CITY OF LODI

INVESTMENT POLICY

Fiscal Year 2025/26
Resolution 2025 - 121

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1.1 PURPOSE

The purpose of this policy is to state the City's policies for the investment of surplus funds in the City treasury in a prudent and systematic manner conforming to all state and local statutes governing the investment of public funds. Safety of principal is given the highest priority. In addition, this statement is intended to formalize investment-related activities to provide the highest investment return with maximum security while meeting daily cash flow demands. The ultimate goal is to protect the City's pooled investment cash while enhancing the City's economic status.

1.2 POLICY

It is the policy of the City of Lodi to invest public funds in a manner which will provide a sound investment return with maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statues governing the investment of public funds. The City of Lodi's investment policy has three objectives: (1) protect principal, (2) provide for liquidity needs, and (3) obtain the most reasonable rate of return possible within the first two objectives. The overarching theme of this policy is to utilize the "prudent investor" standard (see discussion below). This affords a broad range of investment opportunities so long as the investment is prudent and permissible under current state and local law.

1.3 SCOPE

The investment policy applies to all funds under the direct authority of the City Treasurer of the City of Lodi, including but not limited to the General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds and Trust and Agency Funds. All funds are accounted for in the City's Comprehensive Annual Financial Report. Investments of debt proceeds held by bond trustee are governed by the provisions of the debt agreements. Proceeds of bonds will be invested in accordance with the ordinance, resolution, indenture or other agreement governing the issuance of the bonds.

1.4 PRUDENT INVESTOR STANDARD

The prudent investor standard requires all those involved in the investment process to act as if the assets in the portfolio are their own. By the prudent investor standard, the rules outlined in this policy, and other applicable state and local laws and regulation, are binding constraints to be considered in taking any action.

The City Council, Treasurer and all persons authorized to make investment decisions on behalf of the City are trustees and therefor fiduciaries subject to the prudent investor standard. The "prudent investor" standard, is in accordance with Government Code Section

53600.3 which states "…all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

It is the City's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars. However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized, that in a well-diversified investment portfolio, occasional measured losses are inevitable due to economic, bond market or individual security credit analysis. These occasional losses must be considered within the context of the overall investment program objectives and the resultant long tem rate of return.

The City Treasurer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner, appropriate action is taken to control adverse developments, and the relieved parties acted at all times in a fashion that met their fiduciary obligation to the City of Lodi.

1.5 PUBLIC TRUST

All participants in the investment process shall act as fiduciaries and custodians of public funds. Investment officials shall recognize the portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

1.6 ETHICS AND CONFLICTS OF INTEREST

As a minimum standard, the City Treasurer and all other personnel authorized to make investment decisions are governed by The Political Reform Act of 1974 regarding disclosure of material financial interests as well as Government Code Section 87103. The City Treasurer and all other personnel authorized to make investment decisions shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair the ability to make impartial investment decisions. The Treasurer is required to make known to the City Manager and City Council any conflicts of interest that may arise immediately upon becoming aware of a potential conflict. The Treasurer and other key finance personnel are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPCC).

1.7 OBJECTIVES

Funds of the City will be invested with the following objectives in priority order:

Safety:

Safety of principal is the foremost objective of the investment program. Investments of the City of Lodi shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. The City of Lodi will diversify its investments by security type and institution. Financial institutions and broker/dealers will be prequalified and monitored as well as investment instruments they propose.

The City shall seek to preserve principal by mitigating two types of risk:

Credit Risk – Defined as the risk of loss due to failure of the issuer of a security. Credit risk shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the City’s cash flow.

Market Risk – Defined as the market value fluctuations due to overall changes in the general level of interest rates. Market risk shall be mitigated by limiting the weighted average maturity of the City of Lodi s investment portfolio to three and one-half years, the maximum maturity of any one security to five years, and structuring the portfolio based on historic and current cash flow analysis, thereby eliminating the need to sell securities prior to maturity.

Liquidity:

The investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. This will be accomplished through maturity diversification in accordance with California Government Code 53635 and the State Local Agency Investment Fund with immediate withdrawal provision.

Yield:

The City's investment portfolio shall be designed with the objective of attaining a sound yield (rate of return) through budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio. The City will attempt to obtain the most reasonable yield possible when selecting an investment, provided the criteria for safety and liquidity of the total portfolio are met.

1.8 LIMITING MARKET VALUE EROSION

It is the general policy of the City to limit the potential effects from erosion in market values by adhering to the following guidelines:

- All immediate and anticipated liquidity requirements shall be addressed prior to purchasing investments.
- Maturity dates for investments shall coincide with significant cash flow requirements, where possible, to assist with cash requirements at maturity.
- All securities shall be purchased with the intent to hold all investments to maturity. However, economic or market conditions may change, making it in the City's best interest to sell or trade a security prior to maturity.

1.9 STATEMENT OF INVESTMENT POLICY

The City of Lodi's Investment Policy shall be adopted by Resolution of the City Council. This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidly and yield, and its relevance to current law and financial and economic needs. Any amendments to the policy shall be forwarded to the City Council for approval.

1.10 DELEGATION OF AUTHORITY

The Treasurer is designated by the authority of the legislative body as the investment officer of the City as provided for in Government Code Section 53607 and is responsible for the investment decisions and activities of the City. The Treasurer will develop and maintain written administrative procedures for the operation of the investment program, consistent with this investment policy. The Treasurer may delegate certain day to day functions as necessary to execute this policy and manage the portfolio in the most efficient and effective manner.

The Treasurer shall hereafter assume full responsibility for such transactions until such time as the delegation of authority is revoked, and shall make a quarterly report of such transactions to the legislative body.

1.11 MONITORING AND ADJUSTING THE PORTFOLIO

The Treasurer will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments, and will adjust the portfolio accordingly. It is the City's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars.

1.12 INTERNAL CONTROL

The Treasurer will establish a system of written internal controls, which will be reviewed annually by the City's independent audit firm. The controls will be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions.

1.13 REPORTING

The Treasurer will submit a quarterly investment report to the City Council, in accordance with Government Code Section 53646, to disclose the following information:

- A listing of individual securities held at the end of the reporting period by authorized investment category.
- Notation of Securities purchased within the reporting period.
- Percentage of the portfolio represented by each investment category.
- Institution.
- Average life and final maturity of all investments listed.
- Coupon, discount or earnings rate.
- Par value or cost of the security
- Current market value of securities with maturity in excess of 12 months and the source of this valuation.
- Ability of the city to meet its expenditure requirements for the next six months or provide an explanation of why sufficient funds will not be available as required by Gov. Code 53646 (b)(3).

The quarterly investment report to the Lodi City Council, acting legislative authority, as endorsed by Government Code Section 53646, will be in addition to the Treasurer's monthly report and accounting of all receipts, disbursements and fund balances.

1.14 AUTHORIZED INVESTMENTS

The City will invest surplus funds not required to finance the immediate needs of the City as provided in California Government Code Sections 16429.1, 53601, 53601.6, 53601.8, 53635, 53635.2, 53638 and 53684. In selecting authorized investments consideration must be given to credit ratings, maturities, current makeup of the City's portfolio and collateralization of applicable instruments. A list of eligible instruments is provided below.

Permitted Investments	Maturity	Maximum % of Portfolio	Minimum Quality Requirements
U.S. Treasury Obligations (Bills, notes and bonds)	5 years	100%	None
US Government Agency Securities and Instrumentalities	5 years	100%	None
Bankers Acceptances	180 days	40%	None
Certificates of Deposit	5 years	100%	None
Negotiable Certificates of Deposit	5 years	30%	None
Commercial Paper	270 days	30%	Credit Rating of P1/A1 or A1+/F1 or F1+ by Moody's, S&P or Fitch
California State Local Agency Investment Fund	Indefinite	100%	None
Passbook Deposits	Indefinite	100%	None
Mutual Funds and Money Market Mutual Funds	N/A	20%	Multiple Requirements per Gov't Code
Medium Term Corporation Notes	5 years	30%	A-/A3/A- by Moody's, S&P, or Fitch
Joint Powers Authority Pool	Indefinite	30% (Funds held at NCPA shall not count to this limit)	Multiple Requirements per Gov't Code
Certificate of Deposit Account Registry Service (CDARS)	Indefinite	30%	None
Supranational Obligations	5 years	30%	AA-/Aa3/AA- by Moody's, S&P, or Fitch
Municipal Securities (50 States or California Local Agencies)	5 years	100%	None

Investments not listed in this section, including those otherwise authorized by California Government Code are ineligible investments for the City of Lodi. Ineligible investments include, but are not limited to, common stocks, long term (over five years in maturity) notes and bonds, swaps, options, derivatives, repurchase and reverse repurchase agreements and swap agreements.

Pooled funds invested for the City by entities such as California State Local Agency Investment Fund, CalTRUST, NCPA, or other Joint Powers Authority Pools may invest in swaps, options, derivatives or repurchase and reverse repurchase agreements as permitted by California Government Code and the respective policy guidelines of the investing agency.

1.15 BANKS AND QUALIFIED BROKER/DEALERS

The Treasurer will consider the credit worthiness of institutions in selecting financial institutions for the deposit or investment of City funds. These institutions will be monitored to ensure their continued stability and credit worthiness.

The City shall conduct investment transactions only with qualified banks, savings and loans, and broker/dealers. The Treasurer shall investigate dealers who wish to do business with the City to determine that they are adequately capitalized, have no pending legal action against the firm or the individual broker and that they participate in markets appropriate to the City's needs. Third parties in this category will be required to provide their most recent Consolidated Report of Condition ("call report") prior to transacting business with the City and at the request of the Treasurer during the course of conducting business.

The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will be maintained of approved security brokers/dealers selected for credit worthiness. The City shall send a copy of the current investment policy to all broker/dealers approved to do business with the City. Written and signed confirmation, on company letterhead, of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this policy and all applicable state and federal laws and regulations.

In addition, all financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with the following:

- Audited financial statements
- Proof of Financial Industry Regulatory Authority registration.
- Trading Resolution
- Proof of State Registration
- Certification of having read the City of Lodi's investment policy and depository contracts.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer.

The City will not normally use more than three qualified dealer/brokers to obtain bids.

1.16 PURCHASE OF CDs FROM LOCAL INSTITUTIONS

To the extent reasonable and within the limits specified above, the Treasurer may purchase a Certificate of Deposit, up to the amount fully insured by the Federal Deposit Insurance Corporation (FDIC), from each bank and savings and loan institution located within the corporate limits of the City to promote economic development and as a statement of support for those institutions maintaining an office in Lodi. These investments are limited to those institutions which offer Certificates of Deposit insured by the Federal Deposit Insurance Act and have a Community Reinvestment Act Rating of satisfactory or above.

To aid in the diversification of the portfolio, additional Certificates of Deposit in amounts up to fully insured FDIC limits, may be purchased from local institutions provided the investment has the safety, liquidity and a rate of return comparable to that offered from LAIF at the time the original investment is made.

Additional Certificates of Deposit may be purchased from a single institution so long as the amounts are fully collateralized as described in Section 1.17.

1.17 SAFEKEEPING AND COLLATERILIZATION

All investment securities purchased by the City will be held in third-party safekeeping by an institution designated as primary agent. The custodian will hold these securities in a manner that establishes the City's right of ownership. The primary agent will issue a safekeeping receipt to the City listing the specific instruments, rate, maturity and other pertinent information. Deposit type securities (i.e., certificates of deposit) will be collateralized.

Collateral for time deposits in savings and loans will be held by the Federal Home Loan Bank or an approved Agent of Depository. If collateral is government securities, 110% of market value to the face amount of the deposit is required. Promissory notes secured by first mortgages and first trust deeds used as collateral require 150% of market value to the face amount of the deposit. An irrevocable letter of credit issued by the Federal Home Loan Bank of San Francisco requires 105% of market value to the face amount of the public deposit.

The collateral for time deposits in banks should be held in the City's name in the bank's Trust Department, or alternately, in the Federal Reserve Bank. The City may waive collateral requirements for deposits which are fully insured up to limits prescribed by the FDIC.

The amount of securities placed with an agent of depository will at all times be maintained in accordance with California Government Code 53652.

1.18 ADMINISTRATION

The following administrative policies will be strictly observed:

Payment:

All transactions will be executed on a delivery versus payment basis which should be done by the City's safekeeping agent.

Bid:

A competitive bid process in which no less than three competitive bids are obtained, when practical, will be used to place all investment purchases. Typically, when soliciting bids, the Treasurer or Designee will specify through email with a blind copy to qualified brokers the following: maturity date, credit quality, eligible investment category, amount available to invest and security names the City will not consider due to overconcentration. The open window for providing offers shall be a minimum of one hour and the City's review period shall be no more than one hour in order to minimize the risk of market price fluctuations between security offer and the City's decision to purchase. Securities not matching the requirements for the portfolio will not be considered in that solicitation. The Treasurer has the right to refuse all bids and reissue a solicitation. If less than three qualifying responses are received, the Treasurer may choose to select from the responses received or to reissue the solicitation.

Wire Transfers:

All wire transfers will be initiated by the Accounting Manager or Designee and approved by the Treasurer or Designee. Wires cannot be approved by the initiator. The City's utilizes electronic dual controls on all wire transfers requiring that approvers cannot be initiators and vice versa.

Pre-formatted wire transfers will be used to restrict the transfer of funds with preauthorized accounts only.

Confirmations:

Receipts for confirmation of a purchase of authorized securities should include the following information: trade date; par value; maturity; rate; price; yield; settlement date; description of securities purchased; net amount due; third-party custodial information. Confirmations of all investment transactions are to be received by the Treasurer not later than the business day immediately following the trade. Same day confirmations are preferred.

Pooled Cash:

The City will consolidate into one bank account and invest on a pooled concept basis. Interest earnings will be allocated monthly based on current cash balances.

Bond Proceeds:

The City will comply with applicable federal tax law and regulations in connection with the investment of bond proceeds.

2.1 INTERNAL CONTROLS - GENERAL

Through this system of internal control, the City is adopting procedures and establishing safeguards to prevent or limit the loss of funds invested or held for investment due to errors, losses, misjudgments and improper acts. Internal control procedures are not intended to address every possible situation but are intended to provide a reasonable and prudent level of protection for the City's funds.

Objectives:

These procedures and policies are established to ensure:

- the orderly and efficient conduct of investment practices, including adherence to investment policies
- the safeguarding of surplus cash
- the prevention or detection of errors and fraud
- the accuracy and completeness of investment records
- the timely preparation of reliable investment reports

General Control Policies:

The following policies are to be used to safeguard investments:

- **Organization**

A description of responsibilities and procedures for the investment of City funds, lines of authority and reporting requirement will be maintained.

- **Personnel**

  Only qualified and assigned personnel will be authorized to approve investment transactions; make and liquidate investments; maintain investment records; and maintain custody of negotiable instruments. Personnel assigned responsibility for the investment of City surplus funds will maintain their professional qualifications by continued education and membership in professional associations.

- **Segregation of functions**
  No one having general ledger functions will have responsibility for the investment of City funds.

- **Safekeeping**
  All securities are to be held in the name of the City of Lodi. The City will contract with a third party, usually a bank, to provide custodial services and securities safekeeping. Although a cost is involved, the risk of losing physical securities outweighs the fees involved. Preference should be given to custodial services which include reporting services as part of their service, including marking the portfolio to market value, performance evaluation and internal reporting.

- **Reconciliation of records**
  Regular and timely reconciliation will be made of detailed securities records with the general ledger control account.

- **Performance evaluation**
  Performance statistics will be maintained and reported monthly as provided in the Investment Policies.

2.2 INTERNAL CONTROL PROCEDURES

<u>Assigned Responsibilities:</u>

a. City Council responsibilities:
   - Adoption of City's investment policies by Resolution
   - Review and evaluation of investment performance.

b. Treasurer duties and responsibilities:
   - Formulating, recommending and implementing the City's investment policies
   - Approves all investment transactions prior to execution of any transaction
   - Approves broker/dealer arrangements.

c. Budget Manager duties and responsibilities:
   - Recommends broker/dealer arrangements
   - Recommends investments
   - Executes investment transactions
   - Maintains records of all investment transactions
   - Prepares quarterly investment report for City Council review
   - Prepare fiscal year end investment reports for City's independent audit firm review
   - Review's financial condition of the City's depositories (banks) at least annually for compliance with collateralization requirements under government code and financial condition and reports results to City Treasurer.

d. Accounting Manager duties and responsibilities:
   - Maintains general ledger control account and duplicate records of investment transactions
   - Verifies investment records and reconciles detailed securities records with general ledger control accounts.

e. City's independent audit firm:
   - Will review the City's investment policies and procedures and make appropriate recommendations and findings as to compliance and steps to be taken to improve internal controls.

2.3 TREASURY FUNCTION RESPONSIBILITIES

FUNCTION	**RESPONSIBILITIES**
1. **Recommendations:**	
• Recommends broker/dealer arrangements	Treasurer/Budget Manager
• Recommends investments	Treasurer/Budget Manager
2. **Authorization of Investment Transactions**	
• Formal investment policy prepared by	Treasurer
• Formal investment policy approved by	City Council
• Investment transactions approved by	Treasurer
• Broker/deal arrangements approved by	Treasurer
3. **Execution of Investment Transactions**	Treasurer/Budget Manager
4. **Recording of Investment Transactions**	
• Recording of transactions in Treasurer's records	Budget Manager
• Recording of transactions in Accounting records	Accounting Manager
5. **Safeguarding of assets and records**	
• Maintenance of Treasurer's records	Budget Manager
• Reconciliation of Treasurer's records to accounting records	Accounting Manager
• Review of (a) financial institution's financial condition, (b) safety, liquidity, and potential yields of investment instruments, and (c) reputation and financial condition of investment brokers	Treasurer/Budget Manager
• Periodic reviews of collateral	Budget Manager
• Review and evaluation of performance	City Council
6. **Preparation of reports**	Budget Manager
7. **Annual review of investment portfolio for conformance to City's investment policy**	City's Audit Firm

2.4 BROKER/DEALER QUESTIONNAIRE

BROKER/DEALER QUESTIONNAIRE
CITY OF LODI TREASURER'S OFFICE
P. O. Box 3006
Lodi, California 95241

1. Name:____________________

2. Branch Address:____________________

3. Telephone No.: ____________________

4. Primary Account Representative:____________________
   Name:____________________
   Title:____________________
   Telephone No.: ____________________

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

6. Identify the personnel who will be trading with or quoting securities to our agencies employees:
   Name Title Telephone No.
   ____

7. National Headquarters Address:
   Corporate Contract: ____________________
   Telephone No.: ____________________
   Compliance Officer (Name, Address, Telephone):
   ____

8. What was your firm's total volume in US Government and Agency securities trading last calendar year?

9. Which securities are offered by your firm?

( ) US Treasury	( ) Commercial Paper
( ) US Treasury Notes	( ) BAs Domestic
( ) US Treasury Bonds	( ) BAs Foreign
( ) Agencies (specify)	( ) Repurchase Agreements
( ) Negotiable CD's	( ) Reverse Repurchase Agreements

10. List your personnel who have read the City of Lodi Treasurer's Investment Policy.

11. Please identify your public-sector clients in our geographical area who are most comparable to our government with which you currently do business.

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

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

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

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

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

17. Please explain your normal delivery process. Who audits these fiduciary systems?

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

19. Describe the capital line and trading limits that support/limit the office that would conduct business with our government.

20. What training would you provide to our employees and investment officers?

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

22. Do you participate in the Securities Investor Protection Corporation (SIPC) insurance program? If not, why?

23. What portfolio information do you require from your clients?

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

25. Enclose a complete schedule of fees and charges for various transactions.

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

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

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

2.5 BROKER/DEALER CERTIFICATION

CERTIFICATION ATTACHED CERTIFICATION

I hereby certify that I have personally read the latest adopted resolution of investment policies and objectives of the City of Lodi Treasurer and the California Government Codes pertaining to the investments of the City of Lodi, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out to transaction conducted between our firm and the City of Lodi. All sales personnel will be routinely informed of the City of Lodi's investment objectives, horizon, outlook, strategies and risk constraints whenever we are so advised. We pledge to exercise due diligence in informing the City of Lodi of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

SIGNED___________________________ TITLE____________________ DATE_____________

COUNTERSIGNED ________________________ DATE ____________________
(Person in charge of government securities operations)

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

On this ____________ day of ______________ 20_____ before me the undersigned Notary Public personally appeared
( ) personally known to me
( ) proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) subscribed to the within instrument and acknowledged that _______ executed it.

State of ___________________________

County of ________________________________

WITNESS my hand and official seal.
Notary's Signature

GLOSSARY

AGENT: an agent is a firm or individual which executes orders for others or acts on behalf of others (the principal). The agent is subject to the control of the principal and does not have title to the principal's property. The agent may charge a fee or commission for this service.

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

AGREEMENT: an agreement is an arrangement or understanding between individual traders to honor market quotes within predetermined limits on dollar amount and size.

AMORTIZATION: straight-line reduction of debt by means of periodic payments sufficient to meet current interest charges and to pay off the debt at maturity.

ARBITRAGE: a technique used to take advantage of price differences in separate markets. This is accomplished by purchasing securities, negotiable instruments or currencies in one market for immediate sale in another market at a better price.

ASKED: the price at which securities are offered.

AT THE MARKET: a trading term for the buying or selling of securities at the current market price rather than at a predetermined price.

BANKERS ACCEPTANCE (BA): a bearer time draft for a specified amount payable on a specified date. An individual or business seeking to finance domestic or international trade draws it on a bank. Commodity products collateralize the BA. Sale of goods is usually the source of the borrower's repayment to the bank. The bank finances the borrower's transaction and then often sells the BA on a discount basis to an investor. At maturity, the bank is repaid and the investor holding the BA receives par value from the bank.

BASIS PRICE: price expressed in yield-to-maturity or the annual rate of return on the investment.

BEAR MARKET: a period of generally pessimistic attitudes and declining market prices. (Compare: Bull market)

BELOW THE MARKET: a price below the current market price for a particular security.

BID AND ASKED OR BID AND OFFER: the price at which an owner offers to sell (asked or offer) and the price at which a prospective buyer offers to buy (bid). It is often referred to as a quotation or a quote. The difference between the two is called the spread.

BOND: an interest-bearing security issued by a corporation, government, governmental agency or other body, which can be executed through a bank or trust company. A bond is a form of debt with an interest rate, maturity, and face value, and is usually secured by specific assets. Most bonds have a maturity of greater than one year, and generally pay interest semiannually.

BOND ANTICIPATION NOTE (BAN): short-term notes sold by states and municipalities to obtain interim financing for projects which will eventually be financed by the sale of bonds.

BOND DISCOUNT: the difference between a bond's face value and a selling price, when the selling price is lower than the face value.

BOND RATING the classification of a bond's investment quality. (See: Rating).

BOND RESOLUTION: a legal order or contract by a governmental unit to authorize a bond issue. A bond resolution carefully details the rights of the bondholders and the obligation of the issuer.

BOOK VALUE: the amount at which a security is carried on the books of the holder or issuer. The book value is often the cost, plus or minus amortization, and may differ significantly from the market value.

BROKER: a middleman who brings buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

BULL MARKET: a period of generally optimistic attitudes and increasing market prices. (Compare: Bear Market).

BUYERS MARKET: a market where supply is greater than demand, giving buyers an advantage in purchase price and terms.

CALL: an option to buy a specific asset at a certain price within a particular period.

CALLABLE: a feature which states a bond or preferred stock may be redeemed by the issuer prior to maturity under terms designated prior to issuance.

CALL DATE: the date on which a bond may be redeemed before maturity at the option of the issuer.

CALLED BONDS: bonds redeemed before maturity.

CALL PREMIUM: the excess paid for a bond or security over its face value.

CALL PRICE: the price paid for a security when it is called. The call price is equal to the face value of the security, plus the call premium.

CALL PROVISION: the call provision describes the details by which a bond may be redeemed by the issuer, in whole or in part, prior to maturity. A Security with such a provision will usually have a higher interest rate than comparable, but noncallable securities.

CAPITAL GAIN OR LOSS: the amount that is made or lost, depending upon the difference between the sale price and the purchase price of any capital asset or security.

CAPITAL MARKET: the market in which buyers and sellers, including institutions, banks, governments, corporations and individuals, trade debt and equity securities.

CASH SALE: a transaction calling for the delivery and payment of the securities on the same day that the transaction takes place.

CERTIFICATE OF DEPOSIT (CD): debt instrument issued by a bank that usually pays interest. Institutional CD's are issued in denominations of $100,000 or more. Maturities range from a few weeks to several years. Competitive forces in the marketplace set interest rates.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SERVICE (CDARS): deposits made with a "selected" depository institution, in accordance with California Government Code Section 53601.8, that uses a private entity to assist in the placement of certificates of deposit. Such deposits shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration. The selected depository institution shall serve as custodian for each certificate of deposit that is issued with placement service for the City of Lodi's account.

COLLATERAL: securities or other property, which a borrower pledges for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERAL NOTE: a promissory note, which specifically mentions the collateral, pledged by the borrower for the repayment of an obligation.

COMMERCIAL PAPER: short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted, although some are interest-bearing.

COMMISSION: the brokers or agent's fee for purchasing or selling securities for a client.

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

COVENANT: a pledge in the bond resolution or indenture of the issuing government to perform in a way that may benefit the bondholders, or to refrain from doing something that might be disadvantageous to them.

COVER: the spread between the winning bid (or offer) and the next highest bid (or the next lowest offer). It is useful as a basis for evaluation of the bids.

COVERAGE RATIO: the ratio of income available to pay a specific obligation versus the total amount obligated. This is a measure of financial stability.

CREDIT ANALYSIS: a critical review and appraisal of the economic and financial condition of a government agency or corporation. The credit analysis evaluates the issuing entity's ability to meet its debt obligations, and the suitability of such obligations for underwriting or investment.

CURRENT MATURITY: amount of time left to the maturity of an obligation.

DEBENTURE: a bond secured by the general credit of the issuer rather than being backed by a specific lien on property as in mortgage bonds.

DEBT COVERAGE: this term is normally used in connection with revenue and corporate bonds. It indicates the margin of safety for payment of debt, reflecting the number of times by which earnings for a certain period of time exceed debt payable during the same period.

DEBT LIMIT (OR CEILING): the maximum amount of debt that can legally be acquired under the debt-incurring power of a state or municipality.

DEBT SERVICE: interest and principal obligation on an outstanding debt. This is usually for a one-year period.

DEFAULT: failure to pay principal or interest promptly when due.

DELIVERY VERSUS PAYMENT: securities industry procedure, common with institutional accounts, whereby delivery of securities sold is made to the buying customer's bank in exchange for payment, usually in the form of cash. (Institutions are required by law to require "assets of equal value" in exchange for delivery.) Also called Cash on Delivery.

DERIVATIVE: contracts written between a City and a counter party such as a bank, insurance company or brokerage firms. Their value is derived from the value of some underlying assets such as Treasury Bonds or a market index such as LIBOR. Derivatives are used to create financial instruments to meet special market needs. Two contrasting reasons for the use of derivatives are: 1) to limit risk or transfer it to those willing to bear it; and, 2) to speculate about future interest rates and leverage in hope of increasing returns.

DISCOUNT: the difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after a sale also is considered to be at a discount.

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

DUE DILIGENCE: exercising of due professional care in the performance of duties.

FACE VALUE: the principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

FANNIE MAE: trade name for the Federal National Mortgage Association.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): federal agency established in 1933 that guarantees (within limits) funds on deposit in member banks and performs other functions such as making loans to or buying assets from members banks to facilitate mergers or prevent failures.

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 HOME LOAN BANKS (FHLB): government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

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.

FIDUCIARY: an individual or group, such as a bank or trust company, which acts for the benefit of another party or to which certain property is given to hold in trust, according the trust agreement.

FISCAL YEAR: an accounting or tax period comprising any twelve-month period. The City's fiscal year starts July 1.

FREDDIE MAC: trade name for the Federal Home Loan Mortgage Corporation.

FULL FAITH AND CREDIT: the unconditional guarantee of the United States government backing a debt for repayment.

GENERAL OBLIGATION BONDS (GO's): bonds secured by the pledge of the municipal issuer's full faith and credit, usually including unlimited taxing power.

GINNIE MAE: trade name for the Government National Mortgage Association.

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

HOLDER: the person or entity which is in possession of a negotiable instrument.

INDEBTEDNESS: the obligation assumed by a borrower, guarantor, endorser, etc. to repay funds which have been or will be paid out on the borrower's behalf.

INDENTURE: a written agreement used in connection with a security issue. The document sets the maturity date, interest rate, security and other terms for both the issue holder, issuer and, when appropriate, the trustee.

INTEREST RATE: the interest payable each year on borrowed funds expressed as a percentage of the principal.

INVESTMENT: use of capital to create more money, either through income-producing vehicles or through more risk-oriented ventures designed to result in capital gains.

INVESTMENT PORTFOLIO: a collection of securities held by a bank, individual, institution, or government agency for investment purposes.

IRREVOCABLE LETTER OF CREDIT: instrument or document issued by a bank guaranteeing the payment of a customer's drafts up to a stated amount for a specified period. It substitutes the bank's credit for the buyer's and eliminates the seller's risk. This arrangement cannot be changed or terminated by the one who created it without the agreement of the beneficiary.

ISSUE PRICE: the price at which a new issue of securities is put on the market.

ISSUER: any corporation or governmental unit, which borrows money through the sale of securities.

JOINT AND SEVERAL OBLIGATION: a guarantee to the holder in which the liability for a bond or note issue may be enforced against all parties jointly or any one of them individually so that one, several or all may be held responsible for its payment.

LAIF: trade name for California State Local Agency Investment Fund.

LEGAL INVESTMENT: a list of securities in which certain institutions and fiduciaries may invest as determined by regulatory agencies.

LEGAL OPINION: an opinion concerning the legality of a bond issue, usually written by a recognized law firm specializing in the approval of public borrowings.

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.

MARKETABILITY: the measure of ease with which a security can be sold in the secondary market.

MARKET ORDER: an order to buy or sell securities at the prevailing bid or ask price on the market.

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

MARKET VS. QUOTE: quote designates the current bid and ask on a security, as opposed to the price at which the last security order was 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 that the principal or stated value of debt instrument becomes due and payable. It is also used as the length of time between the issue date and the due date.

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

MORTGAGE BOND: a bond secured by a mortgage on property. The value of the property used as collateral usually exceeds that of the mortgage bond issued against it.

NEGOTIABLE: a term used to designate a security, the title to which is transferable by delivery. Also used to refer to the ability to exchange securities for cash or near-cash instruments.

NO PAR VALUE: a security issued with no face or par value.

NON-NEGOTIABLE: a security whose title or ownership is not transferable through a simple delivery or endorsement. (See: Negotiable.)

OBLIGATION: a responsibility for paying back a debt.

OFFER: the price of a security at which a person is willing to sell.

OFFERING: placing securities for sale to buyers. The offering usually states the price and terms.

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 stated or face value of a security expressed as a specific dollar amount marked on the face of the security; the amount of money due at maturity. Par value should not be confused with market value.

PAYING AGENT: the agency, usually a commercial bank, which dispenses the principal and interest payable on a maturing issue.

PORTFOLIO: the collection of securities held by an individual or institution.

PREMIUM: the amount by which the price paid for a security exceeds the par value. Also, the amount that must be paid over the par value to call an issue before maturity.

PRIMARY DEALER: a group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRINCIPAL: the face or par value of an instrument. It does not include accrued interest.

PRUDENT INVESTOR RULE: an investment standard adopted by the State of California in 1995. It states that a trustee shall consider the entire investment portfolio when determining the prudence of an individual investment; diversification is explicitly required within a portfolio; suitability of an investment is a primary determinant; and delegation of investment management is acceptable.

PRUDENT MAN RULE: an investment standard established in 1630. It states that a trustee who is investing for another should behave in the same way as a prudent individual of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUOTATION (QUOTE): the highest bid to buy or the lowest offer to sell a security in any market at a particular time.

RATE OF RETURN: 1) the yield which attainable on a security based on its purchase price or its current market price. 2) This may be the amortized yield to maturity on a bond the current income returns.

RATING: the designation used by investors' services to rate the quality of a security's creditworthiness. Moody's ratings range from the highest Aaa, down through Aa, A, Baa, Ba, B, etc., while Standard and Poor's ratings range from the highest AAA, down through AA, A, BBB, BB, B, etc.

REFINANCING: rolling over the principal on securities that have reached maturity or replacing them with the sale of new issues. The object may be to save interest costs or to extend the maturity of the loan.

REGISTERED BOND: a bond whose principal and/or interest is payable only to that person or organization which is registered with the issuer. This form is not negotiable and it can be transferred only when endorsed by the registered owner.

REPURCHASE AGREEMENT (REPO): agreement between a seller and a buyer, usually of U.S. Government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time. The attraction of repos is the flexibility of maturities that makes them an ideal place to "park" funds on a very temporary basis. Dealers also arrange reverse repurchase agreements, whereby they agree to buy the securities and the investor agrees to repurchase them at a later date.

REVENUE ANTICIPATION NOTES (RAN): short-term notes sold in anticipation of receiving future revenues. The notes are to be paid from the proceeds of those revenues.

REVENUE BOND: a state or local bond secured by revenues derived from the operations of specific public enterprises, such as utilities. Such bonds are not generally backed by the taxation power of the issuer unless otherwise specified in the bond indenture.

SAFEKEEPING: a service banks offer to customers for a fee, where securities are held in the bank's vaults for protection.

SECURED DEPOSIT: bank deposits of state or local government funds which, under the laws of certain jurisdictions, must be secured by the pledge of acceptable securities.

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

SECURED DEPOSIT: bank deposits of state or local government funds which, under the laws of certain jurisdictions, must be secured by the pledge of acceptable securities.

SECURITIES: investment instruments such as bonds, stocks and other instruments of indebtedness or equity.

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

SERIAL BOND: bonds of the same issue, which have different maturities, coming due over a number of years rather than all at once. This allows the issuer to retire the issue in small amounts over a long period of time.

SETTLEMENT DATE: date by which an executed order must be settled, either by buyer paying for the securities with cash or by a seller delivering the securities and receiving the proceeds of the sale for them.

SINKING FUND: a reserve fund set aside over a period of time for the purpose of liquidating or retiring an obligation, such as a bond issue, at maturity.

SPECIAL ASSESSMENT BONDS: bonds that are paid back from taxes on the property that is benefiting from the improvement being financed. The issuing governmental entity agrees to make the assessments and earmark the tax proceeds to repay the debt on these bonds.

SPREAD: the difference between two figures or percentages. For example, it may be the difference between the bid and asked prices of a quote, or between the amount paid when bought and the amount received when sold.

SUPRANATIONAL OBLIGATIONS: United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development; International Finance Corporation, or Inter-American Development Bank.

TAX ANTICIPATION NOTES (TAN): short-term notes issued by states or municipalities to finance current operations in anticipation of future tax collections which would be used to repay the debt.

TAX-EXEMPT BONDS: interest paid on municipal bonds issued by state and local governments or agencies is usually exempt from federal taxes, and in some cases, the state and/or local taxes. The interest rate paid on these bonds is generally lower than rates on non-exempt securities.

TERMS: the conditions of the sale or purchase of a security.

TREASURY BILL (T-BILL): a non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS AND NOTES: obligations of the U. S. government which bear interest. Notes have maturities of one to seven years, while bonds have longer maturities.

TREASURY BONDS: long-term coupon bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

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

TRUSTEE: a bank designated as the custodian of funds and the official representative for bondholders.

UNDERWRITER: a dealer bank or other financial institution, which arranges for the sale and distribution of a large batch of securities and assumes the responsibility for paying the net purchase price.

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

YIELD: the annual rate of return on an investment, expressed as a percentage of the investment.

YIELD CURVE: graph showing the term structure of interest rates by plotting the yields of all bonds of the same quality with maturities ranging from the shortest to the longest available. The resulting curve shows if short-term interest rates are higher or lower than long-term rates. For the most part, the yield curve is positive (short-term rates are lower), since investors who are willing to tie up their money for a longer period of time usually are compensated for the extra risk they are taking by receiving a higher yield.