

RESOLUTION NO. 2026-30

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CANYON LAKE, CALIFORNIA, ADOPTING THE CITY OF CANYON LAKE INVESTMENT POLICY AND DELEGATING INVESTMENT AUTHORITY TO THE CITY TREASURER PURSUANT TO CALIFORNIA GOVERNMENT CODE SECTION 53607

WHEREAS, California Government Code Sections 53601 et seq. authorize local agencies to invest public funds and require the legislative body to annually review and approve an investment policy; and

WHEREAS, California Government Code Section 53607 authorizes the legislative body to delegate investment authority to the City Treasurer; and

WHEREAS, the City of Canyon Lake has established an Investment Policy to provide guidance for the prudent management and investment of public funds in accordance with State law; and

WHEREAS, the primary objectives of the City's Investment Policy are the safety of principal, maintenance of liquidity necessary to meet the City's operational needs, diversification of investments, and attainment of a reasonable rate of return consistent with those objectives; and

WHEREAS, the City's Investment Policy is reviewed annually to ensure compliance with applicable laws and current investment practices; and

WHEREAS, staff has reviewed the City's existing Investment Policy and recommended updates to reflect changes in California law and investment guidelines; and

WHEREAS, the City Council has reviewed the updated Investment Policy and finds that adoption of the policy is in the best interests of the City and its residents.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF CANYON LAKE DOES RESOLVE AS FOLLOWS:

Section 1. The above recitals are true and correct and are incorporated herein by reference.

Section 2. The City Council hereby adopts the City of Canyon Lake Investment Policy, attached hereto as Exhibit "A" and incorporated herein by this reference.

Section 3. Pursuant to California Government Code Section 53607, the City Council hereby delegates authority to invest and reinvest City funds, and to sell or exchange securities so purchased, to the City Treasurer in accordance with the provisions of the adopted Investment Policy and applicable provisions of California law.

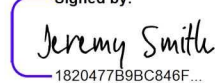
Section 4. The provisions of this Resolution are severable and if any provision, clause, sentence, word or part thereof is held illegal, invalid, unconstitutional, or inapplicable to any person or circumstances, such illegality, invalidity, unconstitutionality, or inapplicability shall not affect or impair any of the remaining provisions, clauses, sentences, sections, words or parts thereof of the Resolution or their applicability to other persons or circumstances.

Section 5. That the City Clerk shall certify to the adoption of this Resolution and that the same shall be in full force and effect.

Section 6. This Resolution shall take effect immediately upon its adoption.

PASSED, APPROVED AND ADOPTED this 10th day of June 2026, by the following vote:

AYES: Castillo, Steeber, Terry, Welty, Smith
NOES: None
ABSENT: None
ABSTAIN: None

Signed by:

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Jeremy Smith, Mayor

ATTEST & CERTIFIED:

I, Sheryl Garcia, City Clerk of the City of Canyon Lake, hereby attest to the mayor's signature above and certify that the City Council duly adopted this Resolution as recorded in the vote tally stated herein.

DocuSigned by:

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Sheryl L. Garcia, MMC, CPM
City Clerk

EXHIBIT “A”

Investment Policy

[to be attached]



INVESTMENT POLICY

The City of Canyon Lake has adopted the following policy for the investment of City funds.

I. The Legal Authority

The Authority governing investments for the City of Canyon Lake is set forth in the California Government Code, sections 53601 et. Seq. The City Treasurer is granted authority to make investments on behalf of the City.

Government Code Section 53607 states “.....the authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for such transactions until such time as the delegation of authority is revoked, and shall make a monthly report of such transaction to the legislative body.”

Government Code Section 53649 states “...the treasurer is responsible for the safekeeping of money in his custody and shall enter into any contract with a depository relating to any inactive deposits which in his judgment is to the public advantage.” The City Treasurer will enter into purchases subject to this policy and at the direction of City Council.

In addition, Government Code Section 53607 provides the authority for the legislative body of the local agency to invest the funds of the local agency or to delegate the full responsibility to the treasurer of the local agency.

II. Investment Objectives

A. The purpose of this policy is to provide guidelines for the investment of the City’s funds based upon State law and prudent money management. This policy is designed according to the specific needs of the City of Canyon Lake. The ultimate goal is to enhance the economic status of the City while ensuring the safety of funds.

B. The City holds to the “prudent investor rule” in that investments shall be made with a degree of judgment and care, not for speculation, but considering the safety of the monies and acting as a custodian of the public trust. Related activities, which comprise good cash management, include cash projections, the expeditious collection of revenue, disbursement control and a cost-effective banking relationship.

C. The investment of the funds of the City of Canyon Lake shall be guided by the goals of safety, liquidity, diversification and return on investments in that order of priority.

Safety: Safety of principal is the foremost objective of the City of Canyon Lake. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value. The City shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

Credit Risk - Credit Risk; defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing only with issuers whose financial strength and reputation can be verified to be the highest as rated by nationally known rating agencies 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 - Market risk, the risk of the market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by (a) structuring the portfolio so that securities mature earlier than or concurrent with the timing of major cash outflows, thus eliminating the need to sell securities prior to their maturity; (b) prohibiting the use of leverage or margin accounts; (c) prohibiting the taking of short positions, that is, selling securities which the City does not own; (d) prohibiting the use of reverse repurchase agreements and repurchase agreements; and (e) prohibiting the use of "inverse floaters". It is explicitly recognized herein, however, that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall investment return.

Liquidity: The City's financial portfolio must be structured in a manner which will provide that securities mature at approximately the same time as cash is needed to meet anticipated demands.

Return on Investments: The investment portfolio shall be designed with the overall objective of obtaining a total rate of return throughout economic cycles, commensurate with investment risk constraints and cash flow needs.

III. Deposits/Authorized Investments

A. Deposits

Money must be deposited in State or national banks, State or Federal savings associations, or State or Federal Credit unions within the State. It may be in inactive deposits, active deposits or interest-bearing active deposits. The FDIC must insure the first \$250,000 of a deposit.

The bank or savings and loan must secure active and inactive deposits with eligible securities having a market value of 110% of the total amount of the deposits. State law also allows as an eligible security, first trust deeds having a value of 150% of the total amount of deposits. A third class of collateral is letter of credit drawn on the Federal Home Loan Bank (FHLB).

B. Authorized Investments

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 purchase without the prior approval of the City Council.
- Maturities of individual investments shall be diversified, attempting to match, where possible, cyclical cash flow requirements.
- The use of callable securities is permitted.

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 cross types of investments, maturities of those investments, and institutions in which those investments are made. Generally, the portfolio is to be invested in Federal Agency securities, with a modest addition of high-grade Medium-Term Corporate Notes, Certificates of Deposit (CD's), U.S. Treasuries and Commercial Paper.

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. It should be noted that the City's permitted investments are moderately more restrictive than the State guidelines. Attachment A provides a summary of the State of California Statues Applicable to Municipal Investments and a Glossary.

PERMITTED INSTRUMENTS	CITY GUIDELINES
State or County Investment Pools (LAIF)	LAIF \$75,000,000 / 50% of portfolio maximum
Federally Insured Banks/Time Deposits	5 Years / No limit
U.S. Treasuries	5 Years / No limit
U.S. Agency Obligations	5 Years / No limit
Bankers Acceptances	180 Days / 10% max / 5% per issuer

PERMITTED INSTRUMENTS	CITY GUIDELINES
Commercial Paper	397 Days / 25% max / 10% per issuer combined
Medium-Term Notes	5 Years / 30% max
Negotiable Certificates of Deposit	5 Years / 30% max
Repurchase Agreements	1 Year / 10% max Only with Master Repurchase Agreement / Daily mark to market valuation
Money Market Mutual Funds	20% max / \$500 million assets / 5% per issuer
Joint Powers Authority Pool	No Limit / \$500 million assets / 5 years' experience in investing
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
Supranational Obligations	Not Allowed

IV. Investment Program Controls

A. Separation of Reconciliation. A separation of responsibilities of reconciling bank statements and conducting investment transactions provides an internal control of checks and balances. Only individuals authorized by the City Manager and City Clerk may conduct investment transactions. Consequently, individuals responsible for reconciling bank statements may not conduct investment transactions.

B. Third Party Safekeeping Agreements. Contractual agreement between the City and third-party custodian public investment agencies (LAIF) is used to secure City invested funds.

C. Quarterly Treasurer's Report. The City Treasurer shall submit a quarterly investment report to the City Council. This report shall include types of investment, investment ratings, institutions involved, dates of purchases, dates of maturity, amount of deposits or cost of the security, current market value of securities, interest rates, investment fund balances and a statement that there are sufficient funds to meet the City's cash obligations.

D. Annual Policy Review. The City Manager shall review the City's investment policies annually and as needed to make recommendations for improvements to the City Council.

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.

FIGURE 1
**ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT
CODE (AS OF JANUARY 1, 2026)^A APPLICABLE TO ALL LOCAL AGENCIES^B**

See "Table of Notes for Figure 1" on the next page for footnotes related to this figure.

INVESTMENT TYPE	MAXIMUM MATURITY ^C	MAXIMUM SPECIFIED % OF PORTFOLIO ^D	MINIMUM QUALITY REQUIREMENTS	GOV'T CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations— CA And Others	5 years	None	None	53601(c) 53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S. Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40% ^E	None	53601(g)
Commercial Paper—Non-Pooled Funds ^F (under \$100,000,000 of investments)	397 days or less	25% ^G	Highest letter and number rating by an NRSRO ^H	53601(h)
Commercial Paper—Non-Pooled Funds ^F (min. \$100,000,000 of investments)	397 days or less	40% ^G	Highest letter and number rating by an NRSRO ^H	53601(h)
Commercial Paper— Pooled Funds ^I	397 days or less	40% ^J	Highest letter and number rating by an NRSRO ^H	53635(a)
Negotiable Certificates of Deposit	5 years	30% ^K	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50% ^L	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50% ^L	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days ^M	20% of the base value of the portfolio	None ^N	53601(j)
Medium-Term Notes ^O	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds And Money Market Mutual Funds	N/A	20% ^P	Multiple ^{Q, R}	53601(l) and 53601.6(b)
Collateralized Bank Deposits ^S	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-Through and Asset-Backed Securities ^T	5 years or less ^T	20%	"AA" rating category or its equivalent or better ^T	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple ^U	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund ^V	N/A	None	None	16340
Supranational Obligations ^W	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

TABLE OF NOTES FOR FIGURE 1

- ^A Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq., 53635, 53635.8, and 57603.
- ^B Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.
- ^C Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years from the settlement date. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five-year remaining maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.
- ^D Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.
- ^E No more than 30% of the agency's money may be in bankers' acceptances of any one commercial bank.
- ^F Applies to local agencies, other than counties or a city and county, that are a city, a district, or other local agency that do not pool money in deposits or investments with other local agencies other than local agencies that have the same governing body (non-pooled).
- ^G Local agencies, described in footnote F (non-pooled), may invest no more than 10% of their investment assets in the commercial paper and medium-term notes of any single issuer.
- ^H Issuing entity must be organized and operating within the U.S. as a general corporation, have assets in excess of \$500 million, and have debt other than commercial paper, if any, rated by a NRSRO in a rating category of "A" or its equivalent or higher; or the issuing entity must be organized within the U.S. as a special purpose corporation, trust, or LLC, have program wide credit enhancements, and have commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.
- ^I Includes the City of Los Angeles and agencies defined as a county, a city and county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body (pooled).
- ^J Local agencies, described in footnote I (pooled), may invest no more than 10% of their investment assets in the commercial paper of any single issuer.
- ^K No more than 30% of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601 (i).
- ^L Effective January 1, 2020, no more than 50% of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). On January 1, 2031, the maximum percentage of the portfolio reverts back to 30%. Investments made pursuant to 53635.8 remain subject to a maximum of 30% of the portfolio.
- ^M Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.
- ^N Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.
- ^O "Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States."
- ^P No more than 10% invested in any one mutual fund. This limitation does not apply to money market mutual funds.
- ^Q A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635.
- ^R A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of \$500 million.
- ^S Investments in notes, bonds, or other obligations under Section 53601(n) require that collateral be placed into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, among other specific collateral requirements.
- ^T Security types authorized under Section 53601(o) that are issued or guaranteed by an issuer identified in subdivisions (b) or (f), are not subject to the limitations placed on privately issued securities authorized in Section 53601(o)(2)(A)(B).
- ^U A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).
- ^V Local entities can deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.
- ^W Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less.

GLOSSARY

ACTIVE DEPOSITS: Demand or checking accounts, which receive revenues and pay disbursements.

AGENCIES: Federal agency securities.

ASKED: 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 highgrade 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.

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): The official annual report for the City of Canyon Lake. It includes five 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. 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. (b) A certificate attached to a bond evidencing interest due on a payment date.

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

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 Federal Home Loan Bank, Federal Farm Credit Bank, FNMA (Fannie Mae) and Federal Home Loan Mortgage Corp. (Freddie Mac).

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.

INTEREST-BEARING ACTIVE DEPOSITS: Money-market accounts at a financial institution, (e.g., bank, savings and loan, credit union). These accounts are demand accounts (i.e., checking accounts) with restricted transaction activity.

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 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 \$75,000,000 for any agency. The City is restricted to a maximum of fifteen transactions per month. It offers high liquidity because deposits can be converted into 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. The interest rates are fairly high because of pooling the State's surplus cash with the surplus cash deposited. This creates a multi-billion-dollar money pool and allows diversified investments.

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

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

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, 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.

PASSBOOK SAVINGS ACCOUNTS: Similar to an inactive deposit except that the period of time is not fixed. The interest rate is much lower than for a certificate of deposit, but the savings account is more flexible. Funds can be deposited and withdrawn according to daily needs.

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.

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.

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 (SEC RULE 15C3-1): 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 issued. During this interval, the security trades "when, as, and if issued."

YIELD: The rate of annual income returned on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for 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 is considered.