supported by written communications and approved by appropriate Investment Personnel.
- **Delivery** - Where applicable, investment transactions of the City shall be conducted using standard delivery-vs-payment procedures.
- **Daily Procedures** - Detailed written procedures shall be created and regularly maintained so that critical investment functions may be performed in the absence of the person normally responsible for performing such work. The procedures should include reference to custody and safekeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in a depository or investment transaction except as provided under the terms of this Investment Policy and the procedures established by the Director of Finance.
- **Annual Audit** - On an annual basis, the City's financial statements and business practices are audited by an external auditor. Included in the annual audit shall be testing of the City's compliance with the Investment Policy.

## **P. Performance Standard**

As preservation of capital is the City's top priority, the City's investment strategy shall assume that an investment is being held to maturity or other redemption date as set forth in the security's official offering documentation (i.e., callable securities). Trading in response to economic conditions and market valuations will be permitted in response to changing market conditions; to improve the quality, yield, or target duration in the portfolio; address a liquidity need of the portfolio; or to remove a security with a declining credit or financial outlook.

The City also recognizes the importance of obtaining an adequate rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow requirements. The performance of the long-term securities portfolio managed by External Investment Manager shall be compared to a benchmark established by the Director of Finance. The benchmark shall reflect the objectives, strategy, and goals of the City's investment program.

- The benchmark is the ICE BaML 1-5 Year US Treasury Index.

Full implementation of this benchmark will be effective July 1, 2022.

In accordance with generally accepted accounting principles, the City or the External Investment Manager, if any, shall mark-to-market investments on a monthly basis using an independent pricing source. Market values will be looked upon as indications of market movements and volatility in making investment decisions rather than an indication of performance.



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### **Q. Reporting**

The Director of Finance shall provide periodic investment reports to the City Council. The reports shall contain, but not be limited to, the following:

- A listing of individual securities held at the end of the reporting period by authorized investment category.
- The performance of the portfolio compared to the established benchmark.
- Final maturity of all investments listed.
- Weighted average maturity of the unrestricted investment portfolio.
- Coupon, discount or earnings rate.
- Par value, amortized cost value and market value.
- Percentage of the portfolio represented by each investment category.

### **R. Investment Policy Adoption**

The Investment Policy shall be reviewed annually by the City Council and any modifications made thereto must be approved by the City Council.



## **APPENDIX A**

### **GLOSSARY OF CASH MANAGEMENT TERMS**

**AGENCIES:** A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of a federal agency is the Government National Mortgage Association (GNMA). An example of an FSA is the Federal National Mortgage Association (FNMA).

**ASK:** The price at which securities are offered.

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

**BASIS POINT:** A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield (e.g., 1/4 of 1 percent is equal to 25 basis points).

**BID:** The price offered by a buyer of securities. (When you are selling securities you ask for a bid.) See Offer.

**COST VALUE:** The value at which a security is carried on the financial records of an investor. The cost value may differ significantly from the security's current value in the market.

**BROKER:** A broker brings buyers and sellers together for a commission.

**CALLABLE BOND:** A bond issue in which all or part of its outstanding principal amount may be redeemed prior to maturity by the issuer under specified conditions.

**CALL PRICE:** The price at which an issuer may redeem a bond prior to maturity.

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

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

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

**COUPON:** Interest rate on a debt security the issuer promises to pay to the holder until maturity, expressed as an annual percentage of face value.

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



**DELIVERY VERSUS PAYMENT (DVP):** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**DERIVATIVES:** (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

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

**DISCOUNT RATE:** Interest rate that the Federal Reserve charges member banks for loans, using government securities or eligible paper as collateral.

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

**DISCOUNT YIELD:** Yield on a security sold at a discount.

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

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits.

**FEDERAL FUNDS (FED FUNDS):** Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend Fed Funds to each other overnight or on a longer term basis. Depository institutions may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed Funds are considered to be immediately available funds.

**FEDERAL FUNDS RATE:** The rate of interest at which Federal Funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

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

**FEDERAL FARM CREDIT BANK (FFCB):** The Federal Farm Credit Banks Funding Corporation is an integral part of the Farm Credit System, a leading provider of loans, leases and services to U.S. agriculture and rural America. FFCB is a government-sponsored enterprise that consolidates the financing activities of the Federal Land Banks, the Federal Intermediate Credit Banks, and the Banks for Cooperatives.

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC):** A publicly chartered agency that buys qualifying residential mortgages from lenders, packages them into new securities backed by those pooled mortgages, provides certain guarantees, and then resells the securities on the open market. FHLMC's stock is owned by savings institutions across the U.S. and is held in trust by the FHLB System.



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

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

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

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

**GUARANTEED INVESTMENT CONTRACT (GIC):** A contract between an insurance company and a corporate profit-sharing or pension plan that guarantees a specific rate of return on the invested capital over the life of the contract.

**IDLE FUNDS:** Money in the treasury not required for the immediate needs of the local agency.

**INVESTMENT-GRADE OBLIGATIONS:** An investment instrument suitable for purchase by institutional investors under the prudent investor rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

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

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**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 often specifies, 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 upon which the principal or stated value of an investment becomes due and payable.



**MONEY MARKET:** The market in which short-term debt instruments (bills, commercial paper, banker's acceptances, etc.) are issued and traded.

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO):** A credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission permits other financial firms to use for certain regulatory purposes.

**OFFER:** The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Ask and Bid.

**OPEN MARKET OPERATIONS:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**PREMIUM:** The amount by which the price paid for a security exceeds the security's par value.

**PORTFOLIO:** A combined holding of a variety of investments. The purpose of a portfolio is to reduce risk by diversification.

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

**PRIMARY MARKET:** A market for new issues of securities. A market is primary if the proceeds of sales go to the issuer of the securities sold.

**PRIME RATE:** A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

**PRINCIPAL:** The face value or par value of a debt instrument.

**PRUDENT INVESTOR RULE:** A guideline that states that a fiduciary must consider the needs of the beneficiaries, the provision of regular income, minimize risk and preserve assets. The Prudent Investor Rule applies to the investment decision-making process and no single investment decision should be judged in isolation, but rather as part of the entire portfolio. The Prudent Investor Rule mandates fiduciaries apply the principle of diversification when constructing portfolios.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price.

**REPURCHASE AGREEMENT (RP or REPO):** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him/her for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank services.



**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vault for protection.

**SECONDARY MARKET:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**SECURITIES AND EXCHANGE COMMISSION:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**STRUCTURED NOTES:** Notes issued by Government Sponsored Enterprises (FHLB, FNMA, etc.) and Corporations that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

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

**TREASURY BONDS:** Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturity more than ten years.

**TREASURY NOTES:** Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturity from two to ten years.

**WEIGHTED AVERAGE MATURITY (WAM):** The average maturity of all the securities that comprise a portfolio.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

**YIELD-TO-CALL (YTC):** The rate of return an investor earns from a security assuming the security is redeemed (called) prior to its stated final maturity date.

**YIELD-TO-MATURITY (YTM):** The rate of return an investor earns on a security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.