Memorandum

Office of Jenine Windeshausen
Treasurer-Tax Collector
County of Placer

To: The Honorable Board of Supervisors

From: Jenine Windeshausen, Treasurer-Tax Collector

Date: **March 24, 2015**

Subject: Investment Policy Adoption

Action Requested:

Adopt the attached resolution approving the Placer County Treasurer's Statement of Investment Policy for the year 2015 pursuant to Government Code Section 53646.

Background:

Statement of Investment Policy - Pursuant to California Government Code Section 53646, the County Treasurer is required to annually submit a statement of investment policy to the County Board of Supervisors. The Board is required to review and approve the investment policy at a public meeting. Any changes to the investment policy must also be reviewed and approved by the Board at a public meeting. The Treasurer submitted a copy of the investment policy to the Treasurer's Review Panel. The Treasurer's Review Panel reviews and monitors the investment policy. The Treasurer's Review Panel formally adopted the investment policy at their February 25, 2015 meeting after reviewing and discussing the investment policy.

Attachments:
The Placer County Treasurer's Statement of Investment Policy

Resolution for adopting the County Treasurer's Statement of Investment Policy for 2015.

Before the Board of Supervisors
County of Placer, State of California

In the matter of: **Resol. No:** .....

Adopting the County Treasurer's Statement of Investment policy changes for 2015

The following resolution was duly passed by the Board of Supervisors of the County of Placer at a regular meeting held on March 24, 2015, by the following vote on a roll call:

Ayes:

Noes:

Absent:

Signed and approved by me after its passage.

_____
Chairman, Board of Supervisors

Attest:
Clerk of said Board

_____

WHEREAS, California Government Code Sections 53646 requires that the County Treasurer annually submit a statement of investment policy to the Board of Supervisors.

WHEREAS, the Board is required to review and approve the investment policy and any changes to the policy at a public meeting.

WHEREAS, theTreasurer has presented the Statement of Investment Policy to the Treasury Oversight Committee, and the Treasury Oversight Committee has reviewed and discussed the Statement of Investment Policy changes.

AND WHEREAS, the Treasury Review Panel adopted changes to the Statement of Investment Policy on February 25, 2015.

THEREFORE BE IT RESOLVED, that the Board of Supervisors of the County of Placer hereby approves and adopts the Placer County Treasurer's Statement of Investment Policy.

STATEMENT OF

INVESTMENT POLICY

PLACER COUNTY TREASURER

JENINE WINDESHAUSEN

TREASURER-TAX COLLECTOR

Fiscal Year 2015

Placer County
Treasurer's Review Panel

Robert Weygandt
Placer County Supervisor, District 2
Board of Supervisors Representative

Jerry Johnson
Placer County Schools Representative

Nancy Palmer
County School Boards Representative

Ed Horton
Special Districts Representative

County of Placer, Statement of Investment Policy	First Issue: January 1997	**This Issue: 2015, Sixteeth Revision**
Prepared by : J. Windeshausen, Treasurer-Tax Collector	Reviewed: Treasurer's Review Panel	**Approved: Board of Supervisors March 24, 2015**

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PREFACE

Each issue addressed in this policy is considered to be of timely and significant importance to the administration of the Placer County Treasurer's Investment Portfolio.

While some portions of this policy are a restatement of law, these restatements are considered integral to the purpose and flow of this policy.

The following statements are the guidelines intended to ensure the achievement of the purpose, goals and objectives of this policy in an orderly, accurate and timely manner; however, there is no guarantee that problems, errors, or losses will not arise in the course of administering the investment of public funds.

Investments acquired prior to the adoption of an investment policy are exempted (grandfathered) from any policy, which postdates the investment. The Treasurer will take such time as required to reposition investments to ensure that investments are not liquidated prematurely in order to avoid realizing potential losses. All new cash, including proceeds from investments, will be invested in accordance with the current investment policy then in effect.

A glossary of terms has been included in the appendix for reader convenience.

SCOPE

This policy is concerned with the deposit, safekeeping, and investment of all pooled money on deposit in the Placer County Treasury (hereafter referred to as the Treasury) and all other related transactions and investment activities. This policy has been reviewed by the Treasurer's Review Panel (hereafter referred to as TRP) and has been reviewed and approved by the Board of Supervisors pursuant to Government Code Section 53646. This policy will remain in effect until such time as the TRP reviews and the Board of Supervisors reviews and approves a new policy or any amendments to the policy. The TRP will review and the Board of Supervisors will review and approve a new policy, or amendments to the policy, or affirm the current policy, at least annually. Nothing precludes or prevents the TRP and the Board of Supervisors from doing so more frequently than annually. The policy is effective as of the date of adoption by the Board of Supervisors.

PURPOSE

The purposes of the investment policy are to:

- facilitate the accomplishment of the goals and objectives as stated in this policy and established through representation and approval of the TRP.
- provide the Treasurer with a policy framework and guidelines within which to carry out the business of administering and investing money on deposit in the Treasury.
- facilitate and formalize communication at all levels between those involved and those interested in the process of investing and administering the money on deposit in the Treasury.
- ensure compliance with legal requirements and policies approved by the Board of Supervisors.

GOALS AND OBJECTIVES

LEGAL AND REGULATORY COMPLIANCE:

All investing and investment decisions shall be made with full compliance with California State and Federal Laws and Regulations, and any forthcoming amendments or additions to the California State Statutes or to Federal Laws and Regulations in relation to the investment and administration of local agency money on deposit in the Treasury. The Treasurer or the Board of Supervisors may provide further restrictions and guidelines for the investment of money on deposit in the Treasury through this Statement of Investment Policy.

GASB REPORTING AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:

The effect of various GASB (Governmental Accounting Standards Board) financial reporting requirements will be taken into consideration when making investment decisions and when implementing investment strategies. Appropriate documentation and procedures will be used to ensure clear audit trails and facilitate necessary reporting requirements.

SAFETY, LIQUIDITY, AND RATE OF RETURN:

In accordance with Government Code Section 27000.5, "When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the primary objective of the county treasurer is to safeguard the principal of the funds under his or her control. The secondary objective is to meet the liquidity needs of the depositor. The third objective is to achieve a return on the funds under his or her control."

Maximum rates of return will be achieved in a manner consistent with the first and second objectives of safeguarding principal and meeting liquidity needs, respectively.

PRUDENCE AND THE MAINTENANCE OF PUBLIC TRUST:

Prudence:

Government Code Section 27000.3 establishes that "The county treasurer is a trustee and therefore a fiduciary subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the county treasurer shall act with [the same] care, skill, prudence, and diligence under the circumstances then prevailing, 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 county and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, a trustee is authorized to acquire investments as authorized by law."

Maintenance of the Public Trust:

The portfolio and all related investment transactions are open for public review, scrutiny, evaluation, and questioning.

SUMMATION OF BASIC STRATEGY

The basic investment strategy will be to maintain sufficient liquidity to meet regular cash flow needs of the Treasury, while reserving contingent liquidity to meet unanticipated cash flow demands on the Treasury after first taking into consideration the safeguarding of principal. After safety concerns and liquidity needs have been met, various investment approaches may be utilized to take advantage of current market opportunities.

A maximum rate of return will be achieved in a manner consistent with the first and second objectives of safeguarding principal and meeting liquidity needs, respectively.

AUTHORITY

DELEGATION:

In accordance with Government Code Section 27000.1, and in conjunction with the annual approval of the Statement of Investment Policy, the Board of Supervisors has delegated by ordinance to the Treasurer the authority to invest or to reinvest certain funds, or to sell or exchange investments so purchased for a period of one year. Such delegation remains in effect until the Board of Supervisors either revokes its delegation of authority, by ordinance, or decides not to renew the annual delegation, subject to Government Code Section 53607.

The responsibility to execute investment transactions may be further delegated to deputies under the direction of the Treasurer.

ANNUAL AUDIT:

At the end of each calendar year, an annual audit is to be conducted to determine compliance with the Statement of Investment Policy and an audit of the interest apportionment. The audit may additionally address questions of portfolio structure and risk. The audit findings will be an agenda item at the TRP meeting following the release of the audit. The cost of the audit will be charged against the Treasurer's budget and will be included in the investment expenses that are deducted from earnings prior to interest apportionment. A copy of the annual audit will be distributed pursuant to Government Code Section 53686 (b).

TREASURER'S REVIEW PANEL

MEMBERSHIP:

The members of the TRP shall consist of:

- a representative of the County Board of Supervisors,
- the County Superintendent of Schools or his/her designee,
- a representative selected by a majority of the Special Districts who are required or authorized to deposit money in the County Treasury,
- a representative selected by a majority of the presiding officers of the legislative bodies of the school districts and community college districts in the county,

Each agency represented will continue to serve until the districts otherwise designates or select a new representative.

MEETINGS:

The TRP shall meet at least twice each calendar year, once in February and once in August. Other meetings may be called by the Treasurer-Tax Collector.

DUTIES OF THE TREASURER'S REVIEW PANEL:

The TRP duties are to review and monitor the investment policy prepared by the County Treasurer. The Treasurer will annually submit the Statement of Investment Policy to the Board of Supervisors to be reviewed and approved. As a matter of policy, the Statement of Investment Policy will be reviewed by the TRP prior to being submitted to the Board of Supervisors at least once a year.

Investment Policy:

The investment policy shall include the following:

1) A listing of allowable investment types, including maximum allowable percentages of each type.
2) The maximum term of any investment eligible for purchase by the County Treasurer.
3) The criteria for the selection of brokers and dealers through whom the County Treasurer may purchase investments.
4) Restrictions on the acceptance of honoraria, gifts, and gratuities from brokers, dealers, bankers or other professionals with whom the County Treasurer.
5) A requirement that the County Treasurer submit a monthly report of investments to the TRP..
6) The methodology and formulas for calculating yield and apportioning interest and the costs of investing, depositing, and handling funds authorized by Government Code Section 27013.
7) The terms and conditions under which public entities and public officials not required to deposit their funds in the County Treasury may deposit their surplus moneys for investment purposes.

Quarterly Review of Investment Holdings:

Pursuant to California Government Code Section 26920(a) at least once in each quarter, the county auditor performs a review of the treasurer's statement of assets. The auditor's review is performed in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute for Certified Public Accountants. The review includes the following:

1. Counting of cash in the county treasury,
2. Verifying that the records of the county treasurer and auditor are reconciled pursuant to California Government Code Section 26905, and
3. Issuing a report to the Board of Supervisors in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Monthly Report:
The members of the TRP will be sent a copy of the Monthly Investment Report as it is released each month to all depositors. The monthly report will include:

1) a ledger of daily transactions for the month
2) a list of holdings as of the last day of the month which notes:
   a) type of investment
   b) issuer
   c) date of maturity
   d) par amount
   e) book value
   f) market value at month-end (and source of value)
   3) a statement of compliance with the Statement of Investment Policy or an explanation of any variance
4) a statement of the ability to meet the pools expenditure requirements for the next six months or an explanation of why the expenditure requirements cannot be met.

As deemed appropriate, the Treasurer may issue additional statistical or narrative reports.

Yield, Apportionment, and Cost Calculations:
In accordance with Government Code Section 27013 and 53684,

- the formula used to calculate yield is total earnings (interest and amortization of premiums and discounts) for the month, on an accrual basis, divided into the average daily balance of the portfolio for the month.
- the accrual method is used to apportion interest on a monthly basis. At the end of each month an entry will be made to the funds for the net amount of the accrued interest earnings plus the amortization of premiums and discounts, minus costs. Gains and losses are recorded when they are realized, either upon sale or other disposition of the investment.
- the formula used for the monthly apportionment of interest for each fund is calculated as follows:
  The sum of the daily cash balance for the month, divided by the number of days in the month, which equals the average daily balance for each fund for the month. The average daily balance for each fund is then divided by the average daily balance of all funds included in the Treasury Investment Pool. This factor for each fund is then multiplied by the dollar amount of earnings to be apportioned to determine the dollar amount apportioned to each fund.
- the cost of investing, depositing, and handling funds is determined based on actual costs incurred during the month. Actual costs will be deducted from interest earnings prior to apportionment at the end of each month.

A detail of the costs deducted for each monthly apportionment will be reviewed as an agendized discussion item at each quarterly meeting.

Terms and Conditions of Allowable Depositors:
Deposits by voluntary depositors who have the right to withdraw funds increase the cash flow volatility of the Treasury. This increase in cash flow volatility makes accurate cash flow forecasting more difficult. Thus, deposits by voluntary depositors increase the risk to the remaining depositors of having to sell investments prior to maturity to meet the withdrawal demands of voluntary depositors. This increase in risk associated with the deposits of voluntary depositors is recognized by rating agencies, auditors and other financial overseers and is a consideration in the credit evaluations and oversight comments provided to all depositors.

By approval of the Treasurer, the deposit of funds from voluntary depositors may be accepted under the following criteria:

1. The legislative or governing body of the voluntary depositor shall pass a resolution authorizing the investment of funds into the Placer County Treasury.
2. The legislative or governing body of the voluntary depositor shall include in its resolution all terms and conditions as determined by the County Treasurer.

Involuntary depositors (depositors required to deposit into the Treasury) who are required to deposit operating and other funds in the Treasury may from time to time have a limited amount of funds which are discretionary as to deposit requirements (such as proceeds from the issuance of debt), which are not required to be deposited into the county treasury.

The discretionary funds (funds not required to be deposited into the Treasury) of involuntary depositors will be accepted for deposit into the Treasury. Joint power authorities may also place deposits in the Treasury. When a majority of the JPA's membership is comprised of depositors domiciled in the County, the funds of the JPA may be invested in the Treasury.

Criteria for Withdrawals:
Withdrawals for claims and accounts payable are to be made by auditor's warrant. Various forms of electronic transfer can be used to make withdrawals for the purpose of payroll, bond and note related transactions and to transfer investment funds. It is essential that all agencies inform the Treasurer of anticipated withdrawals in excess of $200,000 as far in advance as possible. The Treasurer requires 24 hours written notice of funds to be electronically transferred. At the discretion of the Treasurer and in the case of emergency or urgency, the Treasurer will honor same-day notification of electronic transfers based on Federal wire system availability. Normally, requests for withdrawal of an emergency or urgent nature received prior to noon can be honored.

The following criteria applies to all depositors: withdrawals for the purpose of investing or depositing funds outside of the county treasury require prior (written) notice. The written notice may be submitted via email or fax, with original request to follow. The Treasurer will evaluate each proposal to ensure that the request will not adversely affect the interest of the other

depositors in the Treasury. Should the Treasurer determine that a withdrawal for the purpose of investing or depositing funds (including reinvestment of note proceeds) outside of the county treasury would adversely affect the interest of other depositors in the pool, the Treasurer may require 30 days written notice prior to any withdrawals, or honor the withdrawal at the current market value of the portfolio.

ADMINISTRATION

INVESTMENT GUIDELINES AND PROCEDURES:

Investment guidelines and procedures maintained by the Treasury include but are not limited to the following:

1) Procedures for transacting the purchase and sale of investments.
2) Provisions for documenting activities and transactions.
3) Provisions for the implementation, use and monitoring of internal controls.
4) Provisions for the correction and documentation of errors, discrepancies, and changes to ensure clear and concise audit trails in these events.
5) Provisions for the use of competitive bidding.

DOCUMENTATION:

Procedures and forms have been created and are used which produce documentation to facilitate:

1) Clear and concise audit trails for all transactions.
2) Strong internal controls.
3) Evidence of the use of competitive bidding or written explanation for non-compliance to the competitive bid process.
4) Written criteria for the selection of the investment type.

INTERNAL CONTROLS:

The Treasurer will maintain a system of internal controls. Whenever possible those controls will be maintained through the use of computer automation and generally accepted means for subdivision of duties. Internal controls are designed with the intended purpose of preventing or minimizing loss of public money.

A system of internal controls is maintained to address the following issues, but is not limited to these issues:

1) Separation of transaction authority from accounting and record keeping.
2) Third-party custodial safekeeping.
3) Clear delegations of authority.
4) Written confirmations from appropriate parties.
5) Guidelines for attempting to prevent losses, and appropriate remedial action in the event of loss.
6) Provisions for legal compliance monitoring.
7) Provisions for ongoing monitoring and auditing of internal controls.

SAFEKEEPING:

Investments are kept in a third-party safekeeping account to provide the public with the highest degree of protection with regard to investments held by the Treasurer. The "delivery versus payment" purchase procedure will be used. These provisions will be standard procedure except where prevailing practices or circumstances dictate otherwise. In this event substantiation of the prevailing practices or circumstances will be provided in the transaction documentation. Third-party safekeeping refers to holding securities in a trust account by an entity other than the party through whom the investment was purchased. "Delivery versus payment" refers to the practice of using an escrow procedure to process a transaction through the third-party safe-keeper. This practice ensures that the transaction settles after the transaction terms and conditions of the parties involved have been met.

COMPETITIVE BIDDING: Whenever possible, transactions will be made through the use of competitive bids. For each competitive bid transaction, at least three (3) bids will be solicited If the solicitation of three bids is not feasible or practical, the reason will be stated in the transaction documentation. Exceptions to the use of competitive bids may include, but are not limited to the following:

1) Market circumstances where time constraints would make the bid process impractical.
2) Investments possessing distinctive characteristics.
3) Overnight deposits where time constraints may not accommodate the bid process.
4) Transactions in which investments are actively traded and priced by market information services such as Bank of New York and Bloomberg, where current market price can be readily determined.

TIME AND PLACE FOR INVESTING:

Investing will be done during the hours between 6 a.m. and 6 p.m. by the office of the Treasurer. The treasurer can make exceptions.

EMPLOYEE PROCEDURES FOR REPORTING VIOLATIONS:

Violations of any laws, rules or regulations with regard to the investment of the money on deposit in the Treasury are to be reported to the appropriate authority. Any such reporting will not be the subject of adverse action to the employee(s) making such report. A reference list of appropriate authorities can be found in Appendix B.

PUBLIC INQUIRY:

Transactions, holdings, and activities are a matter of public record. Therefore, all agencies whose funds are deposited with the Treasurer will receive a monthly report of the portfolio as is prescribed by law. In addition, any member of the public may receive a copy of the portfolio or the Statement of Investment Policy by requesting a copy at the Treasurer's Office. The Treasurer may charge a fee for copies, as allowed by law.

INSTRUMENTS, TRANSACTIONS AND INVESTMENT PARAMETERS

AUTHORIZED INVESTMENTS:

The investment of money on deposit in the Treasury is limited to those investments specified by California Government Code Section 53601 and 53635. The Treasurer may place further restrictions upon the types of investments for which money on deposit in the Treasury may be invested. Permitted investments and investment parameters are outlined below.

BOND PROCEEDS

Bond proceeds will be invested subject to bond documents and applicable state statutes.
Bond proceeds may be invested outside of the Treasurer's Investment Pool. Not withstanding the objectives of safety and liquidity as stated below, bond proceeds will be actively managed to meet the cash flow and investment needs of the issuer while attempting to maximize earnings to avoid negative arbitrage.

SPECIFIC INVESTMENTS

Upon written request of the responsible agency and with the approval of the Treasurer-Tax Collector specific investments for individual funds may be made in accordance with the Treasurer's Statement of Investment Policy. With the purchase of specific investments, the fund will be allocated the earnings associated with those investments. The Treasurer-Tax Collector reserves the right to allocate a prorated charge for administrative costs to such funds.

MAXIMUM MATURITIES:

Due to constraints and standards imposed by GASB and the top rating agencies, the target for the weighted average maturity of the portfolio should not exceed three (3) years.
Listed below are the maximum maturities allowed by California Government Code Sections 56301 and 53635, and the maximum maturities allowed as restricted through this policy.

MATURITY CATEGORY:	LEGAL MAXIMUM MATURITY	MAXIMUM RESTRICTED BY POLICY
Banker's Acceptances	180days	180 days
Commercial Paper	270days	270 days
Repurchase Agreements	1 year	7 days
Reverse Repurchase Agreements	1 year	will not be used
Corporate Notes	5 years	5 years
Collateralized Certificates of Deposit	not specified	5 years
LAIF	not specified	365 days
CDARS Certificates of Deposit	not specified	5 years

Government Code Section 53601 provides that where no maximum term to maturity has been specified within 53601, the maximum term is five years. Pursuant to 53601, the Board of Supervisors may give authority to purchase in excess of 5 years upon the request of the Treasurer.

MINIMUM AND MAXIMUM AMOUNT OF INVESTMENTS:

Minimum Amounts:
Whenever possible, investments will be purchased in incremental round lots to facilitate economies of scale at the time of purchase and marketability at the time of sale.

Maximum Amounts:
Listed below are the maximum amounts, as a percentage of the portfolio, which may be invested in any one investment category per California Government Code Sections 53601 and 53635, and the maximum amount of the portfolio which may be invested in any one investment category as restricted through this policy.

CATEGORY:	LEGAL MAXIMUM % OF PORTFOLIO	MAXIMUM % OF PORTFOLIO RESTRICTED BY POLICY
Local Agency Bonds	no limit	no limit
US Treasuries	no limit	100%
Federal Government Agencies	no limit	75%
Mortgage Backed Securities	no limit	may not be purchased
Collateralized Obligations	no limit	may not be purchased
Asset Backed Securities	no limit	may not be purchased
Banker's Acceptances	40%	30%
Commercial Paper	40%	40%
Negotiable Certificates of Deposit	30%	30%
Collateralized Certificates of Deposit	no limit	20%
Repurchase Agreements	25%	20%
Corporate Notes	30%	30%
Mutual Funds	15%	may not be purchased
Reverse Repurchase Agreements	20%	may not be purchased
LAIF	40MM	40MM
CDARS Certificates of Deposit	30%	30%
Supranationals – Washington dollar Denominated IBRD, IFC or IAD	30%	30%

INTERNATIONAL INVESTING:

Foreign investments may not be purchased. Investments are restricted to those corporations organized and operating within the United States. All investments must be

U. S. dollar denominated. This does not preclude investments issued by corporations with foreign names which meet the provisions stated above.

FUTURES AND OPTIONS TRADING:

The purchase or sale of futures is not permitted. The purchase of options is not permitted. The sale of covered options (options on securities owned and held throughout the term of the option) is permitted, however not more than 10% of the portfolio shall be for sale by option at any one time.

RISK

RISK TOLERANCE LEVELS:

In accordance with Government Code Section 27000.5, "When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the primary objective of the county treasurer is to safeguard the principal of the funds under his or her control. The secondary objective is to meet the liquidity needs of the depositor. The third objective is to achieve a return on the funds under his or her control". As stated in the goals of this policy, the administration of money on deposit in the Treasury will be executed with the intention of fulfilling safety and liquidity needs first with yield being of third concern. It is further acknowledged that conservative and risk avoidance approaches to investment management may result in correspondingly lower portfolio yields.

MARKET RISK:

Appropriate maturity selection will be utilized to reduce risk resulting from market volatility, and recognizing that GAAP will require the annual writing down of unrealized gains and losses. The portfolio will be held with a degree of maturity diversification to provide for reasonably prompt relief from faltering markets. Adequate maintenance of cash or near cash investments will be maintained to provide for unplanned withdrawals at times of adverse fluctuations in the market, thus reducing the need to sell longer term investments for cash flow purposes.

CREDIT RISK:

The Treasurer will maintain and carry out a system of documented credit analysis for investment consideration. This credit analysis will constitute part of the criteria for investment and deposit considerations.

Additionally, issues addressed in the Statement of Investment Policy sections on Diversification and on Instruments, Transactions and Investment Parameters are further measures to curb losses arising from credit risk.

Credit Risk Mitigation:

Credit exposure is the risk associated with losses that might occur due to deteriorating credit quality of the securities from a specific issuer. The credit exposure with any one

issuer will not be more than 10% of the total portfolio, excluding U. S. Treasuries and Agencies.

Credit Quality:
Credit requirements will first be made in compliance with California Government Code Section 53635. The code makes specific reference to the following credit requirements:

A) Commercial Paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

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

B) Corporate Notes:

1) Notes eligible for purchase must be rated in the top three rating categories by two of the three largest nationally recognized rating services.

The top three rating agencies and their rating categories are as follows:

- Moody's Investor Services, Inc. - Aaa, Aa, and A,
- Standard and Poor's Corporation - AAA, AA, and A,
- Fitch Investors Service, Inc. - AAA, AA, and A.

Commercial Paper is **further restricted** through this policy by the Treasurer and Board of Supervisors as to credit quality by requiring a rating of both A1 and P1 from Moody's Investor Services, Standard & Poor's, or Fitch Financial Services, Inc. respectively.

DEFAULT RISK MITIGATION:

Whenever possible, investments and/or deposits will be secured by one of the

following means:

1) Government guarantee
2) Collateral

LIQUIDITY RISK MITIGATION:

Certain safeguards will be utilized to minimize the risk of illiquidity. First, diversification will be employed to limit illiquidity due to one transaction or any one type of investment or transaction. Should default of an instrument become apparent, liquidation of instruments with like credit risks will be considered. Daily investments in overnight type instruments will be made to cover immediate cash flow requirements in order to minimize complications that may arise from liquidity risk.

COUNTERPARTY RISK MITIGATION:

The following precautions will be used to prevent or limit losses from investments in particular debt issuers:

1) Primary Dealer transactions, or settlement through or guaranteed by one of the world's top 100 banks.
2) Appropriate legal documentation, and contracts.
3) Appropriate collateralization.

DIVERSIFICATION

Diversification by investment type, maturity and issuer are the three principal means of diversification used to control or limit losses, while enhancing the return of the overall portfolio.

INVESTMENT TYPE:

Investment type refers to the investment categories as specified in the subsections of Government Code Sections 56301 and 53635. Diversification by investment type is discussed in the subsection **Maximum Amounts** on page 11.

INVESTMENT MATURITIES:

After cash flow needs have been appropriately addressed, maturities will be distributed to allow investments to "mature-out" in the event of market value deterioration, and to allow the liquidity necessary to take advantage of market opportunities as they arise. The subsection Maximum Maturities under the Section Instruments, Transactions and Investment Parameters contains further provisions regarding maturities.

ISSUERS:

Diversification limitations by issuer are discussed in the subsection **Credit Risk Mitigation** on page 13.

USE OF LOCAL DEPOSITORIES

Giving preference to local depositories for investments in certificates of deposit for the purpose of stimulating local economic growth and investment in return for an expanded tax base is hereby established. Additional consideration may be given for depositories who utilize Certificate of Deposit Account Registry Service (CDARS) which provides 100% FDIC protection.

The following should be noted:

1) The depository will be required to demonstrate its commitment and support of local economic growth and housing investment. Appropriate Community Reinvestment Act documentation will be required.
2) Preference to local depositories will not be given at the expense of lowering the allowable credit risks stated in this policy.
3) Giving preference to local depositories will not produce a measurable impact in total portfolio yield.

RELATIONSHIPS WITH BROKERS/DEALERS & DEPOSITORIES

APPROVED LIST OF BROKERS/DEALERS AND DEPOSITORIES:

In accordance with Government Code Section 27133(c), "the criteria for selecting security brokers and dealers...shall prohibit the selection of any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal securities Rulemaking Board, to the local treasurer, any member of the governing board of the local agency, or any candidate for those offices".

Brokers, Dealers and Banks approved for transacting business with the Placer County Treasurer are:

1) institutions designated as "primary dealers" by the Federal Reserve Bank of New York, or
2) banks identified as one of the top 100 banks in the world, or
3) banks, brokers or dealers whose transactions are guaranteed by one of the top 100 banks in the world, or
4) banks, brokers or dealers whose parent company is one of the top 100 banks in the world.

Local branches are typically equipped to serve the retail investor. Therefore, first consideration will be given to regional capital market branches which are typically better able to serve the needs of institutional investors. Selected branches must be located in California or New York.

RELATIONSHIPS WITH BROKERS/DEALERS:

The establishment and maintenance of relationships with Brokers and Dealers will consist of several components. The branch manager and account representative of the broker/dealer

must acknowledge receipt and review of this Statement of Investment Policy and must confirm that they are familiar with the nature of public fund investing and the laws governing the investment of county treasury funds in California. Business will be conducted on a competitive bid basis as previously discussed. Further, each representative transacting or who desires to transact business with the Placer County Treasurer must complete and return a Broker/Dealer Questionnaire as exhibited in Appendix C.

RELATIONSHIPS WITH DEPOSITORIES:

Banks and Savings & Loans will be submitted to an initial evaluation, and ongoing evaluation for certificate of deposit investments. Additionally, consideration will be given for Community Reinvestment Act ratings.

The selection of depositories for the Placer County Treasurer's active accounts and safekeeping accounts will be done periodically by competitive bid on a request for proposal basis.

CONFLICT OF INTEREST

No Placer County Treasury employee or member of the TRP may directly or indirectly accept or solicit from any persons, corporation or group having a business relationship with the Placer County Treasurer, any rebate, kickback or anything of economic value as a gift, gratuity or favor.

No Placer County Treasurer employee shall, outside of regular working hours engage in any profession, trade, business or occupation which is incompatible or involves a conflict of interest with their duties as a Placer County Treasury employee.

APPENDIX A: FOOTNOTES

[1]Girard Miller - Director, "The Investment Process," rpt.,

Policy/Administration Issues. Government Finance Officers Technical Services Center, Chicago, IL (Material presented at Advanced Money Market/Cash Management for Governments in San Francisco, CA on 11/19-20/1984, p. VIII-53.

[2] Ibid

APPENDIX B: AUTHORITIES FOR REPORTING VIOLATIONS

County Auditor: Andy Sisk 530/889-4152
2970 Richardson Dr.
Auburn, CA 95603

County Executive Officer: David Boesch 530/889-4031
175 Fulweiler Avenue, Auburn, CA 95603

Placer County Counsel: Gerald Carden 530/889-4044
175 Fulweiler Avenue, Auburn, CA 95603

Placer County Grand Jury 530/889-7469
11490 C Avenue, Auburn, CA 95603

APPENDIX C:

PLACER COUNTY
BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION

1. Name of Firm:_____

2. Branch Address:_____

_____ Phone:_____

Primary Account Representative (Name, Title, Licenses, Phone):

_____

Public Fund Accounts Manager:_____Phone:_____

Branch Manager:_____Phone:_____

Other Account Representatives (Name, Title, Licenses, Phone):

_____

_____

_____

3. Ntl. Headquarters Address:_____

_____

_____ Phone:_____

Corporate Contact:_____ Phone:_____

Compliance Officer (Name, Address, Phone):

_____

_____

4. Is your firm a primary dealer in US Government Securities? Y/N

BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION (Continued)

5. What was your firm's total volume in US Government and Agency securities trading last calendar year:_____

6. Which securities are offered by your firm?

( ) US Treasury Bills
( ) US Treasury Notes
( ) US Treasury Bonds
( ) Agencies (specify)
( ) Repurchase Agreements
( ) Reverse Repurchase Agreements
( ) Negotiable CDs
( ) Commercial Paper
( ) BAs Foreign/Domestic
( ) Corporate Medium Term Notes
( ) Other_____
( ) Other_____

7. List your personnel who have read the Placer County Treasurer's Investment Policy.

_____ _____

_____ _____

_____ _____

8. Please reference other Public Fund Clients with which you currently do business List the agency name, contact person and phone number. (Please list other California Counties first).

_____

_____

_____

_____

BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION
(Continued)

9. Have any of your clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of the instrument? If so explain.

_____

_____

_____

_____

10. Have any of your public sector clients ever reported to your firm, its officers or employees, orally or in writing, that they sustained a loss exceeding 10% of the original purchase price in a single year on any individual security purchased through your firm? Explain.

_____

_____

_____

_____

11. Has your firm ever been subject to a regulatory or state/federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of securities? Have any of your employees ever been so investigated? Explain.

_____

_____

_____

BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION (Continued)

12. Has a public sector client ever claimed in writing that your firm or members of your firm were responsible for investment losses?

_____

_____

_____

_____

13. Please explain your normal custody and delivery process. Who audits these fiduciary systems?

_____

_____

_____

_____

14. Please provide certified financial statements and other indicators regarding your firm's capitalization.

_____

_____

_____

15. Please include samples of research reports that your firm regularly provides to public-sector clients.

BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION (Continued)

16. What training do you provide to investment personnel of public-sector clients?

_____

_____

_____

_____

17. Has your firm consistently complied with the Federal Reserve Bank's capital adequacy guidelines? As of this date, does your firm comply with the guidelines? Has your capital position ever fallen short? By what factor (1.5x, 2x, etc.) does your firm presently exceed the capital adequacy guidelines, measure of risk? Include certified documentation of your capital adequacy as measured by the Federal Reserve standards.

_____

_____

_____

18. Do you participate in the SIPC insurance program? If not, why?

_____

_____

19. What reports, confirmations and paper trail will we receive?

_____

_____

BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION
(Continued)

20. Please enclose a complete schedule of fees and charges for various transactions.

21. How many and what percentage of your transactions failed last month? Last year?

_____

_____

22. Describe the precautions taken by your firm to protect the interest of the public when dealing with governmental agencies as investors.

_____

_____

_____

_____

23. Is your firm licensed by the State of California as a broker/dealer? Y/N

BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION (Continued)

CERTIFICATION

I hereby certify that I have personally read the Statement of Investment Policy of the Placer County Treasurer, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and the Placer County Treasurer. All sales personnel will be routinely informed of your investment objectives, strategies and risk constraints whenever we are so advised. We pledge to exercise due diligence in informing you of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

In addition, I hereby certify that, this securities firm/brokerage and all brokers, dealers and/or associates directly involved with Placer County has NOT, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal securities Rulemaking Board, to the local treasurer, any member of the governing board of the local agency, or any candidate for those officers.

Signed:_____ Date_____

Title:_____

Signed:_____ Date_____

Title:_____

Signed:_____ Date_____

Title:_____

Signed:_____ Date_____

Title:_____

This certification is to be signed by the branch manager and any representatives who are authorized to transact business with the Placer County Treasurer. Make and include additional copies as necessary.

APPENDIX D:
GLOSSARY OF SELECTED FINANCIAL AND INVESTMENT TERMS

AMORTIZATION - The reduction of debt through regular payment of principal scheduled to complete repayment by maturity. Usually, the payment of interest is incorporated to compensate the lender over the life of the debt.

AMORTIZATION SCHEDULE - A schedule which shows exactly how debt will be repaid. It contains the repayment dates and amount of payments, including a breakdown of principal and interest that comprises the total payment.

ARBITRAGE - The exploitation of price differences between various markets. For example, the difference in rates between the government bond market and the corporate bond market.

ASK or ASKED PRICE or ASKING PRICE - The price at which a dealer will sell a security. The ask and the bid are always referred to in terms of the dealer's perspective. Also see Bid.

BANKER'S ACCEPTANCE - A time draft drawn on a bank and accepted by that bank as ultimate liability for payment. Used most often to finance import and export transactions. Banker's acceptances are also collateralized by the underlying merchandise being contracted in the import-export transaction, i.e., a shipload of shoes from China, or oil from the Arabian Peninsula.

BASIS POINT - One-onehundreth of a percent. Example: 0.25% is twenty-five basis points.

BEARER BOND - Bonds evidenced by a certificate. Unlike registered bonds, ownership is determined by possession of the certificate, just like money! (Also see Registered Bonds.)

BID or BID PRICE - The price at which a dealer will purchase a security. The bid and the ask are always referred to in terms of the dealer's perspective. (Also see Ask.)

BLUE SKY LAWS - State laws that prevent the sale of securities with little or no asset backing. With 50 states, securities marketed in many states have to deal with a set of laws as large as "the blue sky".

BOND - A long-term debt instrument in which the investor lends money to the bond issuer, who agrees to pay a stated rate of interest over a specified period of time. Very simply, a bond is a promissory note which is traded in the financial markets. The investors' position is that of lender.

BOND RATING - A rating selected from a scale that indicates the relative likelihood of default. Bond ratings are issued by various nationally recognized independent-rating firms.

BOOK ENTRY SECURITIES - Securities which are not evidenced by a certificate. Instead, they are recorded on the books of the customer in various central repositories mostly located in New York. Most book entry securities are held in the nominee name of banks, trusts, brokerage houses or other holding account agencies. The bank or other holding account agencies then keep an account of their customers' securities held in the bank's nominee name. This system is used to maintain an efficient and manageable record of ownership. Also referred to as "wireable" securities as they are moved from one account to another to consummate trades on the Federal Reserve wire system. (See also Wired Securities.)

BOOK VALUE - The value at which the investor holds on their books as their invested amount in a security. This may be more or less than the current face value of the security, depending if the security was purchased at a price more or less than the face value.

BOUNCE - Refusal to consummate a trade. Bouncing is only acceptable for time differences and money differences. Also see "D. K." and Fail.

BROKER - A financial institution that facilitates transactions by matching up buyers and sellers. They do not buy securities for inventory purposes. (Also see Dealer and Primary Dealer).

CALL OPTION - A contract that allows the holder to buy a specified quantity of an asset at a specified price on or within a specified date.

CALL PROVISION - The right of an issuer to redeem bonds at a specified price and date prior to maturity.

CAPPED FLOATER - Floating rate notes with a cap or ceiling on the interest rate.

CASH (SETTLEMENT) - Used to indicate the trade date as the same day as the settlement date of a transaction. The day the transaction is agreed upon is the date it is to occur.

CASHFLOW - The actual net cash that comes in and goes out of an organization during a given period of time.

COLLATERAL - Assets which are used to secure a loan. In the event of default, the lender assumes ownership of the asset. Typically, the cash flow generated by the collateral go to the actual owner of the asset who has posted the asset as collateral.

COLLATERALIZED MORTGAGE OBLIGATIONS OR CMOs - Debt obligations issued by a special purpose entity that are collateralized by and payments linked to a pool of mortgages or mortgage backed securities. The special purpose entity (usually a trust) is set up by the sponsor who owns the loans. A different entity purchases a group of mortgages using the proceeds of an offering of securities collateralized by the mortgage (CMOs). The trustee (the

issuer) uses the underlying cash flows or the collateral to fund the debt service on the CMOs. The CMOs are priced based on their own maturity and rate of return rather than that of the underlying mortgages.

COLLATERALIZED OBLIGATIONS - Notes secured by collateral. The collateral is usually comprised of U. S. Government securities which are held by a third-party-trustee, who also insures that adequate collateral is posted at all times.

COMMERCIAL PAPER - Short-term (up to 270 days), unsecured promissory notes of large firms. They are usually issued only by top rated corporations for relatively short periods of time, therefore the unsecured status.

CORPORATE (BOND OR NOTE) - Used to identify the debt of companies as opposed to government agencies.

CORPORATE (SETTLEMENT) - Used to indicate the settlement date as five business days after the trade date.

COUNTERPARTY - Used to describe the entity(s) or individual(s) with whom an agreement is entered. The entity(s) or individual(s) on the other side of an agreement for which their performance consummates the exchange of value for consideration.

COUPON OR COUPON RATE - The stated rate of interest on a bond. Stated as a percentage of par (face) and computed out to a dollar amount. Example: A note with a coupon of 6% pays $30,000 interest per million dollars of par (face amount) every six months, or $60,000 annually.

COVERED OPTIONS – A contract in which the option buyer pays the option seller for the right to purchase a specific security for a specific price at a specific time. The use of the word covered specifically indicates that the option seller owns the specified investment for the entire duration of the option contract. (Also see Option).

CREDIT EXPOSURE - The risk associated with the amount of risk associated with investing in the securities of a particular issuer.

CREDIT RISK - The risk associated with the credit rating of an investment.

CUTOFF TIME - The time at which dealers and/or the Federal Reserve stop executing trade transactions. (Also see the Window.)

DEALER - A Financial institution that participates in the financial markets by taking securities (usually in extremely large volumes) into inventory from which they are later sold. (Also see Broker and Primary Dealer.)

DEBT INSTRUMENT - An instrument or promissory note which evidences and documents the terms of the loaning of funds from one party to another. Typically the instrument contains the loan date, the maturity date, the repayment provisions, and the interest rate of the borrowing.

DEFAULT - The failure to pay debt obligations as agreed in the terms of the debt.

DELIVERY VS. PAYMENT (DVP) - Refers to the practice of using an escrow procedure to process a transaction through a third-party safekeeper. This practice ensures that the transaction settles after the transaction terms and conditions of the parties involved have been met. In other words, payment will not be forwarded to the seller until securities have been delivered and vice versa.

DERIVATIVE - Investment products whose price performance is derived from another instrument. The most widely known derivative products are financial futures. Derivatives also include option contracts, Series E U. S. Savings Bonds, variable rate mortgages issued by banks and other financial institutions. (Also see Call Option, Capped Floater, Collateralized Mortgage Obligations, Floating Rate Note, Inverse Floaters, Put Option, Rate Floor, Step-Down Floater, Stripped Government Securities, Synthetic Instruments, Zero Coupon Bonds.)

DISCOUNT - Bond purchase price which is below the bond's face value.

DISCRETIONARY ACCOUNTS – Funds on deposit with a broker who has authority to execute transactions with those funds without prior approval for the transactions. The broker is responsible for "managing" the account.

"D. K." - Stands for Don't Know. When either the buyer or the seller refuses to consummate the transaction due to terms of the transaction for which they are unfamiliar. Also refers to when the safekeeping trustee has not received escrow instructions or possesses instructions that do not reflect the trade. May result in a failed trade or continued attempts to settle the transaction by informing all parties of the terms or other clarification of the transaction. (Also see Bounce and Fail.)

DURATION - A weighted average of the lengths of time prior to the payments, using the relative present values of the payments as weights. This formula produces a number that is used as a percentage to calculate a change in an investment's or a portfolio's value due to changes in interest rates. Example: A duration of 1.5 means that for every 1% increase in interest rates value drops by 1.5%.

FACE VALUE - The same as par value. Face value is the principal amount of a bond.

FAIL - The situation that occurs when a trade is not consummated.

FANNIEMAE - FNMA, Federal National Mortgage Association. Debt issued by FNMA, a federally sponsored agency, to facilitate real estate lending. FNMA issues short-term debt backed by its own full faith and credit. FNMA issues long-term debt backed by mortgages with repayment guaranteed by FNMA.

FED FUNDS - Settlement is to be consummated on funds on deposit at the Federal Reserve Bank and thus available the same day (no float). All government securities are traded on Fed Funds. Also referred to as "same day funds".

FEDERAL GOVERNMENT AGENCY - Debt issued by government sponsored entities to facilitate various types of lending. For example: the Federal Farm Credit Bank, to provide funds to farmers; Student Loan Marketing Association, to provide funds to students; the Federal National Mortgage Association, to provide funds to the real estate mortgage markets.

FEDERAL RESERVE (BANK) SYSTEM - The central bank of the United States and its system of money movement and banking regulations.

FED WIRE SYSTEM - Could be described as a financial electronic mail system used to debit and credit money and securities to accounts on the system. The national banks system for moving money and securities.

FIXED INCOME SECURITY - Securities which are some form of promissory note, representing the terms and conditions for the repayment of debt.

FIXED INCOME MARKET - The marketplace in which fixed income securities are transacted. (Also see Over the Counter Market).

FLOATING RATE NOTE - A promissory note having a variable interest rate that is reset periodically. The rate is usually tied to a money market index such as LIBOR or Treasury bill rates.

FREDDIEMAC - FHLMC, Federal Home Loan Mortgage Corporation. Debt issued by FHLMC, a federally sponsored agency, to facilitate real estate lending. FHLMC issues short-term debt backed by its own full faith and credit, and it issues long-term debt backed by mortgages with repayment guaranteed by FHLMC.

GINNIEMAE - GNMA, Government National Mortgage Association. Debt issued by GNMA, a federally sponsored agency, to facilitate real estate lending. GNMA issues long-term debt backed by mortgages with repayment guaranteed by the U. S. Government.

HAIRCUT - The amount of over-collateralization by which the market value at the time of a repurchase agreement trade exceeds the amount borrowed. For the lender of funds in this transaction, this amount serves as a buffer of protection against market fluctuations or

volatility. A collateral call may be used to increase the collateral in order to maintain this buffer if market prices go lower. Conversely, collateral may be returned to the borrower of funds if market prices rise.

INVESTMENT - The foregoing of immediate value for (possibly uncertain) longer-range value. Also used to indicate the security that evidences such act.

INVESTMENT GRADE - The top three rating categories of the nationally recognized rating agencies.

INVERSE FLOATERS - Floating rate notes with an inverse relationship to movements in a benchmark interest rate. Example: 10% minus 6 month LIBOR. As the LIBOR rate goes up the resulting interest rate goes down.

INVERTED OR NEGATIVE YIELD CURVE - A yield curve where short-term securities yield at a higher rate than long-term securities.

INVOLUNTARY DEPOSITOR - Depositors whose funds are mandated by state statute or other legal requirement to be deposited into the county treasury.

ISSUER - An entity (corporate or government) who raises money by creating debt. The initial borrower in a lending transaction.

JUNK BONDS - High yielding corporate bonds of non-investment grade credit rating. Usually issued by companies with little or no track record of declining or deteriorated credit quality.

LETTER OF CREDIT - An instrument issued by a bank guaranteeing the payment of a customer's obligations up to a stated amount for a stated period of time. These instruments are widely used in the financing of international trade.

LIBOR - London Interbank Offering Rate. The rate of interest that the most creditworthy international banks dealing in the London Eurocurrency market charge each other for large loans. Each country has its own LIBOR rate, i.e. Swiss LIBOR, German LIBOR, US LIBOR.

LIQUIDITY - For an entity, its cash and marketable security position with respect to its short-term debt obligations. For an individual asset, the ability to sell the asset at a reasonable price on short notice.

LONG - To own a security. "I'm long 5 on the 30 year Treasury" means I own $5 million of the 30 year Treasury.

LONG TERM INVESTMENT - Usually refers to investments of ten years or more. For the Placer County Portfolio long-term is defined as an investment having a maturity of more than one year.

LOWER OF COST OR MARKET - An accounting principal that requires that the carrying amount of an asset be the lower of its original cost (book value) or its market value on the reporting date.

MARKET - Refers to the place, physical or electronic, that investment transactions take place. The New York Stock Exchange (NYSE) is a recognized exchange (stock market) with a physical location in New York City. The Chicago Board of Trade (CBT) is recognized exchange (commodities market) with a physical location in Chicago. The "over-the-counter" market is an electronic and phone system used to trade investments that are not traded on recognized exchanges. Bond and money markets investments (fixed income securities) are traded on the "over-the-counter" market.

MARKET VALUE - The value for which a security can be sold.

MARK TO MARKET - To note the current market value of a security against the securities purchase price or book value or last reported market price.

MATURITY - The date on which the issuer or borrower repays the principal in total. Either paid in a lump sum at the maturity date or the final payment date on amortized debt.

MEDIUM TERM NOTES - Issuers register with the SEC (Securities and Exchange Commission) allowing for notes to be issued at various times, rates and maturates from one to ten years as the issuer's financing needs dictate.

MORTGAGE BACKED SECURITY (MBS) - A pool of individual mortgages which is packaged and sold to investors at a specified coupon rate, maturity date, and face value. Individual mortgage loans are purchased from lenders by GNMA, FNMA & FHLMC, thus converting the lenders loan assets to dollars, in turn making money available again for borrowing. GNMA, FNMA & FHLMC then packages the mortgage loans into pools, securitizes them and offers them for sale in the securities market. In doing so, GNMA, FNMA & FHLMC convert mortgages to dollars, enabling them to purchase additional individual mortgages for pooling. This conduit is used to reallocate funds from the securities markets into the real estate market.

NEGOTIABLE CERTIFICATE OF DEPOSIT - Time deposits which may be purchased and sold in the financial markets.

NEW YORK STOCK EXCHANGE (NYSE) - See Market.

NOMINEE NAME - The name in which a book entry certificate is held.

NONCALLABLE - Cannot be redeemed prior to maturity or cannot be redeemed for a specified period of time prior to maturity. Example: Five year noncall two would mean five years to maturity and not callable for the first two years.

NONDOLLAR DEBT OR DENOMINATION - Securities which are denominated or payable in foreign currency. The price and value of the security is also determined by the foreign currency. Therefore, the security is valued at its price in the foreign market, and then this value must be computed in dollars. A security of this type has an added dimension of risk. It may perform well in a foreign market, but if the value of the U. S. dollar has decreased relative to the foreign currency, market gains are offset by this decrease and may even result in losses.

NOTE - Typically an investment with a term of one to ten years paying interest on a periodic basis.

ODD LOT - Increments of securities that are not generally accepted as tradable increments. Typically, trading an odd lot usually requires the payment of a premium for the inconvenience of handling such a transaction (also see Round Lot).

OPTIONS (CONTRACTS) - A contract which is sold to purchase or sell a specified amount of a specific security at a specific price at specific time in the future, if the contract is exercised within a specific time frame.

OVER-THE-COUNTER MARKET - Refers to the electronic environment that investment transactions take place. The "over-the-counter" market is an electronic and phone system used to trade investments that are not traded on recognized exchanges. Bond and money markets investments (fixed income securities) are traded on the "over-the-counter" market. (Also see Market).

PAR VALUE - The same as face value. Par value is the principal amount of a bond.

POSITIVE OR NORMAL YIELD CURVE - A yield curve in which short-term interest rates are lower than long-term interest rates. This is the prevailing case most of the time. Changes in the yield curve can be used to interpret market and economic conditions.

PREMIUM - Bond purchase price that is greater than that of its face value.

PRIMARY DEALER - Financial institutions so designated by the New York Federal Reserve Bank. The number of primary dealers ranges from approximately 25 to 35 at any given time. Primary dealers must undergo rigorous financial and ethical examination by the New York Federal Reserve Bank to obtain and maintain primary dealership status. They are also expected to provide a market for U. S. Treasury securities and to participate in the Federal Reserves periodic auction of new issue Treasury securities. The Federal Reserve's purpose in establishing a network of primary dealers is to ensure the efficient and sound marketability of U. S. Treasury securities.

PRICE - the percentage of par at which a security is bought and sold (see bid and offer). Corporate debt is traded in denominations of 100th of a percent. Government debt is traded in

denominations of 32nds of a percent. Example: Corporate debt of $1 million face amount priced at 98.12 equals $981.200. Government debt of $1 million face amount priced at 98.12 is really 98 and 3/8 equaling $983,750.

PRINCIPAL - The face amount of a security not taking into account discounts or premiums. The unpaid amount remaining on amortized debt. Original principal being the original amount of the debt. Interest is paid based on the principal amount.

PUT OPTION - A provision in a debt instrument that allows the investor to "put back" (sell) the instrument back to the issuer at a specified date or dates at a specified price.

RATE CEILING - The maximum rate at which a floating rate note can be set, regardless of the floating rate formula. Floating rate notes do not have a ceiling unless indicated otherwise. Example: 10% - 6 month LIBOR with a 5.5% ceiling. LIBOR might equal 5.75%, however the rate will never be higher than 5.5%.

RATE FLOOR - The minimum rate at which a floating rate note can be set, regardless of the floating rate formula. Floating rate notes do not have a floor unless indicated otherwise. Example: 10% - 6 month LIBOR with a 5.25% floor. The formula might equal 4.75%, however the rate will be 5.25% because of the floor.

RATING - See Bond Rating.

RATING AGENCY - Institutions who analyze and monitor the creditworthiness of corporations and governments. They utilize a system of ratings that apply to the debt issued by these entities to indicate relative creditworthiness.

RECOGNIZED EXCHANGE(S) - See Markets.

REDEMPTION OR TO REDEEM - To payoff debt either at maturity or prior to maturity, as in a call provision.

REGIONAL BROKER - A financial institution that participates in the market by matching up buyers and sellers. They are not national in scale and do not buy inventory for resale.

REGISTERED BONDS - Bonds that bear the owner's name on the face of the bonds and are for which the ownership is registered with the issuer or other registrar. Transfer of ownership occurs by endorsing the bond and sending it to the registrar or issuer, for re-issue in the name of the new owner.

REGULAR WAY (SETTLEMENT) - Used to indicate the next business day as the settlement date of a transaction.

REVENUE ANTICIPATION NOTES OR RANs - Notes issued for thirteen months or less which are used to finance cash flow in anticipation of future tax revenue. Used by agencies having cash flow gaps between revenues and expenses that require short-term interim financing. Also see Tax Anticipation Notes (TANs) and Tax and Revenue Anticipation Notes (TRANs).

REPURCHASES AGREEMENT (Repo) - Technically, a repo is the purchase of securities where the seller will repurchase the securities on or before a specified date and for a specified amount. Practically, a repurchase agreement is a loan where securities are used as collateral. Included in the terms of the agreement is a date for reversing the exchange of loan proceeds plus interest for the collateral. The lender calls this transaction a repurchase agreement.

REVERSE REPURCHASE AGREEMENT (Reverse Repo) - A reverse repo is virtually the same agreement as a repo, however, the borrower calls the transaction a reverse repo.

ROLL OR ROLLOVER - For an investment to be redeemed and then immediately reissued.

ROUND LOT - The generally accepted increments in which securities are traded. In the fixed income market, round lots are typically $1 million of face value.

SAFEKEEPING - The holding of securities in a segregated account by a custody agent or trustee. Transactions are escrowed through these accounts by the custody agent or trustee. Safekeeping services are typically provided by banks and other financial institutions.

SEC (SECURITIES AND EXCHANGE COMMISSION) - Provides regulatory oversight and enforcement of national securities laws. The SEC does not have authority over the government securities market. It does have authority over the municipal securities market.

SECURITY(IES) - Evidence of a property right.

SETTLEMENT DATE - The date on which a transaction will occur. Also see Trade Date.

SHORT - The sale of an investment when it is not owned. A typical short sale occurs when a decline in the market is anticipated. The seller then purchases the security at a lower price and takes a profit when the sale is consummated. Shorting usually requires that the consummation of the sale occur at a future time, not immediately. Primary dealers may also short sell certain government securities to meet their obligations as primary dealers.

SHORT TERM INVESTMENT - Generally an investment having a maturity of less than one year.

SKIP DAY (SETTLEMENT) - Used to indicate the day after the next business day as the settlement date of a transaction.

SMALL BUSINESS ADMINISTRATION LOANS - SBA, loans made by banks to small business, which are then sold to the SBA who offers them for sale in the financial markets. Loans are purchased by the SBA to facilitate lending for small business enterprise.

STEP-DOWN FLOATER - A floating rate note with a declining interest rate linked to a benchmark interest rate. Example: year 1 the interest rate is 5% plus the 6 month LIBOR rate, year 2 the interest rate is 4% plus the 6 month LIBOR rate, year 3 the interest rate is 3% plus the 6 month LIBOR rate, etc.

STRIKE PRICE - The specified price at which the owner of a call option can purchase the security, or the specified price at which the owner of a put option can sell the security back to the issuer or the put option maker.

STRIPPED GOVERNMENT SECURITIES - Usually a Treasury that has had the semiannual interest payments separated from the principal. Investors then purchase the stream of interest payments or they purchase the non-interest bearing principal portion at a discounted price that produces a current market yield to maturity. Various types of stripped government securities include CATs - Certificates of Accrual on Treasury certificates, COUGRs - Certificates of Government Receipts, STAGS Sterling Transferable Accruing Government Securities, STRIPS Separate Trading of Registered Interest and Principal of Securities, TIGRs Treasury Investment Growth Certificates, ZEBRAs Zero coupon Eurosterling Bearer or Registered Accruing certificates. The monikers are placed on the various types of securities by the investment banking firm that creates the stripped securities.

STRUCTURED NOTE - A note containing interest rate terms which change but are not tied to another asset. Example: The rate for the first year is 6%, for the second year 6.5%, for the third year 7%, etc.

SYNTHETIC INSTRUMENTS - Instruments that are developed from combining two or more instruments, restructuring instruments or other alteration of an originally issued instrument. Also see Stripped Government Securities.

TAX ANTICIPATION NOTES OR TANs - Notes issued for thirteen months or less which are used to finance cash flow in anticipation of future tax revenue. Commonly used by California local governments whose primary revenues are property taxes that are collected in December and April. Also see Revenue Anticipation Notes (RANs) and Tax and Revenue Anticipation Notes (TRANs).

TAX AND REVENUE ANTICIPATION NOTES OR TRANs - Notes issued for thirteen months or less. They are a combination of Tax Anticipation Notes (TANs) and Revenue Anticipation Notes (RANs). Also see Revenue Anticipation Notes (RANs) and Tax Anticipation Notes (TANs).

THIRD PARTY SAFEKEEPING - Refers to holding securities in a trust account by an entity other than the party through whom the investment was purchased. (Also see Safekeeping).

TRADE - Transaction or to trade, to transact as in buying and selling.

TRADE DATE - The date that the terms of a transaction are agreed upon, including the settlement date. (Also see Settlement Date).

TREASURY BILL, BILL OR T-BILL - Short-term U. S. Treasury securities issued with maturities of three, six, and twelve months. Bills are issued and sold on a discounted basis and do not pay a coupon.

TREASURY NOTES OR NOTES - U. S. Treasury securities of a "medium-term" maturity of not less than one year to not less than ten years. Notes have a coupon rate that pays every six months.

TREASURY BONDS OR BONDS - U. S. Treasury securities with a "long-term" maturity of more than ten years. Bonds have a coupon rate that pays every six months. (Also see Bond.)

TURNAROUND - The receipt and subsequent **re**delivery of securities before the cutoff time. Also see Cutoff time.

UNDERWRITE - The responsibility of an underwriter to assume the risk of buying a new issue of securities from the issuer and reselling them to the public, either directly or through dealers or syndicates.

UNDERWRITER - A firm whose responsibility it is to organize the sale and marketing of a new issue of securities. (Also see Underwrite).

U. S. DOLLAR DENOMINATED - Investments which are transacted in U. S. dollars. (Also see Nondollar Debt or Denominated).

VOLUNTARY DEPOSITOR - A depositor who is not mandated or legally required to deposit their funds in the county treasury.

WHEN ISSUED (SETTLEMENT) - Used to indicate the date of issuance as the settlement date of a transaction. Used when debt is sold in advance of the issuance.

(THE) WINDOW - The transaction settlement desk of the dealer and for the Fed Wire System. The cutoff time is referred to as the Window being closed. Also see Cutoff Time.

WIRED OR WIREABLE SECURITIES - Securities that can be transferred and paid for on the wire system maintained by the Federal Reserve. See also Book Entry Securities.

YIELD TO MATURITY - YTM is the coupon rate plus the additional yield generated by purchasing a security at a discount, or the coupon rate less the "negative yield" generated by purchasing a security at a premium.

ZERO COUPON BOND OR ZEROS - A bond which does not make periodic interest payments but instead is sold at a deep discount from the face value at which it will mature. The investor makes their return, or realizes a yield, from the gradual appreciation of the bond as it reaches maturity.