CITY OF DIXON RESOLUTION NO. 19-096

RESOLUTION OF THE DIXON CITY COUNCIL APPROVING THE CITY'S INVESTMENT POLICY FOR FY 2019-20

WHEREAS, the California Government Code notes that a local agency may annually render to the legislative body a statement of investment policy to be considered at a public meeting for funds not required for the immediate needs of the City, though it is not required if no changes are being requested; and

WHEREAS, the City's investment advisor, PFM Asset Management LLC, has reviewed the policy and there are no changes recommended for this year's investment policy with this information reviewed at the April Investment Committee meeting; and

WHEREAS, as per the California Government Code, the City Council shall delegate their investment authority to the City Manager or Deputy City Manager-Administrative Services who work with an investment advisory firm for management of the City's investment portfolio for the 2019-20 fiscal year.

NOW, THEREFORE BE IT RESOLVED, that the City of Dixon Statement of Investment Policy for FY 2019-20 attached hereto as Exhibit A is hereby approved and the delegation of investment authority.

PASSED AND ADOPTED THIS 11th DAY OF JUNE 2019 BY THE FOLLOWING VOTE:

AYES: Bird, Ernest, Minnema, Pederson, Bogue

NOES: None

ABSENT: None

ABSTAIN: None

Thom Bogue, Mayor

ATTEST:

Jim Ernest, City Clerk Pro Tempore

Exhibit A

CITY OF DIXON
STATEMENT OF INVESTMENT POLICY
Fiscal Year 2019-20

Introduction

The City Council of the City of Dixon recognizes its responsibility to properly direct the investments of funds. The purpose of this policy is to provide guidelines for the investment of funds based upon prudent cash management practices and in conformity with all applicable statutes. In instances in which the Policy is more restrictive than Federal or State law, the Policy supersedes.

I. Investments Goals

The City's investment philosophy sets the tone for its policies, practices, procedures and objectives that control the investment function. The investment of funds will be guided by the primary goals of safety, liquidity, diversification, and reasonable market rate of return.

- Safety - the City will undertake investments in a manner that ensures the preservation of capital in the overall portfolio.
- Liquidity - the City will maintain sufficient cash and short-term investment instruments which together with projected revenues which will cover the City's cash flow needs
- Diversification - the investment portfolio will be diversified to avoid risk regarding specific security types or individual financial institutions.
- Reasonable Market Rate of Return - the investment portfolio will be designed to attain a market average rate of return through economic cycles that is consistent with the average maturity of its portfolio and the credit quality of its securities.

II. Standard of Prudence

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. The "prudent investor" standard states that:

"*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.*"

III. Scope

The investment policy applies to all financial assets held by the City except employee deferred compensation plans, funds held in trust with the City with specific investments instructions, and any funds held in employee pension plans. The primary guiding investment policy for bond proceeds will be dictated by the bond documents governing such funds as long as the documents are approved by the City Council or related governing board.

RESOLUTION NO.: 19-096
DATE: JUN 11 2019

Investments representing bond proceeds must be held separately from the pooled investment funds when required by the bond indentures or when necessary to meet arbitrage regulations. If allowed by the bond indentures, or if the arbitrage regulations do not apply, investments representing bond proceeds will be held as part of the pooled investments. In addition, the City may also invest bond proceeds in the State LAIF bond proceeds program.

IV. Delegation of Authority

The City Council's primary responsibilities over the investment function includes establishing investment policies, annually reviewing such policies, reviewing quarterly investment reports issued by the Treasurer, authorizing bond documents and other unique financing transactions, and authorizing any deviations from the City's investment policies. The City Council hereby delegate(s) investment authority to the City Manager or Deputy City Manager-Administrative Services, who work with an investment advisor, for a period of one year.

V. Investment Management

If the City has employed an external investment advisor to help manage the portfolio, the investment advisor shall be bound by the list of authorized securities outlined in this policy, the state and local laws and regulations that govern the investment activity of the City, and the following additional parameters.

- While it is understood that occasionally it may be in the best interest in its security portfolio, losses taken to increase the yield in the portfolio may only be taken if the increased yield results in the loss being recouped in one year or less. Credit-related losses on the other hand are taken to prevent potentially larger losses in the future. When possible, the investment manager will get prior approval of the City before taking credit-related losses. In any case, the City shall be notified as soon as possible about any credit losses in the portfolio.
- Securities that are downgraded by one or more rating agency to below the ratings required by this Policy do not have to be sold. However, the investment advisor will immediately notify the City of the downgrade. The advisor will prepare a credit report on the downgraded security and forward it to the City.

While the City entrusts its investment portfolio to an advisor, the City retains the right to ultimately make the decisions on how to invest its monies.

Evaluation of Investment Performance

As indicated previously, it is the City's policy to achieve a market rate of return on public funds while minimizing risks and preserving capital. In evaluating the performance of the City's portfolio, the City shall establish an appropriate performance benchmark and compare the total return of its portfolio to the total return of the benchmark.

Authorized Financial Dealers and Institutions

The City shall maintain a list of authorized broker/dealers and financial institutions, which are approved for investments purposes, and it shall be the policy of the City to purchase securities

RESOLUTION NO.: 19-096
DATE: JUN 11 2019

only from those authorized institutions or firms. All financial institutions which desire to become qualified bidders for investment transactions must supply the Treasurer with proof of FINRA registration and a statement certifying that the institution has reviewed the California Government Code Section 53600 *et seq.* and the City's Investment Policy and that all securities offered to the City shall comply fully and in every instance with all provisions of the California Government Code.

If a third party investment advisor is authorized to conduct investment transactions on the City's behalf, the investment advisor may use its own list of approved broker/dealers and financial institutions for investment purposes.

VI. Restrictions on Allowable Investments

The maximum maturity of any specific investment will not exceed the maturity limit established by this policy or expressly permitted by the City Council. State statutory limits will be followed unless the City maturity limits are more restrictive. The term of any investment may not exceed five years without express authority from City Council received at least 90 days preceding purchasing the investment.

The investments made by the City will have the quality standards set forth by the Government Code. This policy sets forth investment quality standards that may be higher than those in the Government Code. When a difference in quality standard occurs, the higher quality standard will be adhered to. The Investment Committee may periodically establish higher quality standards than those set by this policy when it is believed such standards will be beneficial to the City.

The City Treasurer will maintain sufficient liquidity in cash and short term investments which together with projected revenue receipts will meet the cash flow requirements of the City for the upcoming six (6) months. To the extent possible, longer term investment maturities will be spaced so that a portion of such investments mature each year to cover unanticipated emergencies.

All bank deposits will be FDIC insured or deposited with institutions which comply with the State collateral requirements for public funds. Certificate of deposits will not be placed with an institution once it has received a cease and desist order from any bank regulatory agency.

VII. General Portfolio Allowable Investments with Quality and Limit Guidelines

The California Government Code sections 53600 et seq. govern the allowable investments a local government agency can enter into. The Government Code requirements are a starting point for establishing the City quality standards, percentage limits and maturity levels. Presently, this policy exceeds the standards set forth by the State. In the event the Government Code becomes more restrictive than this policy, the Government Code restrictions shall prevail. Where this Policy specifies a percentage limitation for a particular security type or issuer, that percentage is applicable at the time the security is purchased. Credit criteria listed in this section refers to the credit rating at the time the security is purchased.

1. US Treasury bills, notes and bonds—Government Code 53601(b).
   Quality: Not Applicable
   Maximum Percentage of Portfolio: None
   Maturity limit: 5 years

RESOLUTION NO.: 19-096
DATE: JUN 11 2019

2. Government Agency Securities, including federal agency obligations and federally sponsored enterprises—Government Code 53601(f)
Quality: Not Applicable
Maximum Percentage of Portfolio: None Maturity limit: 5 years

3. California State Local Agency Investment Fund (LAIF) —Government Code 16429.1(b)
Quality: Not Applicable
Maximum Percentage of Portfolio: $65 million Maturity limit: No

4. Bonds, notes or other indebtedness of the State of California or local agencies in California—Government Code 53601(c)
Quality: Eligible investments shall be rated in a rating category of 'A-1' or its equivalent or higher by a Nationally Recognized Statistical Rating Organization (NRSRO) for issues one year or less. Eligible investments shall be rated in a rating category 'A' or its equivalent or higher by an NRSRO for issues longer than one year.
Maximum Percentage of Portfolio: 30% Issuer limit: 5%
Maturity limit: 5 years or less

5. Bonds, notes or other indebtedness of the other 49 States—Government Code 53601(d)
Quality: Eligible investments shall be rated in a rating category of 'A-1' or its equivalent or higher by an NRSRO for issues one year or less. Eligible investments shall be rated in a rating category 'A' or its equivalent or higher by an NRSRO for issues longer than one year.
Maximum Percentage of Portfolio: 30% Issuer limit: 5%
Maturity limit: 5 years or less

6. CAMP (California Asset Management Program) Investment Pool—Government Code 53601(p)
Quality: Not Applicable
Maximum Amount: $10,000,000 (unless Investment Committee approves increase)
Maturity limit: None

7. Bankers Acceptances—Government Code 53601(g)
Quality: Eligible investments shall be rated in a rating category of 'A-1' or its equivalent or higher by an NRSRO.
Maximum Percentage of Portfolio: 40% Issuer limit: 5%
Maturity limit: 180 days

8. Commercial Paper—Government Code 53601(h)
Quality: Eligible investments shall be rated in a rating category of 'A-1' or its equivalent or higher by an NRSRO.
Maximum Percentage of Portfolio: 25% Issuer limit: 5%
Maturity limit: 270 days

9. Certificates of Deposit (Time Deposits/Non-Negotiable Certificates of Deposits)—Government Code 53630 et seq
Quality: Top 25% of peer group as independently rated
Maximum Percentage of Portfolio: 30%
Issue Limit: $250,000

RESOLUTION NO.: 19-096
DATE: JUN 11 2019

Collateral: federally insured or 102% US Treasuries
Maturity limit: 5 years

10. Negotiable Certificates of Deposit (CDs) —Government Code 53601(i)
Quality: Eligible investments shall be rated in a rating category of 'A-1' or its equivalent or higher by an NRSRO for issues one year or less. Eligible investments shall be rated in a rating category 'A' or its equivalent or higher by an NRSRO for issues longer than one year.
Maximum Percentage of Portfolio: 30% Issuer limit: 5%
Maturity limit: 5 years

11. Medium-Term Notes (Corporate Obligations) —Government Code 53601(k)
Quality: Eligible investments shall be rated in a rating category of 'A' or its equivalent or higher by an NRSRO.
Maximum Percentage of Portfolio: 30% Issuer limit: 5%
Maturity limit: 5 years

12. Supranationals (IBRD, IFC, and IADB) —Government Code 53601(q)
Quality: Eligible investments shall be rated in a rating category of 'AA" or its equivalent or higher by an NRSRO.
Maximum Percentage of Portfolio: 30%
Maturity Limit: 5 years

13. Mortgage-Backed and Asset-Backed Securities—Government Code 53601(o)
Quality: Eligible investments shall be rated in a rating category of 'AA" or its equivalent or higher by an NRSRO.
Maximum Percentage of Portfolio: 20% Issuer limit: 5%
Maturity Limit: 5 years

14. Money market mutual funds—Government Code 53601(l)
Quality: Highest letter and numerical rating provided by at least two NRSROs or managed by an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of ($500,000,000)
Portion of Portfolio: 20%
Other restrictions: *No back load funds* and must be composed of instruments permitted by the Government Code.
Maturity limit: None

VIII. Prohibited Investment Transactions and Derivatives

The Government Code specifically prohibits certain types of investment instruments for municipalities. In addition to those prohibitions, the following investments are not permitted: reverse repurchase agreements, non-agency collateralized mortgage obligations, commodities, common stock, corporate bonds of more than 5 years, first mortgages or trust deeds (except for loans done through the HUD CDBG loan programs) and foreign currency.

RESOLUTION NO.: 19-096
DATE: JUN 11 2019

IX. Safekeeping and Delivery of Securities

All investment transactions of the City will be conducted using standard delivery versus payment procedures. Third party safekeeping is required for all investments. However a banking institution may use its trust department for safekeeping of investments as long as the securities are held in the City's name.

The City will utilize a third party custodian for the holding of investments. A financial institution which sells investment instruments to the City may have its trust department hold such investments as long as the instruments are held in the City's name. Custodian banks will be selected on the basis of their ability to provide services for the City's account and the competitive pricing of their safekeeping related services.

X. Reporting

Each quarter, the Treasurer will submit a report to the City Council indicating the portfolio is in compliance with the adopted investment policy, or manner in which the portfolio is not in compliance. It should also be stated that the City has the ability to meet its investment pool's expenditure requirements for the next six months, or provide an explanation as to why insufficient funds may not be available. Additional detailed information as required by law including, but not limited to:

* the type of investment
* the issuer of the investment
* maturity date
* coupon, discount and/or yield rate
* par amount, dollar amount invested and market value of the investment
* percentage of the portfolio represented by each investment

XI. Internal Controls

The City Council, after considering the recommendations of the Investment Committee, is responsible for establishing and maintaining an internal control structure designed to ensure that the financial assets of the City of Dixon are protected from loss, theft, negligence, over-reliance on a single employee for investment decisions, controls transactions and recording and reporting.

XII. Conflicts of Interest

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment function or which may impair their ability to make impartial investment decisions. Employees and investment officials shall subordinate their personal investment transactions to those of the City.

RESOLUTION NO.: 19-096
DATE: JUN 11 2019

XIII. Policy Review

The policy shall be reviewed annually by the City's Investment Committee and any modifications made thereto must be approved by the Committee and the City Council.

XIV. Glossary of Terms

Terms that are used in this Policy or frequently used in connection with the investments made by public agencies are defined in the attached Appendix.

RESOLUTION NO.: 19-096
DATE: JUN 11 2019

APPENDIX - GLOSSARY OF TERMS

Accrued Interest - Interest earned but not yet received.

Active Deposits - Funds which are immediately required for disbursement.

Amortization - An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Arbitrage – Transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a yield difference in the two markets.

Asked Price - The price a broker dealer offers to sell securities.

Bankers Acceptance (BA) - A draft or bill or exchange accepted by a bank or a trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Basis Point - One basis point is one hundredth of one percent (.01%).

Bid Price - The price a broker dealer offers to purchase securities.

Bond - A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Value - The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Broker - A broker brings buyers and sellers together for a commission. He does not take a position.

Callable Securities – Bonds that the issue has the right to redeem prior to maturity under certain, specified conditions.

Certificate of Deposit - A deposit insured by the FDIC at a set rate for a specified period of time.

CMO's – abbreviation for collateralized mortgage obligations a type of debt security that repackages and directs the payments of principal and interest from a collateral pool to different types and maturities of securities.

Collateral - Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public monies.

Commercial Paper – Short-term, negotiable unsecured promissory notes of corporations.

Corporate Notes - Obligations issued by corporations bearing interest and return of principal at maturing.

Coupon - The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

RESOLUTION NO.: 19-096

DATE: JUN 11 2019

Credit Analysis - A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Current Yield - The interest paid on an investment expressed as a percentage of the current price of the security.

Custody (Safekeeping) - A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

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.

Delivery Versus Payment - There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is the delivery of securities with an exchange of money for the securities. Delivery versus receipt is the delivery of securities with an exchange of a signed receipt for the securities.

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

Discount Securities - Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g., U. S. Treasury Bills).

Diversification - Dividing investment funds among a variety of securities offering independent returns and risk profiles. The technique is used to minimize risk to the City's portfolio.

Fannie Mae - Trade name for the Federal National Mortgage Association (FNMA), a U. S, sponsored corporation.

Federal Deposit Insurance Corporation (FDIC) - A federal agency that insures bank deposits, currently up to $250,000.

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) - The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis a vis member commercial banks.

Federal Reserve System - The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks, and 5,700 commercial banks that are members.

RESOLUTION NO.: 19-096
DATE: JUN 11 2019

Fed Wire - A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

Freddie Mac - Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

Ginnie Mae - Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U. S. Government.

IADB – abbreviation for Inter-American Development Bank, an international organization that is the largest source of development financing for Latin America and the Caribbean.

IBRD – International Bank for Reconstruction and Development

IFC – International Finance Corporation

Inactive Deposits - Term no longer in use. It has been replaced with "funds not required for the immediate needs of the City."

Interest Rate - The annual yield earned on an investment, expressed as a percentage.

Investment Agreements - An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

Investment Committee – A committee established by the City Council to oversee the City's investment program. It is made up of one Councilmember, the City Treasurer, the City Manager, and the Finance Director.

Liquidity - Refers to the ability to rapidly convert an investment into cash. A liquid asset is one that can be converted easily and rapidly to cash without a substantial loss of value.

Local Government Investment Pool - The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment. In California, the pool is called the Local Agency Investment Fund (LAIF).

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

Mark-to-Market – Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation. Adjustment is required under GASB #31 for reporting purposes.

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

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

Mutual Funds – An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

RESOLUTION NO.: 19-096
DATE: JUN 11 2019

Par Value – The amount of principal which must be paid at maturity. Also referred to as the face amount of the bond, normally quoted in $1,000 increments per bond.

Perfected Delivery - Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

Portfolio - Collection of securities held by an investor. The purpose of a portfolio is to reduce risk by diversification.

Primary Dealer - A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Principal – The face value or par value of a debt instrument, or the amount of capital invested in a given security.

Prudent Investor Standard – A standard of conduct where a person acts with care, skill, prudence and diligence when investment, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in a similar situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

Purchase Date - The date in which a security is purchased for settlement on that or a later date.

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.

Rating – The designation used by investor services to rate the quality of a security's creditworthiness.

Repurchase Agreement (REPO) - A transaction where the seller (bank) agrees to buy back from the buyer (city) the securities at an agreed upon price after a stated period of time. The buyer in effect lends the seller money for the period of this agreement, and the terms of the agreement are structured to compensate the buyer for this.

Risk - Degree of uncertainty of return on an asset.

Safekeeping - See Custody.

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

Securities and Exchange Commission (SEC) - Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Settlement Date - The date on which a trade is cleared by delivery of securities against funds.

RESOLUTION NO.: 19-096
DATE: JUN 11 2019

Treasury Bills - U. S. Treasury Bills which are short-term, direct obligations of the U. S. Government issued with original maturities of 13 weeks, 26 weeks, and 52 weeks; sold in minimum amounts of $10,000 in multiples $5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

Treasury Bond - Long-term U. S. Treasury securities having initial maturities of more than 10 years.

Treasury Notes - Intermediate-term coupon bearing U. S. securities having maturities from one year to ten years.

Underwriter – A dealer that purchases a new issue of municipal securities for resale

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. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity - The rate of income return on an investment, minus any premium above par or plus any discount with the adjustment spread over the period from the date of the purchase to the date of maturity of the bond.

Yield Curve - The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.

RESOLUTION NO.: 19-096

DATE: JUN 11 2019