Agenda Item #:____________________

Staff Report
City of Manhattan Beach

TO: Members of the Finance Subcommittee

FROM: Bruce Moe, Finance Director

DATE: September 27, 2012

SUBJECT: Consideration of Draft Request for Proposal for Investment Broker/Dealer Services

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RECOMMENDATION:
Staff recommends that the Finance Subcommittee approve the draft Request for Proposal for investment broker/dealer services. Additionally, staff recommends that the Finance Subcommittee delegate initial review of proposals to the City Treasurer and staff for final recommendations to the full Finance Subcommittee.

FISCAL IMPLICATION:
There are no fiscal implications associated with the recommended action.

DISCUSSION:
The City utilizes two broker/dealers to purchase investment securities: Wells Fargo and Citigroup. The City has utilized these two firms for many years. While the City has been pleased with both, particularly with the guidance provided during the economic crisis in 2008-2009, the City Treasurer and staff believe it would be beneficial to entertain proposals for additional broker/dealers to augment investment resources. As a result, staff has prepared a draft Request for Proposal/Questionnaire for Finance Subcommittee review and approval. If approved, the tentative schedule of events is as follows:

Date	Action
October 1, 2012	Issue Request for Proposal
October 26, 2012	Proposals Due
October 29, 2012 (week of)	Review Proposals
November 6, 2012 (Week of)	Telephone Interviews (as needed)
November 20, 2012	Finance Subcommittee Approval (Tentative)

Staff recommends that the Finance Subcommittee delegate the initial screening process of proposals to the City Treasurer and staff. That process will include reviewing the submissions and conducting interviews (as needed). The City Treasurer and staff will develop recommendations which will be presented to the Finance Subcommittee for approval.

DEPARTMENT OF FINANCE

CITY OF MANHATTAN BEACH

OFFICE OF THE CITY TREASURER

BROKER/DEALER QUESTIONAIRE AND CERTIFICATION

1. Name of Firm ______________________________

2. Address ______________________________
(Local)
____
(National Headquarters)

3. Telephone No. ______________

4.

	Primary Representative	***Manager/Partner-in-Charge***
Name		
Title		
Telephone		
No. of Yrs. in Institutional Sales		
No. of Yrs. with Firm		

5. Are you a Primary Dealer in U.S. Govermnent Securities? _____

6. Are you a Regional Dealer in U.S. Government Securities? ____

7. Are you a Broker instead of a Dealer, i.e. You DO NOT own positions of Securities?
____

8. What is the net capitalization of your Firm?
____
____

9. What is the date of your Firm's fiscal year-end? ____________________

10. If you are a depository institution, please provide the following and most current certified and audited information:

    A. Tangible, Core, and Risk-Based Capital Ratios ______________________________

B. CRA Rating ____

11. Is your Firm owned by a Holding Company? ___ If so, what is its name and net capitalization?

12. Please provide your Wiring and Delivery Instructions. ______________________________

13. Which of the following instruments are offered regularly by your local desk?

[ ] T-Bills [ ] Treasury Notes/Bonds [ ] Discount Notes [ ] NCD'S
[ ] Agencies (specify) FHLB, FNMA, FHLMC, FFCB, GNMA, TVA, SLMA
[ ] BAs (Domestic) [ ]BAs (Foreign) [ ]Commercial Paper [ ] Mid-Term Notes
[ ] Repurchase Agreements [ ] Reverse Repurchase Agreements [ ] CMO's
[ ] Asset Backed Investments [ ] Mutual Funds [ ] Other Investments as Authorized by Section 53600 of the Government Code

____
____
____
____
____

14. Which of the above does your Firm specialize in Marketing?

____
____
____
____
____

15. Please identify your most directly comparable City Local Agency clients in our geographical area.

Entity	***Contact Person***	***Telephone No.***	***Client Since***

16. What reports, transactions, confirmations and documents would we receive? Will they be in electronic form?

____
____
____
____
____
____
____

17. Please include sample of research reports or market information that your firm regularly provides to local agency clients. Please include sample Daily Offering sheets with your proposal.

____
____

18. What precautions are taken by your Firm to protect the interest of the public when dealing with govenment agencies as investors?

____
____
____
____
____
____

19. Have you or your Firm been censured, sanctioned or disciplined by a Regulatory, State or Federal Agency for improper or fraudulent activities, related to the sale of securities within the last five years? Yes No (CIRCLE ONE)

20. If yes, please explain: ____
____

21. Please indicate and provide evidence of the current licensing status of the City's representatives:

Agent: ______________________ Licenses or Registration: ______________________

22. Is your Firm a member of the NASD? Does it subscribe to the "Rules of Fair Practice?"

I have completed and am returning the Broker/Dealer Questionnaire and Certification, and have read, signed and retained for our files, a copy of the City of Manhattan Beach Statement of Investment Policy for the Fiscal Year 2012.

BROKER/DEALER

______________________________ ______________________________

CITY OF MANHATTAN BEACH

CERTIFICATION OF UNDERSTANDING

By submitting a proposal you acknowledge that:

1. You have read and are familiar with the City's Investment Policy as well as applicable Federal and State laws.
2. You meet the requirements as outlined in the City's Investment Policy.
3. You agree to make every reasonable effort to protect the assets of the City from loss.
4. You agree to notify the City, in writing, of any potential conflicts of interest.
5. You agree to notify the City, in writing, of any changes in personnel with decision-making authority over the City's funds within 24 hours of such event.

Failure to submit a Certification of Understanding shall result in the withdrawal by the City of all funds held by the financial institution or investment manager and the immediate revocation of any rights to act as an agent of the City for the purchase of securities of investment of funds on behalf of the City.

The City Council is committed to the goals of a Community Reinvestment Act (CRA). As part of the certification process for depository institutions, it is requested that you remit evidence of your most recent CRA rating.

Signed: ____________________________Date: ______________________

Print Name and Title: ____

After reading and signing this Certification of Understanding, please return with any supporting documentation to:

Bruce Moe, Finance Director
City of Manhattan Beach

1400 Highland Avenue, Manhattan Beach, CA 90266

City of _____________________________ use only:

Approved: _____ Disapproved: _____ Date: ________________

Signature: ____

Date Notification sent: _______ Sent by: _________________________

CITY OF MANHATTAN BEACH

BROKER/DEALER RECEIPT OF INVESTMENT POLICY

We are in receipt of the City of Manhattan Beach Statement of Investment Policy.

We have read the policy and understand the provisions of the policy. All salespersons covering the City's account will be made aware of this policy and will be directed to give consideration to its provisions and constraints in selecting investment opportunities to present to the City.

Signed: ______________________________ ______________________________

Name Name

______________________________ ______________________________

Title Title

____

Firm Name

____

Date

After reading and signing this receipt of Investment Policy, please return with supporting documentation to:

Bruce Moe, Finance Director
City of Manhattan Beach

1400 Highland Avenue, Manhattan Beach, CA 90266

City of ____________________________ use only:

Approved: _____ Disapproved: _____ Date: ___________________

Signature: ______________________________

Date notification sent: ________________________ Sent by:_________________

CITY OF MANHATTAN BEACH
INVESTMENT POLICY
2010-2011

I. Introduction

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment process. The initial step toward a prudent investment policy is to organize and formalize investment-related activities. Related activities which comprise good cash management include accurate cash projection, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations, and short-term borrowing programs which coordinate working capital requirements and investment opportunity. In concert with these requirements are the many facets of an appropriate and secure short-term investment program.

II. Scope

It is intended that this policy cover all short-term operating funds and investment activities under the direct authority of the City. These funds are described in the City's annual financial report and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Internal Service Funds
- Fiduciary Funds

This investment policy does not apply to Bond Proceeds or Deferred Compensation Funds. California Government Code Section 5922(d) authorizes bond, certificates of participation notes and other debt issue proceeds to be invested in accordance with the related offering documentation. These Code Sections recognize the unique needs and objectives of such proceeds. Likewise, Deferred Compensation Plans are covered under California Government Code.

III. Objectives

A. Safety of principal is the foremost objective of the City, followed by liquidity and yield. Each investment transaction shall seek to first ensure that capital losses are avoided, whether from securities defaults or erosion of market value.

B. Investment decisions should not incur unreasonable credit or market risks in order to obtain current investment income.

Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in only very safe securities and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the City's cash flow.

Market risk, defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the portfolio so that securities mature at the same time that major cash outflows occur, thus eliminating the need to sell securities prior to their maturity. It shall also be mitigated by prohibiting the taking of short positions (selling securities that the City does not own). It is explicitly recognized herein, however, that in a diversified portfolio occasional measured losses are inevitable and must be considered within the context of overall investment return.

C. The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated. This need for investment liquidity may be tempered to the extent that the city is able to issue short-term notes to meet its operating requirements.

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

E. The city's investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks associated with concentrating investments in specific security types, maturity segments, or in individual financial institutions.

F. While the City will not make investments for the purpose of trading or speculation as the dominant criterion, the Director of Finance shall seek to enhance total portfolio return by means of ongoing portfolio management. The prohibition of speculative investments precludes investments primarily directed at gains or profits from conjectural fluctuations in market prices.

G. The City adheres to the guidance provided by the "prudent person rule," which obligates fiduciary to ensure that investments shall be made with the exercise of that degree of judgment and care which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived. This standard shall be applied in the context of managing an overall portfolio.

All participants in the investment process shall act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. Nevertheless, in a diversified portfolio, it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

IV. Delegation of Authority

The Finance Director may designate an official to manage investments and to perform investment management during his or her absence. The Finance Director shall insure that competent investment management is maintained and shall insure that, if both designated investment officials are replaced or are simultaneously absent, any temporary replacement(s) shall be closely supervised, indoctrinated in the requirements of this Statement of Investment Policy, and given written investment procedures, regulating the authority to invest in maturities beyond six months by means of appropriate controls and restraining requirements. The Finance Director shall prepare and file documents with all financial institutions with which the City conducts investment activities certifying the names of those persons authorized to effect trades on behalf of the City.

V. Finance Subcommittee

The City Council will appoint a Finance Subcommittee for the purpose of overseeing the implementation of the City's investment program and assuring it is consistent with the investment policy as approved by the City Council. The subcommittee shall consist of the City Treasurer as Chairperson and two members of the City Council, and shall meet at least quarterly to determine general strategies and to monitor results. The subcommittee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to the City's funds, approval of authorized financial institutions, and the target rate of return on the investment portfolio. Written investment procedures must be approved by the Finance Subcommittee. Professional and technical advisory support for the subcommittee shall be provided by the City Treasurer, City Manager and Director of Finance.

VI. Reporting

The Director of Finance shall prepare a monthly investment report and submit to the City Manager, the City Council and the City Treasurer. Schedules of the monthly report shall itemize the month's investment purchases, sales and maturities and indicate their effect on portfolio value, both individually and by investment category; itemize all investments and deposits in the portfolio by investment or deposit category, providing essential identifying characteristics for each investment or deposit; indicate the percentage of the portfolio represented by each investment and by each investment category; show all par values, market values and costs at time of purchase, together with each item's coupon or discount rate and current earning rate;

show the average earning rate for the portfolio together with monthly earnings by item, by category and in total; indicated distribution of the portfolio by maturity category and provide other relevant detail to accomplish disclosure of investment activity and portfolio status.

VII. Investment Instruments

General Guidelines that the City should follow in managing its investments are as follows:

- No investment will be purchased which matures more than five years from the date of settlement without the prior approval of the City Council.
- Maturities of individual investments shall be diversified, attempting to match cash flow requirements where possible.
- The use of callable securities is permitted within the investment classes listed above.

To reduce overall portfolio risk while attempting to attain market value rates of return consistent with the primary objectives of safety and availability of funds, investments shall be diversified across types of investments, maturities of those investments, and institutions in which those investments are made. Generally, the portfolio is to be invested in U.S. Treasury and Federal Agency securities with a modest addition of Bankers Acceptances (BA's) and Certificates of Deposit (CD's), and high grade Medium Term Corporate Notes.

The City specifically prohibits investments in bonds issued by other local agencies, Reverse Repurchase Agreements and Derivatives (Interest rate floaters, range notes, interest-only strips)

Permitted Investments Per City Policy:

Investments shall be made only in those instruments specifically authorized by California State laws (section 53600-53609), and to no greater an extent than those authorized by those laws.

The City's specific permitted investment guidelines are listed below. **These are in addition to, and must be used in conjunction with, the State of California statues applicable to Municipal Investments (see Attachment A).** It should be noted that in some cases the City's permitted investments are more restrictive than the State guidelines. Please note that maximum maturities in the chart refer to total remaining term from settlement date which may differ from original term at time of issue.

PERMITTED INSTRUMENTS	CITY POLICIES/LIMITATIONS
State or County Investment Pool (LAIF)	$40 million maximum (State limit) 50% of portfolio maximum (City limit)
Federally Insured Banks & Thrifts / Time Deposits	5 Year maximum No dollar limit
U.S. Treasuries	5 Year maximum term from date of settlement No dollar limit
Government Sponsored Enterprises *(US Agencies)	5 Year maximum term from date of settlement 60% overall maximum 33 1/3% per issuer maximum
Bankers Acceptances	180 Day maximum 20% maximum 5% per issuer maximum
Commercial Paper	270 Day maximum 15% maximum 5% per issuer maximum including Medium Term Notes
Medium Term Notes	3 Year Maximum 20% maximum 5% per issuer maximum including Commercial paper 10% max by sector classification Limited to Aaa to Aa3 (Moody's) or AAA to A+ (Standard and Poors)
Negotiable Certificates of Deposit	5 Year maximum 20% maximum Lesser of 5% or $1 million per issuer
Repurchase Agreements	1 Year maximum 20% maximum Only with Master Repurchase Agreement Daily mark to market valuation
Money Market Mutual Funds	20% maximum Issuer to have $500+ million assets 5% per issuer
Reverse Repurchase Agreements	Not Allowed
California State Obligations	Not Allowed
California Local Obligations	Not Allowed
Mutual Funds	Not Allowed
Mortgage Pass Through Securities	Not Allowed

*Federal National Mortgage Association (FNMA); Federal Home Loan Mortgage Corporation. (FHLMC); Federal Home Loan Bank (FHLB); Federal Farm Credit Bank (FFCB), Federal Agricultural Mortgage Corp (FAMC), Student Loan Marketing Assn. (SLMA); Tennessee Valley Authority (TVA); and any other U.S. Federal agency or instrumentality.

Percentages of investment allocation and investment maximum limits apply at the time of purchase. The designated portfolio manager may at his/her discretion, temporarily exceed these guidelines when repositioning the portfolio. Should the manager recommend an extended departure from the diversifications guideline (more than 90 days) Subcommittee approval will be required.

The Investment Policy sets forth minimum credit ratings for each type of permitted security. These credit limits apply at the time of the initial purchase of the said security and a subsequent change in rating status does not necessarily force the sale or disposition of the investment. In the event that the security is later downgraded below minimum required levels, the Treasurer and City Staff will assess the risk exposure, make a decision on the course of action, and advise the Finance Subcommittee.

VIII. Relationships with Financial Institutions

A. The City may only purchase statutorily authorized investments, not purchased directly from the issuer, from either an institution licensed by the state as a broker/dealer, from a national or state chartered bank, from a federal or state savings institution, from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank, or a member of a securities exchange.

B. Financial institutions with which the City conducts investment activities must agree in writing to undertake reasonable efforts to prevent illegal and/or imprudent transactions involving City funds. Should it come to the attention of the Director of Finance that City funds have been involved in illegal and/or imprudent transactions, this will be reported to the City Council along with options for dealing with the situation.

C. Primary government securities dealers which report to the New York Federal Reserve are preferred for conducting transactions of all eligible securities other than non-negotiable certificates of deposit.

   Other security dealers who wish to engage in transactions with the City must meet the City's requirements for reliability and safety. All purchase made by the City shall require third party safekeeping or delivery of the securities to the City.

D. To ensure yields consistent with this policy and to provide for the objective investment of City funds, the City's investment procedures shall be designed to include transactions with several firms that compete directly for public business, and to encourage competitive bidding on transactions. Such bids and offers shall be made available upon request to the Finance Subcommittee and the City Manager.

E. The City shall utilize a minimum of two financial institutions deemed eligible by the Finance Subcommittee to place all investment purchases. Based on a periodic evaluation, securities dealers, banks and other financial institutions will be dropped or continued on the eligibility list. The following criteria will be used in the evaluation:

    1. Prompt and accurate confirmation of transactions

    2. Efficient securities delivery

    3. Accurate market information account servicing

In order to assist in identifying "qualified financial institutions," the Finance Director shall forward copies of the City's Investment Policy to those financial institutions with which the City is interested in doing business and require written acknowledgement of the Policy.

All qualified financial dealers must supply the City with the following:

- Annual audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Proof of state registrations
- Certification of having read the City's policy

The City will maintain an authorized agreement with at least one eligible broker who is associated with an institutional (versus retail) division of a primary brokerage firm.

IX. Custody and Safekeeping of Securities and City Funds

1. All City investments shall have the City of Manhattan Beach as its registered owner, and all interest and principal payments and withdrawals shall indicate the City of Manhattan Beach as the payee.

2. All securities shall be safe kept with the City itself or with a qualified financial institution, contracted by the City as a third party. All securities shall be acquired by the safekeeping institution on a "delivery-versus-payment" (DVP) basis. In other words, the security must be delivered before funds are released. The DVP basis for delivery applies also to the delivery and safekeeping of repurchase agreement collateral.

3. Original copies of non-negotiable certificates of deposit and confirming copies of all other investment transactions must be delivered to the City.

X. Internal Control

The Director of Finance shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. Controls deemed most important include; control of collusion, separation of duties, separating transition authority from accounting and recordkeeping, custodial safekeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized investment officials, documentation of transactions and strategies, and ethical standards.

XI. Risk Tolerance

The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity.

Portfolio diversification is employed as a way to control risk. Investment managers are expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. The Director of Finance shall periodically establish guidelines and strategies to control risks of default, market price changes and illiquidity. All investment reports shall specifically address whether current investment results have been affected by any of the foregoing risks, and shall explain what actions investment officials have taken to control or correct for such risks.

XII. Indemnification of Investment Officials

Any investment officer exercising his or her authority with due diligence and prudence, and in accordance with the City of Manhattan Beach Investment Policy, will not be held personally liable for any individual investment losses or for total portfolio losses.

ATTACHMENT A:
Summary of State of California Statutes Applicable to Municipal Investment

The following investments are authorized by California State Code, Title 5, Division 2, Sections 53600 et seq. and 16429.1.

California Authorized Investments	% Limits & Other Constraints (Key Limitation Summary)
Local Agency Bonds	No Limit
US Treasury Notes, Bonds, Bills	No limit
California State Warrants, Treasury Notes or Bonds	No limit
Bonds, Notes, Warrants of any local agency within the State	No limit
Federal Agency or United States government-sponsored enterprise obligations	No limit
Bankers Acceptances	40% max overall limitation: 30% max in any one commercial bank: 180 days max maturity.
Commercial Paper	A Domestic Corporation Total Assets in excess of $500 million At Least "A-1" rated commercial paper 25% max overall limitation: 10% investment max in any single issuer No more than 10% of the outstanding amount for any one issuer 270 days max maturity.
Negotiable Certificates of Deposit	Issued by nationally or state-chartered bank, a savings association or a federal association, a state of federal credit union, or a state licensed branch of a foreign bank. 30% max overall limitation
Repurchase Agreements	One Year Term or less Based on code authorized investments 102% underlying security valuation
Reverse Repurchase Agreements	Security subject to repurchase has been owned & fully paid for at least 30 days prior to sale 20% Maximum limitation Agreement does not exceed 92 days

	Funds received cannot be used to purchase securities with a maturity longer than 92 days
Medium Term Corporate Notes	30% maximum overall investment limitation Maximum remaining maturity of 5 Years Domestic corporations Rated "A" or better
Shares of Beneficial Interest Issued By Diversified Management Companies (Mutual & Money Market Funds)	20% maximum overall portfolio 10% of any one Mutual Fund Based on code authorized investments Money Market Funds registered with the SEC Attained the Highest Ranking by not less than two nationally recognized rating organizations Assets in excess of $500 million Investment advisor with not less than five years experience
Local Agency Investment Fund	<u>$40 million</u> Maximum overall investment limit
Other Obligation Valuation Requirements: (m) Promissory notes secured by first mortgages and first trust deeds which comply with Section 53651.2. (p) With the consent of the treasurer, letters of credit issued by the Federal Home Loan Bank of San Francisco which comply with Section 53651.6.	(a) Eligible securities, except eligible securities of the classes described in subdivisions (m) and (p) of Section 53651, shall have a market value of at least 10 percent in excess of the total amount of all deposits of a depository secured by the eligible securities. (b) Eligible securities of the class described in subdivision (m) of Section 53651 shall have a market value at least 50 percent in excess of the total amount of all deposits of a depository secured by those eligible securities. (c) Eligible securities of the class described in subdivision (p) of Section 53651 shall have a market value of at least 5 percent in excess of the total amount of all deposits of a depository secured by those eligible securities.
Any **mortgage pass through** security, **collateralized mortgage obligation,** mortgage-backed or other pay-through bond, equipment lease-backed certificate, **consumer receivable pass through** certificate, or consumer receivable-backed bond	20% Maximum overall limitation 5 Years Maximum Maturity "AA" national rating or Higher
Moneys held by a trustee or fiscal	May be invested in accordance with the statutory

agent pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements,	provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.
Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest	Securities of the types listed by Section 53651 Market value of at least 110% of underlying security value
Other Code Restrictions & Clarifications	A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in inverse floaters, range notes, or mortgage-derived, interest-only strips. A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in any security that could result in zero interest accrual if held to maturity. No more than 5 percent of the total assets of the investments held by a local agency may be invested in the securities of any one issuer, except the obligations of the United States government, United States government agencies, and United States government-sponsored enterprises. No more than 10 percent may be invested in any one mutual fund. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase.

GLOSSARY

AGENCIES: Federal agency securities, such as Federal Home Loan Bank, Federal National Mortgage Association, etc.

ASK: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): Short-term credit arrangements to enable businesses to obtain funds to finance commercial transactions. They are time drafts drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. By its acceptance, the bank becomes primarily liable for the payment of the draft at its maturity. An acceptance is a high-grade negotiable instrument. Acceptances are purchased in various denominations for 30, 60, or 90 days, but no longer than 180 days. The interest is calculated on a 360-day discount basis similar to treasury bills. Local agencies may not invest more than 40% of their surplus money in banker's acceptance.

BASIS POINT: A basis point equals one one-hundredth of 1% (.01%).

BID: The price offered for securities.

BOOK ENTRY SECURITIES: All U.S. Treasury and Federal Agencies are maintained on computerized records at the Federal Reserve now known as "wireable" securities.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides. In the money market, brokers are active in markets in which banks buy and sell money and in inter-dealer markets.

CERTIFICATES OF DEPOSIT (CD): Time deposits of a bank or savings and loan. They are purchased in various denominations with maturities ranging from 30 to 360 days. The interest is calculated on a 360-day, actual day month basis and is payable monthly.

NEGOTIABLE CERTIFICATES OF DEPOSIT: Unsecured obligations of the financial institution, bank or savings and loan, bought at par value with the promise to pay face value plus accrued interest at maturity. They are high-grade negotiable instruments, paying a higher interest rate than regular certificates of deposit. The primary market issuance is in multiples of $1,000,000, the secondary market usually trades in denominations of $500,000, although smaller lots are occasionally available. As a matter of practice, only the ten largest U.S. banks, where there is a secondary market established for continued liquidity, are considered for investment.

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.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Manhattan Beach. It includes combined statements and basic financial 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.

COMMERCIAL PAPER: Short-term unsecured promissory note 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 IBM, Bank of America, etc.

Local agencies are permitted by State law to invest in commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical ratings as provided by Moody's Investor's Service, Inc., or Standard and Poor's Corporation. Purchases of eligible commercial paper may not exceed 270 days maturity nor exceed 30% of the local agency's surplus funds.

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

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

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

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

DISCOUNT: The difference between the cost price of a security and its value at 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 a discount and redeemed at maturity for full face value (e.g., U.S. Treasury bills).

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

DERIVATIVE: An asset that derives its value from another asset. For example, a call option on the stock of Coca-Cola is a derivative security that obtains value from the shares of Coca-Cola that can be purchased with the call option. Call options, put options, convertible bonds, futures contracts, and convertible preferred stock are examples of derivatives. A derivative can be either a risky or low-risk investment, depending upon the type of derivative and how it is used.

FEDERAL CREDIT AGENCIES: Guaranteed directly or indirectly by the United States Government. All agency obligations qualify as legal investments and are acceptable as security for public deposits. They usually provide higher yields than regular Treasury issues with all of the same advantages. Examples include:

- FICB's (Federal Intermediate Credit Bank Debentures) - loans to lending institutions used to finance the short-term and intermediate needs of farmers, such as seasonal production. They are usually issued monthly in minimum denominations of $3,000 with a 9-month maturity. Interest is payable at maturity and is calculated on a 360-day, 30-day month basis.

- FFCB's (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 years) on a periodic basis. These issues are highly liquid.

- FLB's (Federal Land Bank Bonds) - long-term mortgage credit provided to farmers by Federal Land Banks. These bonds are issued at irregular times for various maturities ranging from a few months to ten years. The minimum denomination is $1,000. They carry semi-annual coupons. Interest is calculated on a 360-day, 30-day month basis.

- FHLB's (Federal Home Loan Bank Notes and Bonds - 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. The bonds are issued with various maturities and carry semi-annual coupons. Interest is calculated on a 360-day, 30-day month basis.

- FNMA's (Federal National Mortgage Association) - used to assist the home mortgage market by purchasing mortgages insured by the Federal Housing Administration and the Farmers Home Administration, as well as those guaranteed by the Veterans Administration. They are issued about four times a year for maturities ranging from a few months to eight years. They are issued in minimum denominations of $10,000. They carry semi-annual coupons. Interest is computed on a 360-day, 30-day month basis.

- Other federal agency issues are Small Business Administration notes (SBA's), Government National Mortgage Association notes (GNMA's), Tennessee Valley Authority notes (TVA's), Federal Agriculture Mortgage Corp (FAMC), and Student Loan Association notes (SALLIE-MAE's).

FEDERAL FUNDS: Non-interest bearing deposits held by member banks at the Federal Reserve. Also used to denote "immediately available" funds in the clearing sense. "Fed Funds" also used to refer to these funds.

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 5,700 commercial banks that are members of the system.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures financial institutions' deposits, currently up to $250,000 per account.

FEDERAL HOME LOAN BANKS (FHLB): The institution that formerly regulated and lent to savings and loan associations. The Federal Home Loan Banks played a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks. However, those responsibilities have been assumed by the Office of Thrift Supervision and the FDIC.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): A U.S. Corporation and instrumentality of the U.S. government. Through its purchases of conventional mortgages, it provides liquidity to the mortgage markets, much like FNMA. FHLMC'S Securities are highly liquid and widely accepted. FHLMC assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): 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 & Urban Development (H.U.D.). 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.

GOVERNMENTAL NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities 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 FHA, VA or FMHM mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

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.

LAIF (Local Agency Investment Fund): A special fund in the California State Treasury which local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is $5,000, in multiples of $1,000 above that, with a maximum balance of $40,000,000 for any agency. The City is restricted to a maximum of fifteen transactions per month. It offers high liquidity because deposits can be converted to cash in twenty-four 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-quarter of one percent of the earnings.

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 agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

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

MEDIUM TERM CORPORATE NOTES: Unsecured promissory notes issued by a corporation organized and operating in the United States. These are negotiable instruments and are traded in the secondary market. Medium term corporate notes can be defined as extended maturity commercial paper.

Local agencies are restricted by the Government Code to investments in corporations rated in the top three note categories by a nationally-recognized rating service. Further restrictions are a maximum term of five years to maturity and total investments in medium term corporate notes may not exceed 30% of the local agency's surplus funds.

MONEY MARKET FUNDS: Open-ended mutual fund that invests in highly liquid and safe securities (bills, commercial paper, bankers' acceptances, CD's, etc.) and pays money market rates of interest. The fund's net asset value remains a constant $1 a share.

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 securities held by an investor.

PRIMARY DEALER: A group of government securities dealers that 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.

PRIME RATE: The rate at which banks lend to their best or "prime" customers. Also known as the "reference rate."

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state (the so-called legal list). In other states, the trustee may invest in a security if it is one which would be brought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

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.

REPURCHASE AGREEMENTS (RP OR REPO): A repo or reverse-repo is a short-term investment transaction. Banks buy temporarily idle funds from a customer by selling U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date. Repurchase agreements are typically for one to ten days in maturity. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for Federal funds and the maturity of the repo. Some banks will execute repurchase agreements for a minimum of $100,000 to $500,000, but most banks have a minimum of $1,000,000. A reverse-repo is exactly what the name implies.

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.

SEC RULE 15C3-1: See uniform net capital rule.

STUDENT LOAN MARKETING ASSOCIATION (SLMA): A U.S. Corporation and instrumentality of the U.S. government. Through its borrowings, funds are targeted for loans to students in higher education institutions. SLMA's securities are highly liquid and are widely accepted.

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

SETTLEMENT DATE: The date on which a trade is cleared by delivery of securities against funds. This date may be the same as the trade date or later.

TENNESSEE VALLEY AUTHORITY (TVA): A U.S. Corporation created in the 1930's, to electrify the Tennessee Valley area; currently a major utility headquartered in Knoxville Tennessee. TVA's securities are highly liquid and are widely accepted.

TRADE DATE: The date on which a transaction is initiated or entered into by the buyer and seller.

TREASURY BILLS: Issued weekly with maturity dates up to one year. They are issued and traded on a discount basis with interest figured on 1 360-day basis, actual number of days. They are issued in amounts of $10,000 and up, in multiples of $5,000. They are a highly liquid security.

TREASURY NOTES: Initially issued with two- to ten-year maturities. They are actively traded in a large secondary market and are very liquid. The Treasury may issue note issues with a minimum of $1,000, however, the average minimum is $5,000.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than ten 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.

WHEN-ISSUED TRADES: Typically, there is a lag between the time a new bond is announced and sold, and the time when it is actually issued. During this interval, the security trades "when, as, and if issued."

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 purchase price with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

YIELD TO MATURITY: The rate of return yielded by a debt security held to maturity when both interest payments and the investor's capital gain or loss on the security are taken into account.