RESOLUTION NO. 2018-180

RESOLUTION OF THE CITY COUNCIL
OF THE CITY OF ROCKLIN
CONFIRMING LEGISLATIVE POLICY NO. 1 –
INVESTMENT POLICY

The City Council of the City of Rocklin does resolve as follows:

Section 1. Pursuant to Section 53607 of the California Government Code, the City Council hereby delegates authority to make all investment decisions for the City's investment portfolio to the City Treasurer and in order to further strengthen safeguards over investment practices the City Treasurer will act in coordination with the Investment Committee, such delegation shall be for a one year period. Investment Committee members consist of the City Manager, City Treasurer and City Attorney. This authority shall supersede Resolution No. 2017-146.

Section 2. Pursuant to the Rocklin Legislative Policy No. 1 – Investment Policy, City of Rocklin Statement of Investment Policy attached hereto as Exhibit A, is hereby confirmed for the 2018-2019 fiscal year.

PASSED AND ADOPTED this 26th day of June, 2018, by the following vote:

AYES:	Councilmembers:	Patterson, Gayaldo, Janda, Broadway
NOES:	Councilmembers:	None
ABSENT:	Councilmembers:	Yuill
ABSTAIN:	Councilmembers:	None

Kenneth Broadway, Mayor

ATTEST:

Barbara Ivanusich, City Clerk

Exhibit A

CITY OF ROCKLIN
STATEMENT OF INVESTMENT POLICY

INTRODUCTION

This statement is intended to outline the policies for the prudent investment of the City's Funds and to provide guidelines for suitable investments.

The ultimate goal is to enhance the economic status of the City while safeguarding its assets.

The City's Cash Management System is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City of Rocklin's Investment Committee to invest funds to the fullest extent possible. The Investment Committee shall be composed of the City Manager, City Attorney, and City Treasurer. The Investment Committee shall structure the investment portfolio with the objective of attaining a market rate of return throughout budgetary and economic cycles, provided that all investments meet the criteria established for safety and liquidity.

The investment policies and practices of the Investment Committee for the City as based upon Federal, State, and Local laws and prudent money management. The primary goals of these policies are:

1. To assure compliance with all Federal, State and Local laws governing the investment of monies under the control of the Investment Committee.

2. To protect the principal monies entrusted to this Committee.

3. To ensure the investment portfolio remains sufficiently liquid to enable the City of Rocklin to meet all operating requirements which might be reasonably anticipated.

4. To attain a market rate of return on investment within the parameters of this Statement of Investment Policy and the Investment Portfolio Guidelines.

I. SCOPE

It is intended that this policy cover all funds and investment activities under the direct authority of the City in accordance with California Government Code Section 53600 et seq., the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)

(Appendix A) and local laws. Funds included are General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Permanent Funds and Trust Funds. The Investment Portfolio will be referred to hereafter as the "FUND" throughout the remainder of this document.

This policy will not cover bond proceeds obtained from bond issues which are not direct obligations of the City and which are not under the direct authority of the City. The bond proceeds will be invested in accordance with the Bond Indenture Agreement. Bond proceeds, which are under the direct authority of the City, will be invested in accordance with the Bond Indenture Agreement and applicable State and Federal regulations.

II. OBJECTIVES

A. Safety of Principal

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

1. Credit Risk. Credit risk, defined as the risk of loss due to failure of an issuer of a security, shall be mitigated by investing in only financially sound institutions and by diversifying the Fund so that the failure of any one issuer would not be detrimental to the City's cash flow.

2. Market Risk. The risk of market value fluctuations due to overall changes in the general level of market interest rates shall be mitigated by limiting the weighted average maturity of the City's Fund to five years. It is explicitly recognized herein that occasional losses in a diversified portfolio are inevitable, and must be considered within the context of the overall investment return.

B. Liquidity

Liquidity is the second most important objective of the City of Rocklin. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. It is important that an investment contain the feature of being easily sold at any time with a minimal risk of loss of some portion of principal or interest.

C. Return of Investment

The City's Fund shall seek to attain a market-average rate of return throughout economic cycles. The market-average rate of return is defined as the average return on two-year U.S. Treasury Notes. Whenever possible, and consistent with risk limitations as defined here, and prudent investment principals, the Investment Committee shall seek to augment returns above the market average rate of return.

III. PRUDENCE

Investments shall be made in the context of the "Prudent Investor" rule, which states that:

> Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The Investment Committee and City employees involved in the investment process, acting in accordance with written procedures and the Investment Policy and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that deviations from expectations are reported in a timely manner and that appropriate action is taken to control adverse developments.

IV. ETHICS AND CONFLICTS OF INTEREST

The Investment Committee and City employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the Investment Policy of which could impair their ability to make impartial investment decisions. The Investment Committee and City employees involved in the investment process shall disclose any material financial interests in financial institutions with which the City may conduct business, and they shall further disclose any reportable personal financial/investment positions that could be related to the performance of the City's portfolio. The Investment Committee and City employees involved in the investment process shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

V. AUTHORIZED INVESTMENTS

The City is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, the following investments are authorized, as further limited herein:

A. Bonds issued by the City of Rocklin.

B. United States Treasury Bills, Notes, Bonds, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the Fund that can be invested in this category as they are both safe and liquid.

C. Registered state warrants or treasury notes or bonds issued by the State of California.

D. Registered treasury notes or bonds of any of the other forty nine United States, in addition to California.

E. Bonds, notes, warrants or other evidence of debt issued by a local agency within the State of California.

F. Obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), the Student Loan Mortgage Administration (SLMA), the Tennessee Valley Authority, and those fully guaranteed as to principal and interest by the Federal National Mortgage Association (FNMA), or in guaranteed portions of Small Business Administration notes, those insured by the Federal Housing Administration (FHA) or in obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise. Although there is no percentage limitation on these issues, the "prudent investor" rule shall apply for a single agency name.

G. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker's acceptances. Prime banker's acceptances purchased shall be issued by prime money center banks. Banker's acceptances purchased may not exceed 180 days to maturity or 40% of the market value of the Fund. No more than 5% of the market value of the fund may be invested in banker's acceptances issued by any one bank.

H. 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), and issued by a domestic corporation having assets

in excess of $500,000,000 and having an "A" or better rating on its long term debentures as provided by a NRSRO. Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of the issuing corporation. No more than 5% of the market value of the fund may be invested in commercial paper issued by any one corporation. No more than 25% of the market value of the Fund may be invested in commercial paper.

I. Negotiable Certificates of Deposit (NCD) issued by a Nationally or State-Chartered Bank or a State or Federal Savings and Loan Association or by a State licensed branch of a foreign bank. To be eligible for purchase by the City, the amount invested in NCD's shall be subject to the limitations of Section 53638 of the California Government Code.

Purchases of NCD's may not exceed 30% of the market value of the fund. No more than 5% of the market value of the Fund may be invested in NCD's issued by any one institution.

J. Repurchase Agreements. The City may invest in Repurchase Agreements, on any investment authorized in this section with banks and dealers with which the City has entered into a master repurchase agreement that specifies terms and conditions of Repurchase Agreements and only when Government Code Section 53601(j) conditions are met. The maturity of Repurchase Agreements shall not exceed 90 days. In order to conform with provisions of the Federal Bankruptcy Code that provides for the liquidation of securities held as collateral for Repurchase Agreements, the only securities acceptable as collateral shall be eligible negotiable certificates of deposit, eligible banker's acceptances, or securities that are direct obligations of, or that are fully guaranteed as to principal and interest by, the United States or any agency of the United States. Collateral for Repurchase Agreements will also comply with the requirements of the FIRREA. See Section VII on collateralization. No more than 15% of the market value of the Fund may be invested in Repurchase Agreements. No more than 5% of the market value of the Fund may be invested in Repurchase Agreements issued by any one institution.

K. Reverse Repurchase Agreements. The City may invest in Reverse Repurchase Agreements only with those banks and dealers with which the City has entered into a master repurchase agreement outlining the terms and conditions of Repurchase and Reverse Repurchase Agreements and only when Government Code Section 53601 (j) conditions are met. The collateral for Reverse Repurchase Agreements is the Repurchase Agreement.

Reverse Repurchase Agreements entered into may not exceed 90 days to maturity, and must be matched as to maturity and dollars invested with its

corresponding reinvestment. No more than 15% of the market value of the Fund may be invested in Reverse Repurchase Agreements. No more than 5% of the market value of the Fund may be invested in Reverse Repurchase Agreements issued by any one institution.

L. Local Agency Investment Fund. The City may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law.

M. Medium-term notes of a maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. No more than 30% of the market value of the Fund may be invested in medium-term notes. No more than 5% of the market value of the Fund may be invested in medium-term notes issued by any one institution.

N. Time Deposits. The City may invest in non-negotiable time deposits collateralized in accordance with the California Government Code and the FIRREA, in those banks and savings and loan associations that meet the requirements for investment in negotiable certificates of deposit and in accordance with Sections 53637, 53638, 53648 and 53652 of the California Government Code. Since time deposits are not liquid, no more than 10% of the market value of the Fund may be invested in this category. No more than 5% of the market value of the Fund may be invested in time deposits issued by any one institution.

O. Shares of beneficial interest issued by diversified management companies, such as mutual funds and money market funds, investing in the securities and obligations as authorized by subdivisions (A) to (M), inclusive, of this section and that comply with the investment restrictions (California Government Code, Section 53600 and Section 53630), Companies shall either:

1. Attain the highest ranking or the highest letter and numerical rating provided by not less than two of the nationally recognized statistical rating organizations, or

2. Have an investment adviser registered with the Securities and Exchange Commission with not less than five year's experience investing in the securities and obligations as authorized by subdivisions (A) to (M), inclusive and with assets under management in excess of five hundred million dollars ($500,000,000). The mutual fund is to be registered with the Federal Securities and Exchange Commission (SEC) and have met the

requirements of Rule 2a-7 of the Investment Company Act of 1940. The purchase price of shares of beneficial interest (mutual funds or money market funds) purchased pursuant to this subdivision shall not include any commission that these companies may charge. No more than 15% of the market value of the Fund may be invested in mutual funds. No more than 5% of the market value of the fund may be invested in mutual funds of any one institution.

P. Collateralized Obligations. The City may invest in notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed in the California Government Code Section 53651 having a market value at least equal to California Government Code Section 53652. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank which is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or Federal regulations applicable to the types of securities in which the security interest is granted. No more than 10% of the market value of the Fund may be invested in Collateralized Negotiable investments. No more than 5% of the market value of the fund may be invested in Collateralized Negotiable investments of any one institution.

Q. The City may invest in mortgage pass-through securities, collateralized mortgage obligations or mortgage-backed bonds of a maximum of five years maturity. Securities shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service. No more than 20% of the market value of the fund may be invested in these securities. No more than 5% of the market value of the Fund may be invested in mortgage pass-through securities, collateralized mortgage obligations or mortgage-backed bond issued by any one institution.

R. Placer County Treasurer Investment Pool. The City may invest in the Placer County Treasurer Investment Pool established by the Placer County Treasurer for the benefit of local agencies. No more than 25% of the market value of the Fund may be invested in the Placer County Treasurer Investment Pool.

V. 1 INELIGIBLE INVESTMENTS

Investments not described herein, including, but not limited to common stocks, inverse floaters, range notes, or mortgage-derived interest-only strips, and any security that could result in zero interest accrual if held to maturity, as specified in Section 53601.6

are prohibited from use in this fund. See Table 1 for summary of above investment percentage limitations.

VI. QUALIFIED DEALERS AND INSTITUTIONS

The City shall transact business only with banks, savings and loans, and registered investment securities dealers. The purchase of any investment by the City other than those purchased directly from the issuer, shall be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporations Code, or a member of a Federally regulated securities exchange, a National or State-Chartered Bank, a Federal or State Association or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank. The Administrative Services Department's staff shall review all institutions that wish to do business with the City, in order to determine if they are adequately capitalized, deal in security markets appropriate to the City's needs, and agree to abide by the conditions set forth in the City of Rocklin's Investment Policy. This will be done periodically as determined by the Investment Committee by having the Financial Institutions complete and return the appropriate questionnaire (See Attachments "A" &"B"), and an audited Financial Statement must be provided. The Investment Committee shall make the final determination as to which institutions are admitted to the "Approved Qualified Institution List." See Attachment "F" for Institution Selection Policy. A written depository agreement will be obtained and retained for all qualified institutions.

Investment Management Services. The City shall also be open to contracting investment management services for a portion of the portfolio. The Administrative Services Department's staff shall investigate all institutions that wish to do business with the City in order to determine that the firm's performance statistics are comparable with industry averages or benchmarks, deal in security markets appropriate to the City's needs, and agree to abide by the conditions set forth in the City of Rocklin's Investment Policy. This will be done as determined by the Investment Committee by having the Financial Institutions complete and return the "External Money manager Questionnaire and Certification" (Attachment C). All investments made under contract will be purchased in the City's name and in accordance with the guidelines established by the City's Investment Policy.

VII. COLLATERALIZATION

It is the policy of the City that all demand deposits, time deposits, and repurchase agreements be fully collateralized with securities authorized by the California Government Code Section 53652 and pursuant to Sections 53656 and 53658. Collateralization must comply with the requirements of the FIRREA. FIRREA mandates that a valid security collateral agreement 1) is in writing; 2) was executed by the

depository institution and the City contemporaneously with the acquisition of the asset; 3) was approved by the board of directors or loan committee of the institution and reflected in the minutes of that group; and 4) has been an official record of the institution continuously from the time of its execution.

A. Eligible Collateral. Eligible collateral for demand and time deposits must be those investments authorized by the California Government Code Section 53651 and 53652. The eligible collateral for repurchase agreements must be those investments notes in Section V. (J.) & V. (K.) above. Eligible collateral must be in book entry form.

B. Collateral Levels. Collateral is valued at current market plus accrued interest through the date of valuation.

1. Demand Deposits and Time Deposits. The market value of collateral pledged for demand deposits and time deposits must at all times be equal to or greater than the amount on the deposit, plus accrued interest, in accordance with the margin ratios following:

U.S. Treasury Securities.....110%
U.S. Government Agencies.....110%
U.S. Government Sponsored Corporations.....110%
Mortgages (First Deeds of Trust).....150%
Federal Home Loan Bank of San Francisco
Irrevocable Letter of Credit.....105%

2. Repurchase Agreements. The market value of collateral pledged for repurchase agreements must at all time be equal to or greater than the par amount, plus accrued interest with the margin ratios following:

U.S. Treasury Securities.....102%
U.S. Government Agencies.....102%
U.S. Government Sponsored Corporations.....102%
All other securities permitted by 53601.....104%
Cash (in immediately available funds).....100%

The market value of the collateral shall be adjusted no less than quarterly.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. A written master repurchase agreement must be obtained by the City.

C. Monitoring Collateral. It is the policy of the City to require reports at least on a quarterly basis from institutions with whom the City has pledged security interest. The Investment Committee shall monitor the adequacy of collateralization to ensure that balances are collateralized in accordance with the margin ratios approved herein.

VIII. SAFEKEEPING OF SECURITIES

All investment securities owned by the City except securities used as collateral for repurchase agreements, shall be kept in safekeeping with "perfected interest" by a third party bank trust department, acting as agent for the City under the terms of a written custody agreement executed by the bank and by the City. All securities will be received and delivered using standard delivery versus payment procedures. All securities are to be registered in the City's name.

Substitution of collateral is permitted as long as the securities meet the City's collateralization requirements and approval.

IX. REPORTING

Monthly Reporting
The Investment Committee shall provide to the City Council a monthly investment report detailing transactions in the City's portfolio as required per California Government Code section 53607.

Quarterly Reporting
The Investment Committee shall render a quarterly report to the City Council showing the type of investment, institution, date of maturity, amount of deposit, current market value for all securities with a maturity of more than twelve months, rate of interest, type and amount of funds under the management of contract investment managers, the Investment Committee's compliance with the statement of investment policy, the ability of the City of meet cash flow needs for the next six months, and such data as may be required by the City Council as required per California Government Code section 53646.

X. INVESTMENT CONTROLS

The Investment Committee has developed a system of internal investment controls and a segregation of responsibilities of investment functions in order to assure an adequate system of internal control over the investment function. An "Investment Transaction Authorization" form will be completed for all investment purchases. See Attachment "D".

XI. DELEGATION OF AUTHORITY

Investment transactions require the concurrence of the City Treasurer and one Investment Committee member or two Investment Committee members. Every effort will be made to ensure that one of the two concurring members will be the City Treasurer. In the event of the City Treasurer's unavailability, the other two member's concurrence is required. In the event that the City Treasurer or two members of the Investment Committee are not available when a prudent decision must be made, any one member may make an investment decision, providing that any such decision must be reported to the remaining committee members at the earliest possible time. See Attachment "D" for Investment Transaction Authorization form.

XII. POLICY ADOPTION

The City's Investment Policy shall be adopted by resolution of the City Council. The Policy shall be reviewed at least annually by the Investment Committee to ensure its consistency with the overall objectives of preservation of PRINCIPAL, LIQUIDITY, AND RETURN, and its relevance to current law, financial and economic trends, and to meet the needs of the City of Rocklin and any modifications made thereto must be approved by the City Council. The City's Investment Policy shall be submitted annually to the City Council.

CITY OF ROCKLIN
INVESTMENT PORTFOLIO GUIDELINES

A. GUIDELINES

These guidelines are established to direct and control investment activities in such a manner to assure that the goals established in the Investment Policy are attained.

1. Cash Forecast. The cash flow of the City shall be reviewed daily by the Chief Financial Officer with an analysis of cash receipts and expenditures and a review of the scheduled investment maturities to ensure that adequate cash will be available to meet the disbursement requirements.

2. Pooled Cash. Whenever practical, the City's cash should be consolidated into one bank account and invested on a pooled concept basis. Interest earnings may be allocated according to the monthly average fund cash balances.

3. Long Term Maturities. As a rule, long term maturities should not represent a significant percentage of the total Fund, as the principal risk involved can outweigh the potential for higher earnings. However, if in the judgment of the Investment Committee, it is to the advantage of the City of Rocklin, investments may be made with maturities longer than five years, as long as the weighted average maturity of the City's Fund is five years.

4. Diversification. The Fund should consist of a mix of various types of securities, issuers, and maturities.

5. Competitive Bids. It is the policy of the City to document all bids and offers during the investment process. A minimum of two quotations will be obtained, when practical. See Attachment "F' for Investment Bid Form.

6. Authorized Institutional Investment transactions will only be executed with previously approved brokers/dealers, banks, savings and loans, and external money managers. A list of "Approved Qualified Institutions" shall be authorized and maintained by the Investment Committee.

7. Certificate of Deposit Evaluation.

   a. Time Certificates of Deposit (TCD) shall be collateralized in accordance with Section VII of the Statement of Investment Policy.

   b. Negotiable Certificate of Deposit (NCD) shall be evaluated in terms of the credit worthiness of the issuer and in accordance with Section V. (I.) of the Statement of Investment Policy, as these deposits are uninsured and uncollateralized promissory notes.

8. Investment Transaction. Every investment transaction must be reviewed and authorized by the Investment Committee in conformance with Section XI of the City of Rocklin's Statement of Investment Policy.

9. Safekeeping. Securities purchased from broker/dealers shall be held in third party safekeeping by the Trust Department of the Bank designated by the Investment Committee. Said securities shall be held in the name of the City of Rocklin with the trustee executing transactions as directed by the Investment Committee.

10. Investment Management Services. The City shall also be open to contracting investment management services for a portion of the portfolio. Any investment management firm contracted shall meet criteria established by the Investment Committee. All investments made under contract will be purchased in the City's name and in accordance with the guidelines established by the City's Investment Policy.

Attachment "A"

CITY OF ROCKLIN
BANK/SAVINGS AND LOAN QUESTIONNAIRE AND CERTIFICATION

1. Name of Firm_____
2. Address_____
3. Telephone No. (____)_____ (___)_____
   (Local) (National Headquarters)
4. Primary Representative: Manager:
   Name _____ Name_____
   Title _____ Title_____
   Telephone No. ( ) _____ Telephone No. (___)_____

5. What is the Total Assets of the Bank/Savings and Loan? _____

6. What is the current Net Worth Ratio?_____

7. What was the Net Worth Ratio for the Previous Year? _____
8. What is your required Capital Ratios?
   A. Total Risk-Based Capital Ratio_____
   B. Tier 1 Risk-Based Capital Ratio_____
   C. Tier 1 Leverage Ratio _____

9. What is the date of your fiscal year-end? _____

   A. Has there been a year during the past three years in which the Bank/ Savings and Loan did not make a profit? _____

10. Have you read the California Government Code Section 53600 et seq. pertaining to all of the State's requirements governing the deposit of monies by Local Agencies which includes Cities? [ ] YES [ ] NO

11. Where is the collateral for Time Deposits of the Bank/Savings and Loan held?
    _____

12. How many years of related experience does the Primary Contact(s) have?
    _____

13. What transaction documents and reports would we receive?
    _____

14. What information would you provide to our Investment Committee?

_____
_____
_____

15. Describe the precautions taken by your Bank/Savings and Loan to protect the interest of the public when dealing with government agencies as depositors of investors.

_____
_____
_____

16. Please provide your Contract of Deposit of Moneys pre-signed and sealed by your institution, as well as, any signature cards that you may require.

_____
_____
_____

17. Please provide your Wiring Instructions_____
_____
_____

18. Please provide your Banks/Savings and Loan most recent certified financial statements. In addition, audited financial statements must be provided.

_____
_____
_____

--CERTIFICATION --

I hereby certify that I have personally read City of Rocklin's Investment Policy and the California Government Codes pertaining to the investments of the City of Rocklin, 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 City of Rocklin. All sales personnel will be routinely informed of City of Rocklin's investment objectives, horizon, outlook, strategies and risk constraints whenever we are so advised. We pledge to exercise due diligence in informing City of Rocklin's Investment Committee of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

NOTE: **Completion of Questionnaire is only part of City of Rocklin's Certification process and DOES NOT guarantee that the applicant will be approved to do business with the City of Rocklin.**

SIGNED: _____ DATE: _____

TITLE: _____

COUNTERSIGNED: _____ DATE: _____

TITLE: _____

Attachment "B"

CITY OF ROCKLIN
BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION

1. Name of Firm _____

2. Address_____

3. Telephone No.(____)_____ (____)_____
(Local) (National Headquarters)

4. Primary Representative

Name _____
Title _____
Telephone No._____
No. of Yrs. in Institutional Sales ____
Number of Years with Firm_____

Manager/Partner-in-Charge

Name _____
Title_____
Telephone No._____
No. of Yrs. in Institutional Sales_____
Number of Years with Firm_____

5. Are you a Primary Dealer in U.S. Government Securities?
[ ] YES [ ] NO

6. Are you a Broker instead of a Dealer, i.e. You DO NOT own positions of Securities?
[ ] YES [ ] NO

7. What is the debt to equity ratio of your Firm?_____

8. What is the date of your Firm's fiscal year-end? _____

9. Is your Firm owned by a Holding Company? If so, what is its name and debt to equity ratio?_____
_____
_____

10. Please provide your Wiring and Delivery Instructions_____
_____
_____
_____

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

[ ] T-Bills [ ] Treasury Notes/Bonds [ ] Discount Notes [ ] NCD'S
[ ] Agencies (specify)_____
[ ] BAs (Domestic) [ ] BAs (Foreign) [ ] Commercial Paper
[ ] Mid-Term Notes

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

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

Entity	Contact Person	Telephone No.	Client Since

14. What reports, transactions, confirmations and paper trail would we receive?
_____
_____
_____

15. Please include samples of research reports or market information that your firm regularly provides to local agency clients._____
_____
_____
_____

16. What precautions are taken by your Firm to protect the interest of the public when dealing with government agencies as investors.
_____
_____

17. Have you or your Firm been censored or punished by a Regulatory State or Federal Agency for improper or fraudulent activities, related to the sale of securities?
[ ] YES [ ] NO

18. If so, explain _____
_____
_____
_____

19. Attach certified documentation as to your capital adequacy and financial solvency. In addition, annually audited financial Statements must be provided.

20. Have you read the California Government Code Section 53600 et seq. pertaining to all of the State's requirements governing the deposit of monies by Local Agencies, which includes Cities?
[ ] YES [ ] NO

-- CERTIFICATION--

I hereby certify that I have personally read City of Rocklin's Investment Policy and the California Government Codes pertaining to the investments of the City of Rocklin, 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 City of Rocklin. All sales personnel will be routinely informed of City of Rocklin's investment objectives, horizon, outlook, strategies and risk constraints whenever we are so advised. We pledge to exercise due diligence in informing City of Rocklin's Investment Committee of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

NOTE: **Completion of Questionnaire is only part of City of Rocklin's Certification process and DOES NOT guarantee that the applicant will be approved to do business with the City of Rocklin.**

SIGNED: _____ DATE: _____

TITLE: _____

COUNTERSIGNED: _____ DATE: _____

TITLE: _____

ATTACHMENT "C"

CITY OF ROCKLIN
EXTERNAL MONEY MANAGER QUESTIONNAIRE AND CERTIFICATION

1. Name of Firm_____

2. Address_____

3. Telephone No. (__) _____ (__) _____
   (Local) (National Headquarters)

4. Primary Representative

   Name_____
   Title_____
   Telephone No. _____

5. What are your total institutional assets under investment management?
   _____
   _____

   What amount of your total assets under investment management are governmental funds? _____
   _____

6. Please provide relevant performance statistics on operating funds showing comparison with industry averages or benchmarks, if appropriate.

7. Describe your firm's research capabilities and resources. _____
   _____
   _____
   _____

   Does your firm assign credit research to specialists?
   [ ] YES [ ] NO

8. Describe your credit review process._____
   _____
   _____
   _____

Who reviews portfolio lists for credit approval? _____

_____

_____

9. Identify the number of investment professionals (portfolio managers, analysts and researchers) employed by your firm by classification and specify the average number of accounts handled by portfolio managers. _____

_____

_____

Are there any established limits on accounts or assets under management?
[ ] YES [ ] NO

10. Provide biographical information on investment professionals that will be directly involved in the decision-making process for the City's portfolio. _____

_____

_____

11. Describe how your firm organizes its investment-management process. _____

_____

_____

_____

_____

What oversight is provided to portfolio managers? _____

_____

_____

_____

12. What are the primary strategies for adding value to portfolios; e.g. market timing, credit research, trading. _____

_____

_____

_____

13. Provide the fee schedule that would apply to this account._____

_____

_____

_____

14. If alternative fee schedules could be developed, such as performance fees, describe how you would propose to develop such fee structures._____

_____

15. What expenses would be covered through the fee structure? _____
_____

16. What additional costs could be required in order to implement your program; e.g., bank custodial fees, travel expenses, etc.? _____
_____
_____
_____
_____

17. Please provide three references including length of time you have managed their assets, client name, contact personnel, address and phone number.
(Governmental entities are preferred.)
_____
_____
_____
_____
_____
_____

18. Have you read the California Government Code Section 53600 et seq. pertaining to all of the state requirements governing the deposit of monies by local agencies which includes cities?
[ ] YES [ ] NO

19. Please provide your Wiring Instructions. _____
_____
_____

20. What is the date of your fiscal-year end. _____

21. Please provide your most recent certified financial statement. In addition, audited financial statement must be provided. _____
_____
_____
_____
_____

-- CERTIFICATION --

I hereby certify that I have personally read City of Rocklin's Investment Policy and the California Government Codes pertaining to the investments of the City of Rocklin, 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 City of Rocklin. All sales personnel will be routinely informed of City of Rocklin's investment objectives, horizon, outlook, strategies and risk constraints whenever we are so advised. We pledge to exercise due diligence in informing City of Rocklin's Investment Committee of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

NOTE: **Completion of Questionnaire is only part of City of Rocklin's Certification process and DOES NOT guarantee that the applicant will be approved to do business with the City of Rocklin.**

SIGNED: _____ DATE: _____

TITLE: _____

COUNTERSIGNED: _____ DATE: _____

TITLE: _____

ATTACHMENT "D"

CITY OF ROCKLIN
INVESTMENT TRANSACTION AUTHORIZATIONS

Date: _____

Please circle: Purchase `Sale

Investment Transaction Placed By: _____

Debit/Credit Account Name: _____

Debit/Credit Account Number: _____

INVESTMENT

Type: _____

Cost/Sales Proceeds: _____

Face Value: _____

Yield: _____

Maturity Date: _____

Bank/Brokerage Firm: _____

Brokerage Account No.: _____

Document No.: _____

Contact Name: _____

Authorized By: _____ Title: _____

Authorized By: _____ Title: _____

Date: _____

ATTACHMENT "E"

CITY OF ROCKLIN
INVESTMENT BID FORM

NOTE: In accordance with the City of Rocklin's Investment Guidelines, this form documents the investment quotations obtained.

Quotation requested by: _____ Date: _____

Surplus funds available to invest: _____

Date can be invested to: _____

Quotes obtained:
Firm No. 1 _____

Contact: _____ Phone: _____

Types of Securities	Face Amount	Yield	Maturity Date	Cost[1]

Firm No. 2 _____

Contact: _____ Phone: _____

Types of Securities	Face Amount	Yield	Maturity Date	Cost[1]

Please circle security of applicable firm accepted.

[1]Total cost including fees, if any.

ATTACHMENT "F"

CITY OF ROCKLIN
INSTITUTION SELECTION POLICY

I. PURPOSE

The purpose of the Institution Selection Policy is to establish procedures for the selection and evaluation of institutions that have been approved to conduct, financial transactions with the City of Rocklin. Institutions selected pursuant to this policy will be admitted to the approved list upon approval by the Investment Committee. Evaluations of those approved institutions will be performed annually. The City will only transact business with institutions who have been previously approved.

II. SELECTION PROCESS

The selection process shall be as follows:

A. Institutions complete and return the appropriate questionnaire (see Attachments "A" -- "C") to the City of Rocklin's Administrative Services Department.

B. The Administrative Services Department shall review the questionnaire in order to determine if the institutions are adequately capitalized, deal in security markets appropriate to the City's needs, and agree to abide by the conditions set forth in the City of Rocklin's Investment Policy. The Administrative Services Department will then submit the questionnaire and the results of the review to the City Investment Committee for future consideration. Institutions submitting incomplete responses will be advised and allowed an opportunity to amend their responses.

C. The Investment Committee will consider the institution's responses, the Administrative Services Department's review and determine if it is necessary to invite the institution to make a presentation prior to its final approval.

D. The decision to recommend approval or denial by the Investment Committee shall be governed by their interpretation of the City's needs, the institution's response to the questionnaire, and other factors regarding the ability of the institution to provide the most effective and efficient financial services required.

The Investment Committee shall make the final determination to admit or refuse the inclusion of the institution to the approved list which is not subject to further review or approval.

III. EVALUATION PROCESS

The evaluation process shall be as follows:

A. Upon acceptance to the "Approved Qualified Institutions" list, the Financial Institution shall complete periodically, as determined by the Investment Committee, the appropriate questionnaire (see Attachments "A" - "C") and shall submit audited financial statements to the Administrative Services Department. Administrative Services Department shall review the data as in the selection process and forward results to the Investment Committee. Questions or issues that are raised as a result of the data reported will be put to the appropriate institution either personally or in writing as directed by the Investment Committee.

B. The Investment Committee shall make the final determination to retain or eliminate any institution from the approved list which is not subject to further review or appeal.

IV. APPROVED QUALIFIED INSTITUTIONS LIST

The Investment Committee shall maintain an approved list of institutions authorized for transacting business. The number of institutions included on the approved list shall be determined by the Investment Committee. Inclusion on the approved list is a privilege and does not imply or create a right or any intent on behalf of the City of Rocklin to conduct financial transactions through or with any institution. Institutions may be added or removed from the approved list at the discretion of the Investment Committee. It is recognized that qualified institutions may not be included on the approved list due to the City's need to manage the number of institutions the Investment Committee and Administrative Services Department's staff contacts for investment competition.

GLOSSARY

ACCRUED INTEREST - Interest on a bond that has accumulated since the last interest payment. The buyer pays the seller the bond price plus accrued interest.

AGENCIES - Federal agency securities.

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. It is a money market instrument when guaranteed by a bank.

BASIS POINT - Smallest measure used in quoting yields on bonds and notes; one one-hundredth of a percentage point (.01 percent or .0001).

BOND - A 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 nothing more than a promissory note which is traded in the financial markets. The investor's position is that of lender.

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.

BROKER - A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

CAPITALIZATION - A firm's capital structure, composed of total securities issued by the corporation, including bonds, debentures, preferred and common stock, and all surpluses (retained earnings).

CERTIFICATE OF DEPOSIT (CD) (TIME DEPOSIT) - An interest bearing time deposit issued by banks with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

CHURNING – excessive trading in a customer's account designed solely to increase broker's commissions.

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.

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.

COLLATERALIZED MORTGAGE OBLIGATION (CMO) - Derivative security created by dividing the cash flows of a pool of mortgages into obligations with different maturities.

COMMERCIAL PAPER - Unsecured, bearer obligations (maturity usually 270 days or less) issued by corporations, either at a discount and redeemed at par, or at par and pay interest.

COMMON STOCK - Units (shares) of ownership in a public corporation. Shareholders have control over corporate affairs through voting rights, and dividends are paid to common stockholders after preferred stock shareholders.

CONFIRMATION - A piece of paper detailing the conditions and terms of a transaction. Delivered to the customer on or before settlement. It serves as a bill for purchases and an advisory notice for sales.

CORPORATE BONDS - A debt instrument issued by a corporation which normally pays interest on specific dates and repays the principal at maturity.

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.

CREDIT RISK - The risk that an obligation will not be met in a timely fashion with the result being a temporary or even permanent loss to the lender.

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

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

DEBT TO EQUITY RATIO - Solvency ratio of total long-term debt to total stockholder's equity.

DELIVERY VERSUS PAYMENT - 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 receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVE - A broad term referring to any security which derives its value from another underlying asset or index.

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 RATE - Interest rate that the Federal Reserve charges for loans to member banks.

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

DIVERSIFICATION - Spreading a portfolio across a range of security types, industries or geographic areas to limit risk.

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

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) - A federal agency that insures bank deposits currently $250,000 per depositor.

FEDERAL FARM CREDIT BANK (FFCB) - Government instrumentality which issues notes and bonds to provide funds for its member banks for the purchase of farm land, equipment and commodities.

FEDERAL HOME LOAN BANKS (FHLB) - Government instrumentality consisting of twelve regional banks owned by savings and homestead associations which issue bonds and notes to finance home building and mortgage loans of their member associates.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC OR FREDDIE MAC) - Debt issued by FHLMC, a government instrumentality, to facilitate a real estate lending. FHLMC issues short-term debt backed by its own full faith and credit, and it issued long-term debt backed by mortgages with repayment guaranteed by FHLMC.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA OR FANNIE MAE) – A government-sponsored-publicly-owned corporation whose stock trades on the New York Stock Exchange. FNMA issues short-term debt backed by its own full faith and credit. FNMA purchases FHA, VA, and FHDA mortgages through the sale of its corporate debenture notes. These notes are backed by the mortgages with repayment guaranteed by FNMA.

FLOATER - A floating rate security in which the interest note varies with an index such as U.S. Treasury Bills or LIBOR (London Interbank Offered Rate).

GENERAL OBLIGATION BOND (G.O.) - A municipal bond secured by the full faith and credit of the municipality.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIE MAE) - Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term pass-through is often used to describe Ginnie Ames.

GUARANTEED INVESTMENT CONTRACTS (GICs) - An agreement acknowledging receipt of funds for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid. Uninsured, non-guaranteed obligations of insurance companies, permitted for public investment in a few states. Risk varies according to the credit risk of the issuing company.

HEDGE/HEDGING - Technique designed to counteract the risk of loss from price changes in the market.

HOLDING COMPANIES - A corporation with controlling interest in one or more corporations.

INSTRUMENTALITIES - See U.S. government instrumentality obligations.

INTEREST - The sum charged for borrowing money.

INTEREST-ONLY SECURITY (I0) - Security derived from the interest rate portion of a pool of mortgage securities (separated from the principal portion).

INTEREST RATE RISK - The uncertainty of investment return due to changes in the market rates of interest. For investments that generate a fixed rate of return, the value of that investment is inversely related to the movement of market rates of interest.

INVERSE FLOATER - Structured note or derivative designed to rise in yield as interest rates fall. Also called reverse floater. Extremely volatile security not recommended for public funds.

INVESTMENT COMPANY ACT OF 1940 - Regulates investment companies.

LEVERAGE - Money borrowed to reinvest in order to increase the return on invested capital. A municipality may leverage funds through the issuance of taxable notes, reverse repurchase agreements and purchasing securities with embedded leverage. Leverage may be embedded inside a security or it may be applied to an investment portfolio as a whole.

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.

LIQUIDITY RISK - The risk that a financial institution or other organization will not have sufficient cash on hand to meet its obligations; or in the case of a specific investment instrument, the risk that it will not be easily convertible to cash.

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

LONG TERM - Securities held more than six months or bonds maturing in more than five years.

MARK TO MARKET - Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.

MARKET MAKER - A broker/dealer maintaining an inventory in a security.

MARKET RATE OF RETURN - Return that is based on some market index that acts as a proxy for the market, such as the "Standard & Poor 500" stock index, which is used to gauge the returns on individual securities or portfolios. The City uses as a benchmark the average return on two-year U.S. Treasury Notes.

MARKET RISK - The risk of a decline in the price of securities because of a general falling market.

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

MASTER REPURCHASE AGREEMENT - A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement 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 become due and payable.

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

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

MONEY MARKET FUND - An open-end investment company (mutual fund) that invests in money market instruments regulated by the Securities and Exchange Commission. It is a highly liquid investment that pays money market rates of interest.

MONEY MARKET INSTRUMENTS - Highly liquid debt instruments usually with maturities of one year or less. Money market instruments include repurchase agreements, reverse repurchase agreements, negotiable certificates of deposit, banker's acceptances, commercial paper, Treasury bills and other short-term direct obligations of U.S. government agencies and instrumentalities.

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 package the mortgage loans into pools, securitize 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.

MUTUAL FUNDS - Investment company that pools funds from investors to buy stocks, bonds, government securities, money market instruments and other assets. Public investments, with the exception of pension funds, usually are restricted to mutual funds known as money market funds.

NATIONAL ASSOCIATION OF SECURITIES DEALERS - A not-for-profit organization of dealers whose aim is protecting over the counter customers through financial solvency and integrity.

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

NET ASSET VALUE - Net redemption price (bid price) of an open-end investment company.

NO-LOAD MUTUAL FUNDS - Mutual funds offered directly to the public at net asset value with no sales charge.

NOTE - A written promise to pay a specified amount to a certain entity on demand or on a specified date.

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

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

PERFECTED INTEREST - The legal right to interest and principal of securities held as collateral by a third party safekeeping arrangement.

PORTFOLIO - Collection of securities held by an investor.

PREFERRED STOCK - Shareholders are entitled to a specified dividend and priority over assets in liquidation, but not voting rights.

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

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 BANKER'S ACCEPTANCE - A banker's acceptance issued by a bank that has received the highest short-term ratings from at least two' nationally recognized ratings organizations. It has a relatively short maturity (usually six months or less), and is eligible for discounting within the Federal Reserve system. Eligibility depends on a number of criteria including the purpose; timing and amount of the underlying transaction (See also "banker's acceptance").

PRIME COMMERCIAL PAPER - Commercial paper that has received the highest short-term ratings from at least two national ratings organizations (See also "commercial paper").

PRIME RATE - Interest rate charged by a bank on loans to its best customers.

PRINCIPAL - (1) The face amount on a bond. (2) The basic amount invested.

PRINCIPAL-ONLY SECURITY (P0) - Security derived from principal portion of a pool of mortgage securities (separated from the interest payments).

PROSPECTUS - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC that typically includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

PRUDENT INVESTOR 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 bought 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.

REINVESTMENT RISK - The risk that maturing investments cannot be replaced by investments earning the same interest rate.

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

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

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

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

SECURITIES & EXCHANGE COMMISSION (SEC) - Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SECURITY INVESTOR PROTECTION CORPORATION (SIPC) - A non-profit organization of broker/dealers responsible for orderly liquidation of failed firms. Customers are protected to $500,000 per account.

SHORT TERM - Securities held six months or less. Bonds with maturities of one year or less.

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 enterprises.

STRIPS – Separate trading of registered interest and principal securities

STRUCTURED NOTE - Complex customized security (also known as structured derivative) on which the returns are pegged to underlying assets or financial indices.

STUDENT LOAN MARKETING ASSOCIATION (SLMA) (U.S. Government Instrumentality) - A stockholder-owned corporation established by the Higher Education Act of 1965, which issues notes and bonds to provide funds to banks to collateralize insured loans for higher education.

TAX AND REVENUE ANTICIPATION NOTES (TRANs) - Notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

TOTAL RISK-BASED CAPITAL RATIO, TIER 1 RISK-BASED CAPITAL RATIO & TIER 1 LEVERAGE RATIO - In response to the FDIC Improvement Act of 1991 (FDICIA), the FDIC and the Federal Reserve Board both proposed a five-tier scheme of capital requirements and corresponding supervisory actions to implement the prompt corrective actions provisions of the FDICIA. These ratios serve as benchmarks for the five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

> Well capitalized institution would be defined as one that has a total risk-based capital ratio of ten percent, a Tier 1 risk-based capital ratio of six percent and a leverage ratio of five percent. A well-capitalized institution can not be subject to any written capital order or directive.
>
> An adequately capitalized institution would be one with a total risk-based capital ratio of eight percent, a Tier 1 risk-based capital ratio of four percent, or a Tier 1 leverage ratio of four percent.
>
> An undercapitalized institution would be one that does not meet the capital levels needed to be adequately capitalized. A significantly undercapitalized institution, however, would be one that has a total risk-based capital ratio of under six percent, a Tier 1 risk-based capital of under three percent, or a Tier 1 leverage ratio of under three percent.
>
> Finally, the agencies proposed to classify any institution as critically undercapitalized if it has a Tier 1 leverage ratio of two percent or less.

TREASURY BILLS - A short-term U.S. government security, also known as a T-bill, issued in minimum denominations of $10,000 with maturities of 13 weeks, 26 weeks and 52 weeks. T-bills bear no specific interest rate. They are sold at a discount to face value; their yield, therefore, varies with the difference between the purchase price and the value at maturity.

TREASURY BOND - Long-term, coupon-bearing U.S. government security, usually issued in denominations of $1,000 or more and having maturities of 10 or more years. Interest is paid every six months at a rate of one-half the annual coupon; principal is paid at maturity.

TREASURY NOTES - Medium-term, coupon-bearing U.S. government security, usually issued in denominations of $1,000 or more and having maturities of one to 10 years. Interest is paid every six months at a rate of one-half the annual coupon; principal is paid at maturity.

TRUSTEE OR TRUST COMPANY OR TRUST DEPARTMENT OF A BANK – A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

UNDERWRITER - A dealer which purchases a new issue of municipal securities for resale.

UNIFORM NET CAPITAL RULE - SEC 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.

U.S. GOVERNMENT AGENCY OBLIGATIONS (AGENCIES) - Securities issued by federal agencies other than the U.S. Treasury including: the Government National Mortgage Association (GNMA or Ginnie Mae), Small Business Administration (SBA), General Services Administration (GSA) and Federal Housing Administration (FHA). Some investors include debt instruments issued by government-sponsored corporations and related instrumentalities in the term "agencies." However, technical differences make this usage incorrect. In most cases, the U.S. government explicitly guarantees principal and interest of agency debt but not debt of instrumentalities and government sponsored corporations.

U.S. GOVERNMENT INSTRUMENTALITY OBLIGATIONS (INSTRUMENTALITIES) - Securities issued by government-sponsored corporations including: the Student Loan Marketing Association (Sallie Mae), World Bank, Federal National Mortgage Association (Fannie Mae), Federal Farm Credit Banks (FFCB), Federal Home Loan Mortgage Association (Freddie Mae) and Federal Home Loan Banks (FHLB). Principal and interest are guaranteed only by the corporations, not the U.S. government.

WEIGHTED AVERAGE MATURITY (WAM) - The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

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

YIELD CURVE - A graphic representation that shows the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

ZERO-COUPON SECURITY (ZEROS) - A security on which all interest is paid in a lump sum at maturity, thus eliminating the reinvestment risk of interest paid out over the life of the security. Prices are extremely interest rate sensitive and volatility increases with maturity (See also "zero-coupon treasury bonds").

ZERO-COUPON TREASURY BOND - Security formed by stripping coupons from a treasury bond so that an investor can buy a single coupon or the principal payment at present value. Market risk is high, particularly for longer maturities. Variations include STRIPS (Separate Trading: of Registered Interest and Principal), CATS (Certificate of Accrual on Treasury Securities), TIGRS (Treasury Income Growth Receipts) and others.

TABLE 1
INVESTMENT LIMITATIONS SUMMARY

Eligible Investment Invested Vehicle	Investment Policy Section	Percentage of Total Investment Fund Market Value	Percentage of Total Investment Fund With a Single Institution
City of Rocklin Bonds	V. (A.)	No limitation	No limitation
U.S. Treasuries	V. (B.)	No limitation	No limitation
State of California Bonds	V. (C.)	No limitation	No limitation
Other U.S. State Bonds	V. (D.)	No limitation	No limitation
Local Agency Bonds	V. (E.)	No limitation	No limitation
U.S. Agencies	V. (F.)	No limitation	No limitation
Banker's Acceptance	V. (G.)	May not exceed 180 days to maturity and 40% of the market value of the fund.	5%
Commercial Paper	V. (H.)	25%	5%
Negotiable.	V. (I.)	30%	5%
Repurchase Agreements	V. (J.)	15%	5%
Reverse Repurchase Agreements	V. (K.)	15%	5%
Local Agency Investment Fund	V. (L.)	Maximum dollar amount as permitted by State law.	Maximum dollar amount as permitted by State law.
Time Deposits	V. (M.)	10%	5%
Medium-term Notes	V. (N.)	30%	5%
Mutual Funds/Money Market Funds	V. (O.)	15%	5%

Eligible Investment Vehicle	Investment Policy Section	Percentage of Total Investment Fund Market Value	Percentage of Total Investment Fund Invested With a Single Institution
Collateralized Negotiable Investments	V. (P.)	10%	5%
Mortgage-Backed Securities	V. (Q.)	20%	5%
Placer County Treasurer Investment Pool	V. (R.)	25%	N/A