

RESOLUTION NO. 2024 – 024

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LA QUINTA, CALIFORNIA, APPROVING AND ADOPTING FISCAL YEAR 2024/2025 INVESTMENT POLICY

WHEREAS, the general purpose of the Investment Policy is to provide the rules and standards users must follow in investing funds of the City of La Quinta; and

WHEREAS, the primary objectives, in order of priority, of the City of La Quinta's investment activity shall be:

Safety of principal is the foremost objective of the investment program. Investments of the City of La Quinta shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

The investment portfolio shall be designed with the objective of attaining a market rate of return or yield throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs; and

WHEREAS, authority to manage the City of La Quinta's investment portfolio is derived from the City's municipal code, management responsibility for the investment program is delegated to the City Treasurer, who shall establish and implement written procedures for the operation of the City's investment program consistent with the Investment Policy for each Fiscal Year; and

WHEREAS, the Investment Policy will be adopted before the end of June of each year and amended as considered necessary.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of La Quinta as follows:

SECTION 1. This Resolution supersedes all prior Investment Policy resolutions adopted by the City Council.

SECTION 2. The City Council hereby adopts the Fiscal Year 2024/2025 Investment Policy attached hereto as "Exhibit A" and incorporated herewith by this reference.

SECTION 3. Severability – if any provisions of this Resolution or the application thereof to any person or circumstance is held invalid, such invalidity shall not affect other

provisions or applications of this Resolution which can be given effect without the invalid provision or application, and to this end the provisions of this Resolution are severable. The City Council hereby declares that it would have adopted this Resolution irrespective of the invalidity of any particular portion thereof.

SECTION 4. This Resolution shall become effective upon adoption. The Investment Policy adopted by this Resolution shall go into effect July 1, 2024.

PASSED, APPROVED and ADOPTED at a regular meeting of the La Quinta City Council, held on this 18th day of June, 2024, by the following vote:

AYES: Councilmembers Fitzpatrick, McGarrey, Peña, Sanchez, and Mayor Evans

NOES: None

ABSENT: None

ABSTAIN: None

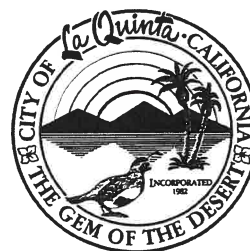


LINDA EVANS, Mayor
City of La Quinta, California

ATTEST:



MONIKA RADEVA, City Clerk
City of La Quinta, California



APPROVED AS TO FORM:



WILLIAM H. IHRKE, City Attorney
City of La Quinta, California

CITY OF
LA QUINTA

2024/25



INVESTMENT POLICY



Fiscal Year 2024/2025
Table of Contents

Section	Topic	Page
	Executive Summary	1
I	General Purpose	2
II	Investment Policy	2
III	Scope	2
IV	Objectives	3
V	Maximum Maturities	5
VI	Prudence	5
VII	Authority	5
VIII	Ethics and Conflicts of Interest	6
IX	Authorized Financial Dealers and Institutions	6
X	Permissible Deposits and Investments	7
XI	Investment Pools	10
XII	Payment and Custody	10
XIII	Interest Earning Distribution Policy	11
XIV	Internal Controls and Independent Auditors	11
XV	Reporting Standards	12
XVI	Review of Investment Portfolio	13
XVII	Financial Advisory Commission – City of La Quinta	13
XIII	Investment Policy Adoption	13
Appendices Topic		Page
A	Municipal Code Ordinance 2.70 – Financial Advisory Commission	14
B	Municipal Code Ordinance 3.08 – Investment of Moneys and Funds	16
C	Segregation of Major Investment Responsibilities	18
D	Listing of Approved Financial Institutions	19
E	Investment Management Process and Risk	20
F	Glossary	22

CITY OF LA QUINTA
Investment Policy Fiscal
Year 2024/2025

EXECUTIVE SUMMARY

The general purpose of this Investment Policy is to provide the rules and standards that must be followed in administering the City of La Quinta's (the "City") deposits and investments.

The City's Investment Policy conforms to all state and local statutes and applies to all deposits and investments of the City, with the exception of bond proceeds and those noted in section III herein.

It is the City's policy to deposit and invest public funds in a manner that shall provide safety of principal, liquidity to meet the City's obligations and requirements that may be reasonably anticipated, and a risk-based market rate of return.

Authority to manage the City's investment portfolio is derived from the City Municipal Code. Management responsibility for the investment program is delegated to the City Treasurer, who shall establish and implement written procedures for the operation of the City's investment program consistent with the Investment Policy.

The City Manager, City Treasurer, and City employees involved in the City's banking and investment process shall conduct the City's business in an ethical manner and refrain from any activity or relationship that may be, or have the appearance of, a conflict of interest.

The Investment Policy shall be adopted by resolution of the La Quinta City Council on an annual basis, before the end of each fiscal year (June).

City of La Quinta

Statement of Investment Policy July 1, 2024 through June 30, 2025 Adopted by the City Council on June 18, 2024

I. GENERAL PURPOSE

The general purpose of this document is to provide the rules and standards that must be followed in administering the City of La Quinta's deposits and investments.

II. INVESTMENT POLICY

It is the policy of the City of La Quinta to deposit and invest public funds in a manner that shall conform to all State and local statutes governing the investment of public funds and set forth the permissible deposits and investments of the City's funds and the limitations thereon.

III. SCOPE

Except noted below, this Investment Policy applies to all deposits and investments of the City of La Quinta, the Successor Agency to the City of La Quinta Redevelopment Agency, and the City of La Quinta Financing and Housing Authorities. These funds are reported in the City's Annual Comprehensive Financial Report (ACFR) and include all funds within the following fund types:

- General
- Special Revenue
- Capital Projects
- Debt Service
- Enterprise
- Internal Service
- Trust and Agency
- Any new fund types and fund(s) that may be created.

Financial assets and investment activity not subject to this policy

The City's Investment Policy **does not** apply to the following:

- Cash and Investments raised from Conduit Debt Financing;
- Funds held in trust in the City's name in pension or other post-retirement benefit programs;
- Cash and Investments held in lieu of retention by banks or other financial institutions for construction projects;
- Short or long-term loans made to other entities by the City or Agency;
- Short term (Due to/from) or long term (Advances from/to) obligations made either between the City and its funds or between the City and Agency; and
- Investment of bond proceeds. The City's Investment Policy shall not govern bond proceeds and bond reserve fund investments. California Code Section

5922(d) governs the investment of bond proceeds and reserve funds in accordance with bond indenture provisions.

Arbitrage Requirement - The US Tax Reform Act of 1986 requires the City to perform arbitrage calculations and return excess earnings to the US Treasury from investments of proceeds of bond issues sold after the effective date of this law. These arbitrage calculations may be contracted with an outside source to provide the necessary technical assistance to comply with this regulation. Investable funds subject to the 1986 Tax Reform Act will be kept segregated from other funds and records will be kept in a fashion to facilitate the calculations.

The City's investment position relative to the arbitrage restrictions is to continue pursuing the maximum yield on applicable investments while ensuring the safety of capital and liquidity, and to rebate excess earnings, if necessary.

IV. OBJECTIVES

The objectives of the City's investment activity, in order of priority and importance, are:

A. Safety of Principal

Safety of principal is the foremost objective of the City's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of principal of the overall portfolio in accordance with the permissible deposits and investments.

The City shall endeavor to preserve its investment principal by making only permissible deposits and investments, undertaken in a controlled manner to minimize the possibility of loss or misappropriation through malfeasance or otherwise. Investments not backed by the full faith and credit of the United States Government shall be diversified by allocating assets between different types of permissible investments, maturities, and issuers as a means to mitigate credit risk and interest rate risk. Investment in any single security type or single financial institution shall be limited to the maximum percentages and/or dollar amounts as noted in Section X.

1. Credit Risk is the risk of loss from the failure of the security issuer or backer. Credit risk may be mitigated by:
 - Limiting investments to investment grade securities as permitted in Section X; and
 - Diversification- reducing concentration risk by limiting the total amount invested in individual issuers of securities in the investment portfolio so that potential losses due to issuer failure or securities downgrades may be minimized.
2. Interest Rate Risk is the risk that market values of securities in the portfolio will decline due to changes in general interest rates. Interest rate risk may be mitigated by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and
 - Investing operating funds primarily in shorter-term securities.
3. Liquidity Risk is the risk that a security cannot be liquidated because of its unique features or structure or because it is thinly traded. Liquidity risk is not a material issue for the City's portfolio because of the permissible deposits and investments (see Section X). A discussion of the City's investment process and risk is presented in Appendix E.

B. Provide Liquidity

The investment portfolio shall remain sufficiently liquid to meet all of the City's cash needs that may be reasonably anticipated. This is accomplished by structuring the portfolio so that sufficient liquid funds are available to meet anticipated demands. Furthermore, since all possible cash needs cannot be anticipated the portfolio should be diversified and consist of securities with active secondary or resale markets.

The City's policy is to generally hold securities and other investments to maturity. However, securities may be sold prior to maturity under certain circumstances as follows:

- A security with declining credit quality can be sold early to minimize loss of principal.
- Unanticipated liquidity needs of the portfolio require that one or more securities be sold.
- When a sale/repurchase is fiscally advantageous based on market conditions and fits the needs of the portfolio

C. Yield a Risk-Based Market Rate of Return

The City's investment portfolio shall be structured with the objective of yielding a risk-based market rate of return throughout budgetary and economic cycles. Return on investment is less important than the safety and liquidity objectives described above.

The City's Investment Policy does not specify a single benchmark as a goal or target yield for a rate of return on its investment portfolio. The portfolio's rates of return will be influenced by several factors, including actions by the Federal Reserve Board, the marketplace, and overall economic perceptions and conditions.

Performance Standards: As a basis for comparison only, the Treasurer's quarterly reports will display the rates of return on the three-month Bill, six-month Bill, the one and two-year U.S. Treasury Note, and the yield for the State Treasurer's Local Agency Investment Fund (LAIF). The Treasurer may use these or any other published rates of return that the Treasurer deems appropriate for comparison to the return on the City's investment portfolio.

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

V. MAXIMUM MATURITIES

It is the City's policy to generally hold securities and other investments until maturity. This buy-and-hold policy shall not prevent the sale of a security as listed in section IV.B

The general buy-and-hold strategy requires that the City's investment portfolio be structured so that sufficient liquid funds are available from maturing investments and other sources to meet all reasonably anticipated cash needs.

The City shall follow Title 5 of the California Government Code §53601 (the "State Code") regarding maximum maturities, in that "no investment shall be made in any security...that at the time of the 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 part of an investment program approved by the legislative body no less than three months prior to the investments". In order to accommodate the occasional occurrence of settlement dates slightly exceeding five (5) years to final maturity, the City may invest in any security that has a maturity of five (5) years plus up to thirty (30) days from settlement date.

VI. PRUDENCE and FIDUCIARY DUTY

The City shall follow the State Code §53600.3 regarding fiduciary duty and the Prudent Investor Standard as follows:

Except as provided in subdivision (a) of §27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter 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 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

VII. AUTHORITY

Authority to manage the City's investment portfolio is derived from Chapter 3.08 of the City's Municipal Code. Management responsibility for the investment program is delegated to the City Treasurer for a period of one year pursuant to the City Council's annual adoption of the Investment Policy.

The City Treasurer shall establish written procedures for the operation of the investment program consistent with the Investment Policy. Procedures should include reference to 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 an investment transaction except as provided under the terms of this Investment Policy (see Appendix C) and the procedures established by the City Treasurer. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

VIII. ETHICS AND CONFLICTS OF INTEREST

The City Manager, City Treasurer, and City employees involved in the City's banking and investment process shall conduct the City's business in an ethical manner and refrain from any activity or relationship that may be, or have the appearance of, a conflict of interest. The City will maintain compliance with the procedures set forth in the Conflicts of Interest and Acceptance of Gifts and other Gratuities section of the City of La Quinta Personnel Manual and the City's Municipal Code Chapter 2.60 Conflicts of Interest. Any questionable activity or relationship shall be reported immediately; reporting must be made in accordance with the personnel policies of the City and, until resolved, the officer or employee shall refrain from participating in the City's business related to the matter.

The City Manager, City Treasurer, and City employees may conduct personal business with banks, brokers, and other financial institutions that are authorized to conduct business with the City provided that the terms of the activity to the account holder with the City are the same as those that are available to the public in general, or to all employees as a result of contract negotiations.

IX. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City Treasurer maintains a listing of financial institutions which are approved for direct investment purposes, as well as a list of approved broker/dealers.

1. Broker/Dealers who desire to offer direct investment transactions must supply the City with the following:
 - Current audited financial statements;
 - Proof of Financial Industry Regulatory Authority (FINRA) Certification;
 - Proof of State of California registration;
 - Resume of financial broker; and
 - Completion of the City of La Quinta Broker/Dealer Questionnaire, which contains a certification of having read the City's Investment Policy.

The City Treasurer or designee shall evaluate the documentation submitted by the broker/dealer and independently verify existing reports on file for any firm and/or individual(s) conducting investment related business.

The City Treasurer or designee may also contact the following agencies during the verification process:

- Financial Industry Regulatory Authority (FINRA) Public Disclosure Report File (1-800-289-9999).

- State of California Department of Financial Protection and Innovation (1- 866-275-2677).

A professional investment manager or management firm, if engaged by the City pursuant to Section X of this policy, may utilize their own list of approved broker/dealers on the condition that any such list is provided to the City upon request.

All Broker/Dealers and financial institutions that provide investment services will be subject to City Council approval.

An annual review of the financial condition and registrations of approved broker/dealers will be conducted by the City Treasurer or designee. Current audited financial statements and/or System and Organizational Controls (SOC-1 and/or SOC-2) internal control reports may be maintained on file for each financial institution and broker/dealer with which the City conducts business. Each mutual fund shall provide a prospectus and statement of additional information.

2. Financial Institutions will be required to meet the following criteria in order to receive City funds for deposit or investment (see Appendix D, "Listing of Approved Financial Institutions"):
 - Insurance - Public Funds shall be deposited only in financial institutions having accounts insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund (NCUSIF).
 - Disclosure - Each financial institution maintaining invested funds in excess of the FDIC insured amount shall furnish the City a copy of the most recent Call Report (Consolidated Reports of Condition and Income) if requested. These reports can also be found at: <https://cdr.ffiec.gov/public/ManageFacsimiles.aspx>

The City shall not invest or deposit in excess of the FDIC insured amount in banking institutions which do not disclose to the city a current listing of securities pledged for collateralization in public monies.

X. PERMISSIBLE DEPOSITS AND INVESTMENTS

It is the City's policy to follow Title 5 of the California Government Code (the "State Code") in regard to allowable securities, and to be sufficiently diversified with regard to security type and issuer. Permissible deposits and investments, as allowed by Chapter 4, Part 1, Division 2, Title 5 (hereinafter cited by §), include, but are not limited to, the following list. The State Code can be directly referenced at <https://leginfo.legislature.ca.gov/>

Checking, Savings, and Sweep Accounts - The City will only maintain checking and savings accounts with state or national banks, savings associations, federal associations, and/or credit unions in accordance with §53635.2.

- **Collateralization**: The amount of the City's deposits or investments not insured by the FDIC shall be collateralized by securities in accordance with §53652. The Treasurer may invest in an interest-bearing active deposit account as approved in §53632. The deposit account must be collateralized with securities that are in accordance with §53632.5. In addition, the market value of the collateralized securities must be maintained in accordance with §53652 and be held by a custodian in accordance with the requirements of §53656. The proportion of the City's share of the deposit account shall be determined in accordance with §53658.

Certificates of Deposit (Negotiable and Non-negotiable) – As authorized in §53601(i), the City may invest in Non-Negotiable and Negotiable Certificates of Deposits (CD) up to 30% of the overall portfolio. In no instance shall a CD or combined CDs with a single issuer exceed the FDIC or NCUSIF insurance limit of \$250,000.

U.S. Treasury Bills, Notes, and Bonds – As authorized in §53601(b), the City may invest in U.S. Treasury bills, notes, and bonds directly issued and backed by the full faith and credit of the U.S. Government. The City's Investment Policy provides for investments in U.S. Treasury issues of 100% of the portfolio.

U.S. Government Agency Securities and Federal Government Securities – As authorized in §53601(f), the City may invest in securities issued by U.S. Government instrumentalities and agencies (commonly referred to as government sponsored enterprises or GSE's). These securities may not be backed by the full faith and credit of the U.S. Government (with the exception of Government National Mortgage Association (GNMA) securities). Examples of GSE's include Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB), Federal Farm Credit Banks Funding Corporation (FFCB), Federal Agricultural Mortgage Corporation (FAMC), Tennessee Valley Authority (TVA), and GNMA securities.

The City's Investment Policy allows investment only in securities of GNMA, FNMA, FHLMC, FHLB, and FFCB. For Fiscal Year 2024/25, the maximum face amount per issuer is \$30 million and the maximum face amount per purchase is \$10 million.

Prime Commercial Paper – As authorized in §53601(h), a portion of the City's portfolio may be invested in commercial paper of the highest rating as provided for by a nationally recognized statistical rating organization (NRSRO) such as Moody's, Fitch, or Standard & Poor's (S&P). There are a number of other qualifications regarding investments in commercial paper based on the financial strength and size of the corporation and the size of the investment. The City limits on prime commercial paper are as defined in the State Code.

Local Agency Investment Fund (LAIF) – As authorized in §16429.1 and by LAIF policies, local government agencies are each authorized to invest up to the deposit limit as designated by the California State Treasurer. The City Treasurer may not invest more than the maximum amount per account as allowed by LAIF.

Money Market Mutual Funds – As authorized in §53601(l), local agencies are authorized to invest in shares of beneficial interest issued by diversified management companies (mutual funds) in an amount not to exceed 20% of the agency's portfolio. There are a number of other qualifications and restrictions regarding allowable investments in corporate notes and shares of beneficial interest issued by mutual funds which include (1) attaining the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or (2) having an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations and with assets under management in excess of five hundred million dollars (\$500,000,000).

Corporate Notes – As authorized in §53601(k), local agencies may invest in corporate notes. The notes must be issued by corporations organized and operating in the United States or by depository institutions licensed by the United States or any other state and operating in the United States. The City's Investment Policy allows investment in corporate notes authorized by the Government Code with the following limitations:

- Maximum 30% of the portfolio;
- Maturities shall not exceed five years from date of purchase;
- Eligible notes shall be regularly quoted and traded in the marketplace;
- Eligible notes shall be in a rating category of "AA" or better by an NRSRO;
- The maximum aggregate investment in each issuer shall not exceed \$5 million (PAR value), or no more than 10% of the total investment assets in the commercial paper and the medium-term notes of any single issuer.

Professionally Managed Account(s) – The City Treasurer may place up to 50% of the portfolio with a professional portfolio management/investment management firm (firm). The firm will be approved by the City Council based upon the City Treasurer's recommendation pursuant to completion of a public request for proposal (RFP). The firm shall have:

- An established professional reputation for asset or investment management;
- Knowledge and working familiarity with State and Federal laws governing and restricting the investment of public funds;
- Substantial experience providing investment management services to local public agencies whose investment policies and portfolio size are similar to those of the City;
- Professional liability (errors and omissions) insurance and fidelity bonding in such amounts as are required by the City; and

- Registration with the Securities and Exchange Commission under the Investment Advisers Act of 1940

Before engagement by the City and except as may be specifically waived or revised, the firm shall commit to adhere to the provisions of the City's Investment Policy with the following exceptions:

- The firm may be granted the discretion to purchase and sell investment securities in accordance with this Investment Policy;
- The firm is not required to adhere to a buy-and-hold policy; and
- The firm does not need City Manager or City Treasurer approval to make permissible investments.

Local Agency Bonds and California Local Agency Obligations – As authorized in §53601(a) and §53601(e), the City may invest in California local agency obligations. §53601(a) pertains to investing in bonds issued by a local agency, or by the department, board, agency or authority of the local agency.

§53601(e) pertains to investing in bonds and other defined indebtedness of any local agency, or department, board, agency or authority of the local agency within the State of California. The Agency obligations must be invested in the long-term rating category of A or better by an NRSRO.

In the case of an initial public offering, including refinancings, the Treasurer may purchase directly from the Bond Underwriter. In the case of secondary issues, the Treasurer will rely on the approved Broker/Dealers.

XI. INVESTMENT POOLS

There are three (3) types of investment pools:

- State-run pools (e.g., LAIF);
- Pools that are operated by a political subdivision where allowed by law and the political subdivision is the trustee (e.g., County Pools, and Joint Powers Authorities such as the California Asset Management Program (CAMP)); and
- Pools that are operated for profit by third parties (e.g. money market funds).

The City's Investment Policy permits investment in pools and money market funds as authorized by State Code §16429.1, §53601(l) and §53601(p).

XII. PAYMENT AND CUSTODY

The City shall engage qualified third-party custodians to act in a fiduciary capacity to maintain appropriate evidence of the City's ownership of securities and other eligible investments. Such custodians shall disburse funds received from the City for a purchase to the broker, dealer or seller only after receiving evidence that the City has legal, record ownership of the securities.

Even though ownership is evidenced in book-entry form rather than by actual certificates, this procedure is commonly referred to as the delivery versus payment (DVP) method for the transfer of securities.

XIII. INTEREST EARNING DISTRIBUTION POLICY

Interest earnings are generated from pooled investments and specific investments. The following provisions apply to the calculation and distribution of interest earnings.

1. Pooled Investments – It is the general policy of the City to pool all available operating cash of the City of La Quinta, Successor Agency to the City of La Quinta Redevelopment Agency, La Quinta Financing Authority, and La Quinta Housing Authority, and to allocate interest earnings as a payment to each fund of an amount based on the month-end cash balance included in the common portfolio for the earning period.
2. Specific Investments – Specific investments purchased by a fund shall incur all earnings and expenses to that particular fund.

XIV. INTERNAL CONTROLS AND INDEPENDENT AUDITOR

The City Treasurer shall establish a system of internal controls to accomplish the following objectives:

- Safeguard assets;
- The orderly and efficient conduct of its business, including adherence to management policies;
- Prevention or detection of errors and fraud;
- The accuracy and completeness of accounting records; and
- Timely preparation of reliable financial information.

While no internal control system, however elaborate, can guarantee absolute assurance that the City's assets are safeguarded, it is the intent of the City's internal control to provide a reasonable assurance that management of the investment function meets the City's objectives.

The internal controls shall address the following:

- Control of collusion. Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
- Separation of 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.
- Avoidance of 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.

- Clear delegation of 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 as outlined in the Segregation of Major Investment Responsibilities (Appendix C).
- Written confirmation of telephone transactions for investments and wire transfers. Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions shall be supported by written communications or electronic confirmations and approved by the appropriate person. Written communications may be via fax or email if on letterhead and the safekeeping institution has a list of authorized signatures. Fax correspondence must be supported by evidence of verbal or written follow-up.
- Development of a wire transfer agreement with the City's bank and third-party custodian. This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

The system of internal controls developed by the City shall be reviewed annually by the independent auditor in connection with the annual audit of the City's Financial Statements. The independent auditor's letter on internal control over financial reporting and compliance as it pertains to cash and investments, if any, shall be directed to the City Manager who will direct the City Treasurer to provide a written response to the independent auditor's letter. The auditor's letter, as it pertains to cash and investment activities, and the City Treasurer's response shall be provided to the City's Financial Advisory Commission for their consideration. Following the completion of each annual audit, the independent auditor shall meet with the Financial Advisory Commission and discuss the auditing procedures performed and the review of internal controls for cash and investment activities. See Appendix C, "Segregation of Major Investment Responsibilities."

XV. REPORTING STANDARDS

The City Treasurer shall submit a quarterly Treasurer's Report to the City Council and the Financial Advisory Commission that includes all cash and investments under the authority of the Treasurer. In addition, the City Treasurer or designee shall ensure all investment transactions are reported on a monthly basis as they occur throughout the quarter. The Treasurer's Report shall summarize cash and investment activity and changes in balances and include the following:

- A certification by the City Treasurer;
- A listing of purchases and sales/maturities of investments;

- Cash and Investments categorized by authorized investments; LAIF will also be provided quarterly and show yield and maturity;
- Comparison of month-end actual holdings to Investment Policy limitations;
- A two-year list of historical interest rates.

XVI. REVIEW OF INVESTMENT PORTFOLIO

The securities held by the City must be in compliance with this Policy at the time of purchase. Due to market conditions, some securities may no longer comply subsequent to the date of purchase, therefore a quarterly review of the portfolio will be conducted to identify any securities which may have fallen out of compliance. Any major incidences of noncompliance identified during such review will be reported to the Financial Advisory Commission for confirmation of staff course of action.

XVII. FINANCIAL ADVISORY COMMISSION - CITY OF LA QUINTA

The Financial Advisory Commission (FAC) is composed of seven members from the public that are appointed by the City Council. The FAC's membership, qualifications, and powers and duties are prescribed in Chapter 2.70 of the La Quinta Municipal Code and included in this policy as Appendix A.

On an annual basis, in conjunction with the Political Reform Act disclosure statutes, or at any time if a change in circumstances warrants, each commissioner will provide the City Council with a disclosure statement which identifies any matters that have a bearing on the appropriateness of that member's service on the FAC. All commissioners shall report annually to the City Clerk on Form 700, Statement of Economic Interests, any activities, interests, or relationships that may be, or have the appearance of, a conflict of interest.

XVIII. INVESTMENT POLICY ADOPTION

The City's Investment Policy will be reviewed annually by the City's Financial Advisory Commission and the City Treasurer. The Financial Advisory Commission will forward the Investment Policy with any revisions to the City Manager and City Attorney for their review and comment. A joint meeting will be held with the Financial Advisory Commission, City Manager, City Attorney, and City Treasurer to review the Investment Policy and any comments prior to submission to the City Council for their consideration. The Investment Policy shall be adopted by resolution of the City Council annually before the end of June of each year.

City of La Quinta Municipal Code Chapter 2.70**FINANCIAL ADVISORY COMMISSION**

2.70.010 General rules regarding the financial advisory commission. Except as set out below, see Chapter 2.06 for general provisions.

2.70.020 Number of members.

The financial advisory commission ("FAC") shall initially consist of seven members appointed by, and serving at the will of, the city council. The city council may increase or decrease the number of members from time to time but in no event shall the membership exceed nine members or be less than five members.

2.70.30 Qualifications of members.

A. In addition to the qualification requirements set forth in Section 2.06.040 of this code, a minimum of three of the members shall be finance professionals and shall have a verifiable background in finance and/or securities, preferably with knowledge and/or experience in markets, financial controls and accounting for securities.

B. For those applying for the professional position, background information will be requested, and potential candidates must agree to a background check and verification by the city manager or designee.

2.70.040 Powers and duties.

A. The principal functions of the FAC are:

1. Review at least annually the city's investment policy and recommend appropriate changes;
2. Review at least quarterly the treasury report and note compliance with the investment policy and adequacy of cash and investments for anticipated obligations;
3. Receive and consider other reports provided by the city treasurer;
4. Meet with the independent auditor after completion of the annual audit of the city's financial statements, and receive and consider the auditor's comments on auditing procedures, internal controls, and findings for cash and investment activities;
5. Review at least annually the revenue derived from the one percent (1%) transactions and use tax instituted by voters in November 2016 to ensure these funds are used to provide services, programs and capital projects in the city of La Quinta.

6. Serve as a resource for the city treasurer on matters such as proposed investments, internal controls, use of or change of financial institutions, custodians, brokers and dealers.

B. The FAC will report to the city council after each meeting either in person or through correspondence at a regular city council meeting. (Ord. 556 § 1, 2017)

2.70.050 References to the Investment Advisory Board.

If any other chapter(s) or section(s) in this code refers to the Investment Advisory Board, that chapter(s) or section(s) shall be deemed to refer to the Financial Advisory Commission established by the ordinance amending chapter 2.70 of this code.

City of La Quinta Municipal Code Chapter 3.08**INVESTMENT OF MONEYS AND FUNDS****3.08.010 Investment of city moneys and deposit of securities.**

Pursuant to, and in accordance with, and to the extent allowed by Sections 53607 and 53608 of the California Government Code, the authority to invest and reinvest moneys of the city, to sell or exchange securities, and to deposit them and provide for their safekeeping, is delegated to the city treasurer, which, for purposes of this chapter, is defined in Section 2.12.010 of this code. (Ord. 529 § 1, 2015; Ord. 2 § 1, 1982)

3.08.020 Authorized investments.

Pursuant to the delegation of authority in Section 3.08.010, the city treasurer is authorized to purchase, at their original sale or after they have been issued, securities which are permissible investments under the city council adopted city investment policy and any provision of state law relating to the investing of general city funds, including, but not limited to, Sections 53601 and 53635 of the California Government Code, as said sections now read or may hereafter be amended, from moneys in the city treasurer's custody which are not required for the immediate necessities of the city and as he or she may deem wise and expedient, and to sell or exchange for other eligible securities and reinvest the proceeds of the securities so purchased. (Ord. 529 § 1, 2015; Ord. 2 § 1, 1982)

3.08.030 Sales of Securities.

From time to time the city treasurer shall sell the securities in which city moneys have been invested pursuant to this chapter, so that the proceeds may, as appropriate, be applied to the purchase for which the original purchase money may have been designated or placed in the city treasury. (Ord.2 § 1 1982)

3.08.040 City bonds.

Bonds issued by the city and purchased pursuant to this chapter may be cancelled either in satisfaction of sinking fund obligations or otherwise if proper and appropriate; provided, however, that the bonds may be held uncanceled and while so held may be resold. (Ord. 2 § 1 (part), 1982)

3.08.050 Reports.

The city treasurer shall make a quarterly report to the city council of all investments made pursuant to the authority delegated in this chapter and as permitted by Section 53646(b)(1) of the Government Code. (Ord. 529 § 1, 2015; Ord. 2 § 1, 1982)

3.08.060 Deposits of securities.

Pursuant to the delegation of authority in Section 3.08.010, the city treasurer is authorized to deposit for safekeeping, the securities in which city moneys have been invested pursuant to this chapter, in any institution or depository authorized by the city council adopted investment policy and terms of any state law, including, but not limited to, Section 53608 of the Government Code, as it now reads or may hereafter be amended. In accordance with said section, the city treasurer shall take from the institution or depository a receipt for the securities so deposited and shall not be responsible for the securities delivered to and receipted for by the institution or depository until they are withdrawn therefrom by the city treasurer. (Ord. 529 § 1, 2015; Ord. 2 § 1, 1982)

3.08.070 Trust fund administration.

Any departmental trust fund established by the city council pursuant to Section 36523 of the Government Code shall be administered by the city treasurer in accordance with Section 36523 and 36524 of the Government Code and any other applicable provisions of law. (Ord. 2 § 1, 1982)

SEGREGATION OF MAJOR INVESTMENT RESPONSIBILITIES

Function	Responsible Parties
Develop and recommend modifications to the City's formal Investment Policy	City Treasurer, Principal Management Analyst, and Financial Advisory Commission
Review City's Investment Policy and recommend City Council action	City Manager and City Attorney
Adopt formal Investment Policy	City Council
Implement formal Investment Policy	City Treasurer
Review financial institutions and select investments	City Treasurer or Principal Management Analyst
Acknowledge investment selections	City Manager or his/her designee
Execute investment transactions	City Manager, City Treasurer, or Principal Management Analyst
Confirm wires	Finance Manager, Senior Accountant, or Administrative Technician
Record investment transactions in City's accounting records	Finance Manager or Senior Accountant
Investment certification- match broker confirmation to City's investment records	City Treasurer or Principal Management Analyst
Reconcile investment records to accounting records and bank statements	Principal Management Analyst
Reconcile investment records to treasurer's report of investments	City Treasurer, Finance Manager, or Principal Management Analyst
Security of investments at City	Finance Manager or Administrative Technician
Security of investments outside of City	Third Party Custodian
Review internal control procedures	External Auditor

Listing of Approved Financial Institutions

Banking Services	-Sunwest Bank, Irvine, CA (Banking Services - Dune Palms Mobile Estates) -BMO Commercial Bank
Custodian Services	-Stifel -U.S. Bank Trust Company, N.A.
Deferred Compensation	-International City/County Management Association Retirement Corporation (ICMA-RC) dba MissionSquare Retirement
Broker/Dealer Services	-Stifel, Nicolaus, & Company, Inc. -Higgins Capital Management, Inc. -Great Pacific Securities
Government/Joint Powers Authority Pools	-State of California Local Agency Investment Fund (LAIF) -California Asset Management Program (CAMP) -County of Riverside Pooled Investment Fund ⁽¹⁾
Trustee Services	-U.S. Bank Trust Company, NA ⁽²⁾
Other Post Employment Benefits (OPEB) Trust	-California Employers' Retirement Benefits Trust (CERBT)/CalPERS
Pension Trust - Administration	-Public Agency Retirement Services (PARS)

⁽¹⁾The County of Riverside Treasurer maintains one Pooled Investment Fund for all local jurisdictions having funds on deposit in the County Treasury. The City's fire funds, which are property taxes collected to fund fire services in the City, are kept in reserve with the County to be used as expenses are incurred.

⁽²⁾ U.S. Bank is the fiscal agent for all of the following bonds: 2016 and 2021 Successor Agency to the La Quinta Redevelopment Agency (RDA) Bonds. As of March 2024, U.S. Bank is the custodian for the City's investment portfolio. U.S. Bank is also the trustee and asset custodian for the PARS pension trust. As of January 29, 2022, U.S. Bank, National Association transitioned its Global Corporate Trust business to wholly owned subsidiary U.S. Bank Trust Company, National Association.

INVESTMENT MANAGEMENT PROCESS AND RISK

Except as provided for in Section 27000.3, Government Code Section 53600.3 declares as a trustee each person, treasurer, or governing body authorized to make investment decisions on behalf of local agencies. Trustees are subject to the prudent investor standard. These persons shall act with care, skill, prudence, and diligence under the circumstances then prevailing when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. Section 53600.5 further stipulates that the primary objective of any person investing public funds is to safeguard principal; secondly, to meet liquidity needs of the depositor; and lastly, to achieve a return or yield on invested funds (Government Code Section 27000.5 specifies the same objectives for county treasurers and board of supervisors).

Risk is inherent throughout the investment process. There is investment risk associated with any investment activity and opportunity risk related to inactivity. Market risk is derived from exposure to overall changes in the general level of interest rates while credit risk is the risk of loss due to the failure of the insurer of a security. The market value of a security varies inversely with the level of interest rates. If an investor is required to sell an investment with a five percent yield in a comparable seven percent rate environment, that security will be sold at a loss. The magnitude of that loss will depend on the amount of time until maturity.

Purchasing certain allowable securities with a maturity of greater than five years requires approval of the governing board (see Government Code Section 53601). Part of that approval process involves assessing and disclosing the risk and possible volatility of longer-term investments

Another element of risk is liquidity risk. Instruments with call features or special structures, or those issued by little known companies, are examples of "story bonds" and are often thinly traded. Their uniqueness often makes finding prospective buyers in a secondary market more difficult and, consequently, the securities' marketability and price are discounted. However, under certain market conditions, gains are also possible with these types of securities.

Default risk represents the possibility that the borrower may be unable to repay the obligation as scheduled. Generally, securities issued by the federal government and its agencies are considered the most secure, while securities issued by private corporations or negotiable certificates of deposit issued by commercial banks have a greater degree of risk. Securities with additional credit enhancements, such as bankers acceptances, collateralized repurchase agreements and collateralized bank deposits are somewhere between the two on the risk spectrum.

The vast majority of portfolios are managed within a buy and hold policy. Investments are purchased with the intent and capacity to hold that security until maturity. At times, market forces or operations may dictate swapping one security for another or

selling a security before maturity. Continuous analysis and fine tuning of the investment portfolio are considered prudent investment management.

The Government Code contains specific provisions regarding the types of investments and practices permitted after considering the broad requirement of preserving principal and maintaining liquidity before seeking yield. These provisions are intended to promote the use of reliable, diverse, and safe investment instruments to better ensure a prudently managed portfolio worthy of public trust.

Source: Chapter II. Fund Management from the Local Agency Investment Guidelines Issued by California Debt and Investment Advisory Commission

GLOSSARY

(Adopted from the Municipal Treasurers Association)

The purpose of this glossary is to provide the reader of the City of La Quinta investment policies with a better understanding of financial terms used in municipal investing.

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): The official annual report for the City of La Quinta. 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.

ASKED: 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.

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

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

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 unsecured promissory notes issued by a corporation to raise working capital. These negotiable instruments are purchased at a discount to par value or at par value with interest bearing. Commercial paper is issued by corporations such as General Motors Acceptance Corporation, IBM, Bank America, etc.

CONDUIT FINANCING: A form of Financing in which a government or a government agency lends its name to a bond issue, although it is acting only as a conduit between a specific project and bond holders. The bond holders can look only to the revenues from the project being financed for repayment and not to the government or agency whose name appears on the bond.

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

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

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

DELIVERY VERSUS PAYMENT: 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, or (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 SECURITIES: Non-interest-bearing money market instruments that are issued at discount and redeemed at maturity for full face value

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

GOVERNMENT SPONSORED ENTERPRISES (GSEs): 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 issues by GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. Typically referred to as 'Agency Bonds' or 'Agencies'.

FNMA or Fannie Mae (Federal National Mortgage Association) - 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.

FHLBs (Federal Home Loan Bank) - Issued by the Federal Home Loan Bank System to help finance the housing industry. The notes and bonds provide liquidity and home mortgage credit to savings and loan associations, mutual savings banks, cooperative banks, insurance companies, and mortgage-lending institutions. They are issued irregularly for various maturities. The minimum denomination is \$5,000. The notes are issued with maturities of less than one year and interest is paid at maturity.

FFCBs (Federal Farm Credit Bank) – Debt instruments used to finance the short and intermediate term needs of farmers and the national agricultural industry. They are issued monthly with three- and six-month maturities. The FFCB issues larger issues (one to ten year) on a periodic basis. These issues are highly liquid.

FHLMCs or Freddie Mac (Federal Home Loan Mortgage Corporation) - a government sponsored entity established in 1970 to provide a secondary market for conventional home mortgages. Mortgages are purchased solely from the Federal Home Loan Bank System member lending institutions whose deposits are insured by agencies of the United States Government. They are issued for various maturities and in minimum denominations of \$10,000. Principal and interest is paid monthly.

FAMCs or Farmer Mac (Federal Agricultural Mortgage Corporation) - FAMC increases the availability and affordability of credit for the benefit of American agriculture and rural communities. They are the nation's premier secondary market for agricultural credit, providing financial solutions to a broad spectrum of the agricultural community, including agricultural lenders, agribusinesses, and other institutions that can benefit from access to flexible, low-cost financing and risk management tools. FAMC is regulated by the Farm Credit Administration.

Other federal agency issues are Small Business Administration notes (SBA's), Government National Mortgage Association notes (GNMA's), and Tennessee Valley Authority notes (TVA's).

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit per entity.

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

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 3,000 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 holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHM mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LAIF (Local Agency Investment Fund): - A special fund in the State Treasury which local agencies may use to deposit funds for investment. There is no minimum investment period, the minimum transaction is \$5,000 and the City follows the state guidance for maximum total balance. The City is restricted to a maximum of ten transactions per month. It offers high liquidity because deposits can be converted to cash in 24 hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share basis determined by the amounts deposited and the length of time

they are deposited. Interest is paid quarterly. The State retains an amount for reasonable costs of making the investments, not to exceed one-half of one percent of the earnings.

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

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment

MARKET VALUE: The price at which a security is trading 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 establish 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 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, bankers' acceptances, etc.) are issued and traded.

NRSRO (NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION): A credit rating agency recognized by the Securities and Exchange Commission (SEC). Examples include Fitch Ratings, Inc., Moody's Investor's Services, Inc., and S&P Global Ratings, among others.

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

PORTFOLIO: Collection of all cash and securities under the direction of the City Treasurer, including Bond Proceeds.

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 Securities and Exchange Commission (SEC) registered securities broker-dealers, banks and a few unregulated firms.

QUALIFIED PUBLIC DEPOSITORIES: 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. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO) and REVERSE REPURCHASE

AGREEMENTS (RRP or RevRepo): 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 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 reserves.

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 vaults for protection.

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

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

SEC RULE 15C3-1: See Uniform Net Capital Rule.

SSAE 16: The Statement on Standards for Attestation Engagements No. 16 (SSAE 16) is a set of auditing standards and guidance on using the standards, published by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) for redefining and updating how service companies report on compliance controls. The Service Organizational Control report (SOC-1) contains internal controls over financial reporting and is used by auditors and office controllers.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and 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.

SURPLUS FUNDS: Section 53601 of the California Government Code defines surplus funds as any money not required for immediate necessities of the local agency. The City has defined immediate necessities to be payment due within one week.

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 maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

UNIFORM PRUDENT INVESTOR ACT: The State of California has adopted this Act. The Act contains the following sections: duty of care, diversification, review of assets, costs, compliance determinations, delegation of investments, terms of prudent investor rule, and application.

YIELD: The rate of annual 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 purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.