



CITY OF VALLEJO

ADM B – COUNCIL
ADM A - RDA

Agenda Item No.

COUNCIL COMMUNICATION
REDEVELOPMENT AGENCY COMMUNICATION

Date: January 25, 2011

TO: Mayor and Members of the City Council
Chairman and Members of the Redevelopment Agency

FROM: Craig Whittom, Assistant City Manager/Community Development
Annette Taylor, Senior Community Development Analyst *W*

SUBJECT: Adoption of a Joint Resolution of the City Council of the City of Vallejo and the Vallejo Redevelopment Agency authorizing the City Manager/Executive Director to execute the First Amendment to the Amended and Restated Memorandum of Understanding between the County of Solano, the Vallejo Redevelopment Agency, and the City of Vallejo.

BACKGROUND & DISCUSSION

On February 9, 2010, the Redevelopment Agency adopted Resolution 10-003 N.C. and the City Council adopted Resolution 10-035 N.C. authorizing the Executive Director/City Manager or his designee to execute the Amended and Restated Memorandum of Understanding (MOU) between the County of Solano, the City of Vallejo Redevelopment Agency, and the City of Vallejo. The amendments to the MOU added the Redevelopment Agency as a party to the MOU, restated the development of the Project Vision, and adopted an expedited entitlement process and proposed Project schedule for the implementation of the Project Vision.

Although the parties had achieved consensus on the majority of issues in the MOU, two issues remained outstanding. These were the indemnity obligations imposed on the Agency and the designation of two 'mixed use' parcels as private purpose areas for revenue sharing agreement purposes. The City Council authorized the City Manager or his designee to negotiate and resolve any outstanding issues.

After the Amended and Restated MOU was approved by the City Council/RDA and the Solano County Board of Supervisors, staff began work on the entitlement process. The Solano 360 Committee met on August 8, 2010 to continue work on the proposed project. The meeting was opened to the public and public comment was given.

On August 10, 2010, the Solano County Board of Supervisors voted to suspend further action on the private components of the Solano 360 Project Vision and directed County staff to revise the time line, budget and contracts needed to proceed with just the Fair of the Future Zone. City staff was notified that the County would proceed with the Fair consistent with the Project Vision and explore interim uses for the private areas consistent with Fair operations until the time is right to proceed with the private development.

Representatives from the County and City have met since the Board of Supervisors' decision and have determined that proceeding with the private areas of Project at this time is in both jurisdictions best interest. Staff is proposing that the Redevelopment Agency and City Council

approve the First Amendment to the Amended and Restated Memorandum of Understanding. The amendment:

- Articulates the partnership between the agencies, specifying that the City and the County will be co-applicants in the planning entitlements.
- Articulates the shared commitment to implement the Project Vision in an expeditious manner
- Clarifies the respective roles of the partnership as it relates to the private development areas

FISCAL IMPACT

There is no fiscal impact caused by this action.

RECOMMENDATION

Consideration of a resolution approving the First Amendment to the Amended and Restated Memorandum of Understanding.

ENVIRONMENTAL REVIEW

An environmental review is not required for this action. An EIR will be prepared prior to or concurrently with the entitlement process for the Project.

DOCUMENTS ATTACHED

Attachment A - Joint Resolution of the City Council and the Vallejo Redevelopment Agency authorizing the City Manager/ Executive Director to execute the First Amendment to the Amended and Restated Memorandum of Understanding between the County of Solano, the Vallejo Redevelopment Agency, and the City of Vallejo

Attachment B - First Amendment to the Amended and Restated Memorandum of Understanding between the County of Solano, the City of Vallejo Redevelopment Agency, and the City of Vallejo

Attachment C - Amended and Restated Memorandum of Understanding between the City of Vallejo, the Vallejo Redevelopment Agency and the County of Solano

CONTACT: Annette Taylor, Senior Community Development Analyst
649-3510, annette@ci.vallejo.ca.us

Craig Whittom, Assistant City Manager/Community
648-4579, cwhittom@ci.vallejo.ca.us

CITY COUNCIL RESOLUTION _____ N.C.
VALLEJO REDEVELOPMENT AGENCY RESOLUTION _____ N.C.

A JOINT RESOLUTION OF THE CITY COUNCIL OF THE CITY OF VALLEJO
AND THE VALLEJO REDEVELOPMENT AGENCY AUTHORIZING THE CITY
MANAGER/EXECUTIVE DIRECTOR TO EXECUTE THE FIRST AMENDMENT
TO THE AMENDED AND RESTATED MEMORANDUM OF UNDERSTANDING
BETWEEN THE COUNTY OF SOLANO, THE VALLEJO REDEVELOPMENT
AGENCY, AND THE CITY OF VALLEJO

WHEREAS, on March 10, 2009, the Vallejo City Council approved the execution of the new Memorandum of Understanding (2009 MOU) between the County of Solano and the City of Vallejo; and

WHEREAS, on June 9, 2009, the Vallejo City Council approved the Solano 360 Visioning Report pertaining to the redevelopment of the Solano County Fairgrounds; and

WHEREAS, the Fairgrounds is located within the Flosden Redevelopment Area; and

WHEREAS, on February 9, 2010, the Vallejo City Council and the Redevelopment Agency of the City of Vallejo approved the execution of the Amended and Restated MOU which articulated the role of the Vallejo Redevelopment Agency and clarified certain roles and responsibilities among all the parties; and

WHEREAS, it was noted that additional agreements may be required between the City of Vallejo and County of Solano as the development of the Fairgrounds progressed, and

WHEREAS, the County of Solano and City of Vallejo and Redevelopment Agency of the City of Vallejo desire the amend the Amended and Restated MOU to articulate the partnership between the agencies and the shared commitment to implement the Project Vision in an expeditious manner and further clarify the respective roles as such relates to the private development areas;

NOW, THEREFORE BE IT RESOLVED that the Vallejo City Council hereby authorizes the City Manager (or his designee) and the Vallejo Redevelopment Agency hereby authorizes the Executive director (or his designee) to execute the First Amendment to the Amended and Restated Memorandum of Understanding between the County of Solano, the City of Vallejo Redevelopment Agency and the City of Vallejo .

BE IT FURTHER RESOLVED that the City Manager/Executive Director is authorized to execute further documents or amendments to the MOU as necessary to further the goals of the Amended and Rested MOU consistent with the City Manager/Executive Director's approval authority as set forth in the Vallejo Municipal Code, City of Vallejo Charter and any applicable ordinance or resolution.

**FIRST AMENDMENT TO AMENDED AND RESTATED MEMORANDUM OF
UNDERSTANDING
BETWEEN THE CITY OF VALLEJO, THE VALLEJO REDEVELOPMENT AGENCY
and THE COUNTY OF SOLANO**

This First Amendment to the Amended and Restated Memorandum of Understanding (“MOU”) between the County of Solano, a political subdivision of the State of California (the “County”), the Vallejo Redevelopment Agency, “Agency” and the City of Vallejo, a municipal corporation (the “City”), collectively the ‘Parties’, is entered into on this _____ day of _____, 2011.

1. Recitals

- A. On March 10, 2009 the parties entered into a Memorandum of Understanding (“2009 MOU”) establishing the respective roles of the County and the City with regards to their cooperative effort to develop a Project Vision for the redevelopment of the County Fairgrounds.
- B. On February 9, 2010, the parties amended and restated the 2009 MOU (“Restated MOU”) to add the Vallejo Redevelopment Agency as a party to the MOU and adopt an Expedited Entitlement Process and proposed Project Schedule for the implementation of the Project Vision that was the subject of the 2009 MOU.
- C. The parties now desire to amend the Restated MOU to clearly articulate the partnership between the member agencies and the shared commitment to implement the Project Vision in an expeditious manner and further clarify the respective roles as such relates to the private development areas.

2. Agreement

A. Entitlement Process

Exhibit A is deleted in its entirety and replaced with the Expedited Entitlement Process attached to and incorporated into this First Amendment as Revised Exhibit A.

B. Financial Contribution and Future Revenue Participation

Subsection a. of Section 7 is amended as follows:

- a. The County and City agree to jointly file an application for the approval of a Specific Plan, a General Plan Amendment, and a Zoning Amendment for the Project, which will contain sufficient specificity to grant the County and City vested rights to proceed on entitlements for the Private Development aspects of the project. The City will take the lead on processing these necessary entitlements, unless otherwise agreed to by the parties. The County agrees to reimburse the City for the cost of a project planner in

exchange for an expedited process as pertains to the processing and permitting of the non-fair elements of the Project. County will pay City actual costs in an amount not to exceed \$10,000 per month for planning and related services, legal, and other City review resources necessary for Project approval plus previously paid planning processing fees in the amount of \$13,102 for a total amount not to exceed \$193,102.

3. Effectiveness of Contract.

Except as set forth in this First Amendment, all other terms and conditions specified in the Amended and Restated MOU remain in full force and effect.

The parties have entered into this First Amendment to the Amended and Restated MOU as of the date first written above.

COUNTY OF SOLANO

CITY OF VALLEJO;
VALLEJO REDEVELOPMENT AGENCY

By _____
Michael D. Johnson
County Administrator

By _____
Phil Batchelor
City Manager for City of Vallejo
Interim Executive Director for RDA

APPROVED AS TO FORM

By _____
County Counsel

By _____
Frederick G. Soley
City Attorney; Agency Counsel

Revised Exhibit A - Expedited Entitlement Process

The parties agree to commit the necessary resources to implement the expedited processing of the entitlements for the Project, in accordance with the timeline, attached as Revised Exhibit A-1, as follows:

Expedited Entitlement Process - ANTICIPATED MAJOR TASKS AND RESPONSIBILITIES				
Tasks	JOINT COUNTY-CITY TASKS	COUNTY TASKS	CITY TASKS	Time to Complete
Provide Overall Management	X			80 weeks
Revise schedule for Solano360 meetings	X			2 weeks
Develop interim Parking uses with input from affected parties		X		8 weeks
Prepare Specific plan - Circulation - Infrastructure/utilities - Design standards - Implementation (phasing, financial/fiscal analyses)	X			32 weeks
Engage in public information process - Perform community outreach - Conduct public workshops	X			76 weeks
Prepare environmental review of specific plan - Project Description - NOP, Comments - Admin Draft, Alternatives, Comments - Draft/Final EIR's, Hearings	X			76 weeks
Negotiate long-term shared parking agreement	X			4 weeks
Develop joint infrastructure plans and agreements	X			16 weeks
Prepare Financial Analysis & Feasibility - Financing Concepts - Peer Review, if needed	X			8 weeks
Negotiate cost sharing for site improvements	X			8 weeks
Negotiate Revenue Sharing Plan	X			8 weeks
Prepare City General Plan Amendment			X	28 weeks
Prepare City rezoning			X	28 weeks
Prepare Redevelopment area plan amendment			X	28 weeks

**AMENDED AND RESTATED MEMORANDUM OF UNDERSTANDING
BETWEEN THE CITY OF VALLEJO, THE VALLEJO REDEVELOPMENT AGENCY
and THE COUNTY OF SOLANO**

This Amended and Restated Memorandum of Understanding ("MOU") between the County of Solano, a political subdivision of the State of California (the "County"), the Vallejo Redevelopment Agency, "Agency" and the City of Vallejo, a municipal corporation (the "City"), collectively the 'Parties', is entered into on this 10th day of February, 2010, and amends and restates the March 10, 2009 MOU described in recital 5 below. Upon execution of this Amended and Restated MOU, the March 10, 2009 MOU will have no further force or effect.

Recitals

1. On July 11, 2003, the County, City, and the Solano County Fair Association ("SCFA") entered into a Memorandum of Understanding (the "2003 MOU") acknowledging that the three entities share a common vision for the revitalization of the Solano County Fairgrounds ("Fairgrounds") and recognizing the need to reach agreement regarding the planning and permitting process for the redevelopment of the Fairgrounds project ("Project").
2. The 2003 MOU required the City to quitclaim certain of its reversionary interests (the "Reversionary Interest") in the deed restrictions identified in the deed to the County of Solano dated January 16, 1947, recorded in Book 387, Page 108 of the Official Records of the County of Solano ("Original Deed") unless the County either failed to execute a "Memorandum of Understanding" with a master developer by July 8, 2008 or the commercial development envisioned in the 2003 MOU had not been completed and placed into operation by July 8, 2010.
3. The County had entered into an "Exclusive Negotiating Agreement" with a selected master developer but was unable to execute a "Memorandum of Understanding" by July 8, 2008 that was both financially feasible and capable of meeting the stated goals of the County and interested stakeholders.
4. The County is still committed to the Project and has since engaged a consultant to assist with the visioning process for the Fairgrounds Property and to work closely with the County, City, Agency and SCFA to cultivate the highest and best use of the Fairgrounds Property.
5. In recognition of the County, and City's continued commitment for the revitalization of the Fairgrounds, on March 10, 2009, the parties terminated the 2003 MOU and executed a new MOU which clarifies additional responsibilities specific to the County and City on this Project.
6. The Parties now desire to amend and restate the March 10, 2009 MOU ("2009 MOU") to articulate the role of the Vallejo Redevelopment Agency and to clarify certain roles and responsibilities among all the parties.

Agreement

The Parties agree as follows:

1. Term. The term of this MOU shall be five (5) years from the date of its execution or superseded by a revised MOU or Revenue Sharing Agreement, whichever occurs first.

2. Role of Redevelopment Agency. The Agency is added as a party to this MOU due to the fact that development of the Project may entail redevelopment financing either through the Flosden Acres Urban Renewal Plan or, if the Project site is detached from the Flosden Acres Urban Renewal Plan, any successor redevelopment plan adopted by the Agency that includes the Project site. It is expressly understood and agreed to by all the parties that (a) the Agency shall not look to the Project or any future property tax increment revenues generated from the Project to satisfy any existing obligations and/or indebtedness of the Agency, and, (b) unless otherwise agreed by the Agency, the parties shall not look to any property tax increment revenues generated from other portions of the Flosden Acres Urban Renewal Plan area, or any other redevelopment project areas within the City of Vallejo, to support the parties' redevelopment goals for the Fairgrounds property. During the term of this MOU, Agency shall not incur any new or additional obligation or indebtedness secured by property tax increment revenues anticipated to be generated from the Project, except as may otherwise be agreed to by the County. The parties acknowledge and agree that Agency shall not be prohibited from using future property tax increment revenues generated from the Project to make payments that the State of California may mandate in future, including, for example, any future Educational Revenue Augmentation Fund (ERAF) or Supplemental Educational Revenue Augmentation Fund (SERAF) payments provided such payments are no greater than the pro rata share of the Agency's total obligation mandated by the State. During the term of this MOU, Agency further agrees to indemnify and hold harmless the County and its elected officials, officers and employees from and against any third party claims that may be asserted against County challenging the legality or validity of Agency's reservation and commitment of future property tax increment revenues anticipated to be generated from the Project as set forth in this paragraph 2. The foregoing indemnity shall not apply to third party claims to the extent arising from the negligence or willful misconduct of County or its elected officials, officers and employees.

3. Reversionary Interest.
 - A. The County executed and recorded a quit claim deed transferring back to the City the Reversionary Interest (i.e., all interests described in the Quitclaim Deed (Document No) dated July 9, 2003 and further described as follows:

"Any and all reversionary interest, rights of reentry and/or powers of termination identified in the deed to the County of Solano dated January 16, 1947, recorded in Book 387, Page 108 of the Official Records of the County of Solano subject to the Memorandum of Understanding entered into by and between the County of Solano, City of Vallejo, and the Solano County Fair Association on July 11, 2003.")
 - B. Upon certification of the EIR, the City's approval of a General Plan Amendment and applicable zoning changes, and the expiration of all appeal periods, the City

shall quitclaim all Reversionary Interests related to the Project to County. In the event that no building permit is issued for any portion of the Project within 15 years of the date of recordation of the Quit Claim Deed, the County shall grant deed to the City the Reversionary Interest previously conveyed. This clause shall survive the termination of this Amended and Restated MOU.

C. County shall defend, indemnify and hold City and Agency harmless in any claim, complaint or cause of action brought by any person or entity regarding the transferability or enforceability of the Reversionary Interest.

4. Development of Project Vision. The Parties agree that the Solano 360 Vision Report, adopted by the Board of Supervisors and the City Council on June 9, 2009 constitutes the Project Vision that was the subject of the 2009 MOU. The Project Vision includes, but is not limited to, office, retail, entertainment, mixed-use, residential and other related uses that support operationally and financially the renovation of the Fairgrounds. Implementation of the Project Vision is the subject of this Amended and Restated MOU.
5. Oversight Committees. The parties agree to establish regular meetings of the respective Fairground Ad Hoc Committees during the implementation of the Project Vision and as needed through the entitlement phase of the Project. This oversight committee, which has been named the Solano 360 Committee, is comprised of two members from the Board of Supervisors and the Mayor and two members from the City Council, who are also members of the Agency and who will represent both the City and Agency, and will continue to provide policy direction throughout the Project and to report back to their respective governing bodies. All such meetings of the Solano 360 Committee will be held in accordance with the Brown Act.
6. Entitlement Process. The parties agree to work cooperatively to prepare an entitlement processing plan that outlines the relationship and allocates responsibility with respect to processing all required permits, approvals and entitlements for the Project based on the following:
 - a. The County will serve as the lead agency for the required environmental review for the Project pursuant the California Environmental Quality Act ("CEQA"). The City of Vallejo and the Vallejo Redevelopment Agency will be responsible agencies under CEQA.
 - b. The Project Vision will serve as the basis to move forward with the completion of a specific plan and for the development of the Project Description for purposes of beginning the environmental review. The Project Description will be prepared by the environmental consultant hired by the County as Lead Agency in consultation with the City.
 - c. The area designated as the "Fair of the Future" Zone ("FoFZ") and Public Entertainment Zone ("PEZ"), excluding those areas in the PEZ to be developed as private mixed-use in the Project Vision unless the County takes the lead in the development in the PEZ on behalf of SCFA for a public purpose use, or as may be determined upon during the

environmental review, is designated as "public purposes" and those areas outside of the FoFZ and PEZ are designated as "private purposes." The parties acknowledge that the specific areas will be further refined during the specific plan entitlement process.

- d. All areas developed for "private purposes" will follow the expedited city planning/zoning process defined in Exhibit A to this MOU.
- e. All areas developed solely for "public purposes" will be exempt from the City's Planning/Building process except that within 90 days of completion of County's CEQA process including the adoption of any CEQA determination or document pursuant to subdivision (a) the County will present the project to the City of Vallejo's Planning Commission and/or City Council to seek a finding of consistency with the City of Vallejo's General Plan pursuant to Gov. Code section 65402.
- f. Any needed redevelopment plan amendment or other redevelopment action required to implement the project will be presented to the Agency for a finding of consistency with the redevelopment plan or any other necessary action and findings.

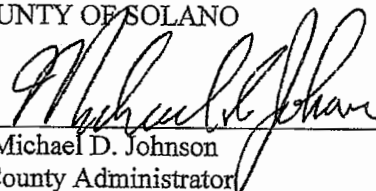
7. Financial Contribution and Future Revenue Participation. In anticipation of the cost associated with the Project, the parties agree as follows:

- a. Following the execution of this MOU the County will file an application for City entitlement processing, which shall include a Specific Plan adoption, a General Plan Amendment and Zoning change, as described in Exhibit A. The County will reimburse the City for the cost of a project planner in exchange for an expedited process as pertains to the processing and permitting of the non-fair elements of the Project. County will pay City actual costs in an amount not to exceed \$10,000 per month for planning, permit processing, legal, and other City review resources necessary for Project approval. County and City will establish a cap on planning, permit processing and other City fees as a component of a future agreement.
- b. The parties agree that each Party will be reimbursed any previously approved non-reimbursed direct costs and expenses incurred with respect to the planning, entitlement and development of the Project once the Project begins to generate revenue and prior to any distribution of proceeds as set forth in subsection (c) below. Reimbursement will include compensating each party any non-reimbursed direct Project costs ("Direct Costs") plus a return on those Direct Costs in the amount of twelve percent (12%) per annum. In order to be reimbursed as a Direct Cost, City or Agency must have received approval from the County. Indirect costs for staff time shall be considered for reimbursement without interest to the extent those costs were not reimbursed from other sources. Project revenues will be used to reimburse all party's Direct and Indirect Costs on an equitable basis in proportion to each party's contribution of Direct and Indirect Costs for the Project.

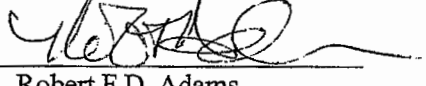
- c. Any revenue generated from the private purposes of the Project, as listed in Exhibit B, will be equitably distributed to the parties and memorialized through the execution of a Revenue Sharing Agreement.

The parties have entered into this Amended and Restated MOU on the date first written above.

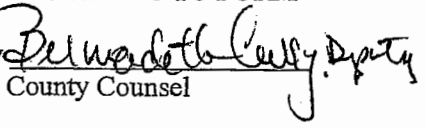
COUNTY OF SOLANO

By 
Michael D. Johnson
County Administrator

CITY OF VALLEJO;
VALLEJO REDEVELOPMENT AGENCY

By 
Robert F.D. Adams
Interim City Manager for City of Vallejo
Interim Executive Director for RDA

APPROVED AS TO FORM

By 
Bernadette Cully, Deputy
County Counsel

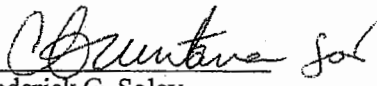
By 
Frederick G. Soley
City Attorney; Agency Counsel

Exhibit A - Expedited Entitlement Process

Recognizing the need for adaptation as the Project proceeds, the following represents the expedited processing of the entitlements for the Project, in accordance with the timeline, attached as Exhibit A-1:

1. County hires consultant to draft Specific Plan
 - a. Preliminary Contents include:
 - i. Introduction
 1. Implements the Vision Report
 2. Ownership and Development Program
 - ii. Land Use
 1. Definition of Uses
 - a. Refine public vs. private purposes?
 2. Program for Each Area
 - iii. Urban Design Guidelines
 1. Architectural Design Guidelines and Standards
 2. Site Furnishings
 3. Landscaping
 4. Signage
 - iv. Transportation
 1. Roadway Configurations
 2. Bicycle and Pedestrians
 3. Transit
 - v. Utilities
 1. Water
 2. Sanitary Sewer
 3. Storm Drainage
 4. Electrical/Gas
 - vi. Other Services
 1. Public Safety
 - vii. Implementation
 1. Phasing
 2. Revised Economic Feasibility/Fiscal Impact Analysis
 3. Financing
 4. Site Development
2. City hires dedicated Contract Planner
3. County engages EIR consultant and prepares Initial Study
4. County makes application for approval of Specific Plan, General Plan Amendment/Zoning Changes and prepares Notice of Preparation ("NOP") of EIR
5. Parties establish regularly scheduled project meetings between County, COV and project planning team.

Exhibit B Potential Revenue Sources

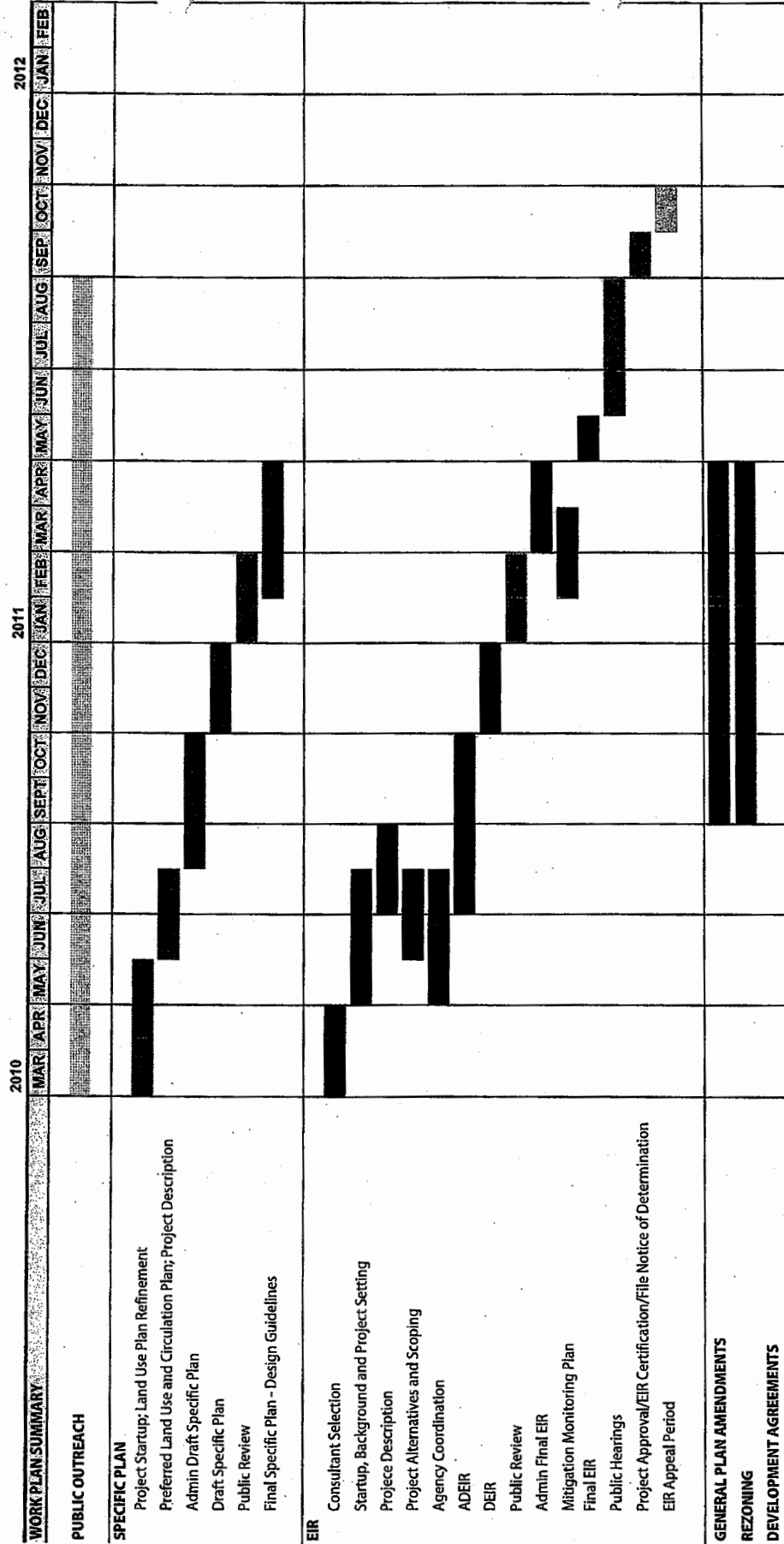
The parties acknowledge that the Project is not feasible without revenue participation from all parties. To that end, the following revenues were identified as part of the financial modeling of the Project Vision as potentially available to assist in the Project financing and the parties agree to negotiate in good faith as to the specific amounts that will be applied towards the implementation of the Project.

1. New Tax Increment
2. Transient Occupancy Taxes (hotels)
3. Sales tax
4. Ground Leases
 - a. Traditional ground lease rates
 - b. Participatory structure
5. Parking Revenue
6. Reinvestment of existing Pass-through Agreements

**SOLANO 360 - ENTITLEMENT PROCESS
PRELIMINARY TIMELINE**

S W A

28-Jan-10





Agenda No.

COUNCIL COMMUNICATION

Date: January 25, 2011

TO: Mayor and Members of the City Council

FROM: Craig Whittom, Assistant City Manager / Community Development
Michelle Hightower, Acting Planning Manager *W*

SUBJECT: ADOPTION OF A RESOLUTION AUTHORIZING THE CITY MANAGER TO EXECUTE A CONSULTANT AND PROFESSIONAL SERVICES AGREEMENT BETWEEN THE CITY OF VALLEJO AND LAK ASSOCIATES, LLC. FOR THE PROVISION OF CONTRACT PLANNING SERVICES IN AN AMOUNT NOT TO EXCEED \$150,000 FOR THE SOLANO360 COUNTY FAIRGROUNDS PROJECT

PROPOSED ACTION

Adopt a resolution authorizing the City Manager to execute a Consultant and Professional Services Agreement between the City of Vallejo and LAK Associates, LLC. for contract planning services in an amount not to exceed \$150,000 for the Solano360 County Fairgrounds project.

BACKGROUND & DISCUSSION

Pursuant to the Memorandum of Understanding between the City of Vallejo and Solano County (MOU), approved by the Vallejo City Council in February 2010, Solano County has submitted applications for a joint project with the City of Vallejo involving a Specific Plan as the Planned Development Master Plan, a General Plan amendment, and a Zoning Map amendment to develop the Solano360 Vision Project. The Project, as defined in the Solano360 Vision Report dated May 28, 2009, involves redevelopment of the 149-acre Solano County Fairgrounds located near the State Route 37/Interstate 80 interchange. The vision is to develop a mixed-use area that includes retail, commercial, hospitality and entertainment, recreational, family and youth oriented, education and civic uses that are integrated with the Solano County Fair of the Future. Additional information regarding the Project can be obtained at www.Solano360.org.

The Project will be subject to a comprehensive City planning process and environmental review, pursuant to the California Environmental Quality Act ("CEQA"), where the County will serve as "lead agency" and the City of Vallejo as a "responsible agency". City and County Staff have worked collaboratively on a project schedule where the entitlement process is estimated to be completed within 18 to 20 months. Pursuant to the MOU, it was agreed that hiring a planning consultant is desirable and necessary for the Project. The planning consultant will work for the City of Vallejo under the direction of the Acting Planning Manager.

Four planning consultants were initially considered to provide professional services for the Project, two of which were requested to submit proposals, and subsequently interviewed by a panel consisting of City and County Staff. LAK Associates, LLC was selected based on the

team's experience and knowledge in Specific Plans, CEQA, and community planning strategies, as well as prior consultant experience with the City, and ability to meet City contracting requirements.

LAK Associates, LLC submitted a Scope of Work for the project that was reviewed by City and County Staff (see Attachment 2). The fee for the Consultant's work will be based on a time and materials basis at a billing rate of \$200 per hour, for a total not to exceed \$150,000 and a monthly not to exceed amount of \$10,000. Solano County is financially responsible for the cost of the contract planning services and a reimbursement agreement to provide funding for the services has been executed between Solano County and the City of Vallejo. (See Attachment 3.)

RECOMMENDATION

Adopt the resolution.

ALTERNATIVES CONSIDERED

None.

ENVIRONMENTAL REVIEW

The adoption of this Resolution is an activity that has no potential for resulting in either a direct or indirect physical change in the environment and it is not considered a project under CEQA pursuant to Section 15378(a) of Title 14 of the California Code of Regulations. The Project itself will be subject to its own environmental evaluation under CEQA. An Environmental Impact Report (EIR) will be prepared to assess the range of potential environmental impacts of the Project and recommend mitigations to reduce any significant impacts. Solano County is responsible for contracting with an environmental review firm to prepare the EIR and managing the environmental review process.

FISCAL IMPACT

Although the project is a joint effort involving both the City of Vallejo and Solano County, the County will fund all costs associated with this contract and has an executed reimbursement agreement with the City of Vallejo. The funds associated with the reimbursement agreement are considered "developer deposits" and will be held in trust, separate from the General Fund or any other discretionary fund. As costs are incurred and then invoiced, the City will draw down the payments from this special fund. Since the costs will be borne by Solano County, the contract for planning services will have no fiscal impact to the City.

GOALS AND OBJECTIVES

The project supports City Council Goal #3 which is to increase investment in the community to create a larger tax base and additional employment opportunities to provide an increasing breadth of municipal services. The execution of the subject agreement will facilitate obtaining a contract planner to assist staff in processing the necessary entitlements for the Solano360 project. Such project will generate investment and business opportunities that will increase the City's tax base and provide employment opportunities.

DOCUMENTS ATTACHED

1. City Council Resolution
2. Consultant and Professional Services Agreement
3. Executed Reimbursement Agreement between the City of Vallejo and Solano County

CONTACT/PREPARED BY

Craig Whittom, Assistant City Manager / Community Development, 707-648-4579;
cwhittom@ci.vallejo.ca.us

Michelle Hightower, Acting Planning Manager, 707-648-4506; mhightower@ci.vallejo.ca.us

RESOLUTION NO. _____ N.C.

**A RESOLUTION AUTHORIZING THE CITY MANAGER TO EXECUTE
A CONSULTANT AND PROFESSIONAL SERVICES AGREEMENT
BETWEEN THE CITY OF VALLEJO AND LAK ASSOCIATES, LLC.
FOR THE PROVISION OF CONTRACT PLANNING SERVICES IN
AN AMOUNT NOT TO EXCEED \$150,000 FOR THE SOLANO360
COUNTY FAIRGROUNDS PROJECT**

BE IT RESOLVED by the Council of the City of Vallejo as follows:

WHEREAS, Solano County has submitted applications, where the City of Vallejo is a joint applicant, for a Specific Plan, General Plan Amendment and Zoning Map Amendment to implement the Solano360 County Fairgrounds Project; and

WHEREAS, the Solano360 Project involves the redevelopment of the 149-acre County Fairgrounds property near the Interstate 80/Highway 37 Interchange as a mixed-use area that will include a variety of uses integrated with the Fair of the Future; and

WHEREAS, pursuant to a Memorandum of Understanding between the County of Solano, the City of Vallejo Redevelopment Agency, and the City of Vallejo, executed in May 2010, it was determined that the City contract for a professional planning consultant to assist City Staff in processing the above entitlements; and

WHEREAS, following a competitive solicitation of consultants, the City with input from Solano County selected LAK Associates, LLC to provide the professional planning consultant services for the project; and

WHEREAS, the City will administer the planning consultant's work and Solano County will reimburse the City for the costs incurred, for a total not to exceed amount of \$150,000 and at a maximum not to exceed amount of \$10,000 per month.

NOW, THEREFORE, BE IT RESOLVED that the Vallejo City Council hereby authorizes the City Manager to:

- 1) Execute an Agreement between the City of Vallejo and LAK Associates, LLC, in a form substantially similar to Attachment 2 to the staff report, in a total amount not to exceed \$150,000 and a monthly amount not to exceed of \$10,000, subject to any changes recommended by the City Attorney and the Risk Manager, and
- 2) Subject to approval of Administrative Item 12 B on tonight's agenda (Adoption of a Joint Resolution of the City Council of the City of Vallejo and the Vallejo Redevelopment Agency authorizing the City Manager/Executive Director to execute the First Amendment to the Amended and Restated Memorandum of Understanding (MOU) between the County of Solano, the City of Vallejo Redevelopment Agency and the City of Vallejo regarding development of the Solano County Fairgrounds), the City Manager is authorized to take any further actions and execute any subsequent documents and agreements which do not require independent City Council approval, including amendments to the Agreement, and amendments to the Reimbursement Agreement which may be necessary to carry out the purposes of the amendment to the MOU and this Resolution.

CONSULTANT AND PROFESSIONAL SERVICES AGREEMENT

This Consultant and Professional Services Agreement ("Agreement") is made at Vallejo, California, dated for reference this _____ day of _____, 2011, by and between the City of Vallejo, a municipal corporation ("City"), and LAK Associates, a California corporation, hereinafter referred to as "Consultant", who agree as follows:

1. Services. Subject to the terms and conditions set forth in this Agreement, Consultant shall provide the City professional services as specified in Exhibit A, entitled "Scope of Work."

2. Payment. City shall pay Consultant for services rendered pursuant to this Agreement at the times and in the manner set forth in Exhibit B, entitled "Compensation." The payments specified in Exhibit B shall be the only payments to be made to Consultant for services rendered pursuant to this Agreement.

3. Facilities and Equipment. Consultant shall, at its sole cost and expense, furnish all facilities and equipment, which may be required for furnishing services pursuant to this Agreement.

4. Indemnification. Consultant shall indemnify, defend (with independent counsel approved by the City), and hold harmless the City, its officers, officials, employees, agents, and volunteers and each of them from any and all claims, demands, causes of action, damages, costs, expenses, actual attorney's fees, consultant's fees, expert fees, losses or liability, in law or in equity, of every kind and nature whatsoever arising out of or in connection with Consultant's operations, or any subcontractor's operations, to be performed under this Agreement, for the fullest extent permitted by law, with the exception of the sole active negligence or willful misconduct of the City.

The provisions of this section shall survive the expiration or termination of this Agreement and are not limited by any provisions relating to insurance in this Agreement.

5. Insurance Requirements. Consultant agrees to comply with all of the Insurance Requirements set forth in Exhibit C, entitled "Insurance Requirements for Consultant." Failure to maintain required insurance at all times shall constitute a default and material breach.

6. Accident Reports. Consultant shall immediately report (as soon as feasible, but not more than 24 hours) to the City Risk Manager any accident or other occurrence causing injury to persons or property during the performance of this Agreement. The report shall be made in writing and shall include, at a minimum: (a) the names, addresses, and telephone numbers of the persons involved, (b) the names, addresses and telephone numbers of any known witnesses, (c) the date, time and description of the accident or other occurrence.

7. Conflict of Interest. Consultant warrants and represents that to the best of its knowledge, there exists no actual or potential conflict between Consultant's family, business, real property or financial interests and the services to be provided under this Agreement. Consultant shall comply with the City of Vallejo Conflict of Interest Code and not enter into any contract or agreement during the performance of this Agreement, which will create a conflict of interest with its duties to City under this Agreement. In the event of a change in Consultant's family, business, real property or financial interests occurs during the term of this Agreement that creates an actual or potential conflict of interest, then Consultant shall disclose such conflict in writing to City.

8. Independent Contractor. Consultant is an independent contractor. Neither Consultant nor any of Consultant's officers, employees, agents or subcontractors, if any, is an employee of City by virtue of this Agreement or performance of any services pursuant to this Agreement. City shall have the right to control Consultant only insofar as the results of Consultant's services rendered pursuant to this Agreement; however, City shall not have the right to control the means by which Consultant accomplishes services pursuant to this Agreement.

9. Licences, Permits, Etc. Consultant represents and warrants to City that all consultant services shall be provided by a person or persons duly licensed by the State of California to provide the type of services to be performed under this Agreement and that Consultant has all the permits, qualifications and approvals of whatsoever nature which are legally required for Consultant to practice its profession. Consultant represents and warrants to City that it shall, at its sole cost and expense, keep in effect at all times during the term of this Agreement any licenses, permits, and approvals which are legally required for Consultant to practice its profession.

10. Business License. Consultant, and its subcontractors, has obtained or agrees to apply prior to performing any services under this Agreement to City's Finance Department for a business license, pay the applicable business license tax and maintain said business license during the term of this Agreement. The failure to obtain such license shall be a material breach of this Agreement and grounds for termination by City. No payments shall be made to Consultant until such business license(s) has been obtained.

11. Standard of Performance. Consultant shall provide products and perform all services required pursuant to this Agreement in accordance with generally accepted professional practices and principles and in a manner consistent with the level of care and skill ordinarily exercised under similar conditions by a member of Consultant's profession currently practicing in California.

Consultant is responsible for making an independent evaluation and judgment of all conditions affecting performance of the work, including without limitation applicable federal, state, and local laws and regulations, and all other contingencies or considerations.

Consultant's responsibilities under this section shall not be delegated. Consultant shall be responsible to City for acts, errors, or omissions of Consultant's subcontractors.

Consultant is responsible for making an independent evaluation and judgment of all conditions affecting performance of the work and shall prepare plans, reports, and/or other work products in such a way that additional costs will not be incurred or, beyond a project budget approved or amended by the City Manager or his or her designee.

Whenever the scope of work requires or permits review, approval, conditional approval or disapproval by City, it is understood that such review, approval, conditional approval or disapproval is solely for the purposes of administering this Agreement and determining whether the Consultant is entitled to payment for such work, and not be construed as a waiver of any breach or acceptance by the City of any responsibility, professional or otherwise, for the work, and shall not relieve the Consultant of responsibility for complying with the standard of performance or laws, regulations, industry standards, or from liability for damages caused by negligent acts, errors, omissions, noncompliance with industry standards, or the willful misconduct of Consultant.

12. Force Majeure. Neither party shall be considered in default of this Agreement to the extent performances are prevented or delayed by any cause by circumstances beyond either party's reasonable control, such as war, riots, strikes, lockouts, work slow down or stoppage, acts of God, such as floods or earthquakes, and electrical blackouts or brownouts.

In the event that the Consultant is unable to meet the completion date or schedule of services, Consultant shall inform the City Representative of the additional time required to perform the work and the City Representative may adjust the schedule.

13. Time is of the Essence. Time is of the essence in this Agreement. Any reference to days means calendar days, unless otherwise specifically stated.

14. Personnel. Consultant agrees to assign only competent personnel according to the reasonable and customary standards of training and experience in the relevant field to perform services under this Agreement. Failure to assign such competent personnel shall constitute grounds for termination of this Agreement.

The payment made to Consultant pursuant to this Agreement shall be the full and complete compensation to which Consultant and Consultant's officers, employees, agents, and subcontractors are entitled for performance of any work under this Agreement. Neither Consultant nor Consultant's officers or employees are entitled to any salary or wages, or retirement, health, leave or other fringe benefits applicable to employees of the City. The City will not make any federal or state tax withholdings on behalf of Consultant. The City shall not be required to pay any

workers' compensation insurance on behalf of Consultant.

Consultant shall pay, when and as due, any and all taxes incurred as a result of Consultant's compensation hereunder, including estimated taxes, and shall provide City with proof of such payments upon request.

15. Consultant Not Agent. Except as authorized under this Agreement or as City may authorize in a letter of authorization signed by the City Manager or his or her designee, Consultant shall have no authority, express or implied to act on behalf of City in any capacity whatsoever as an agent. Consultant shall have no authority, express or implied, under this Agreement, to bind City to any obligation whatsoever.

16. Term. The term of this Agreement shall commence on the date of complete execution of this Agreement and shall continue in full force and effect until terminated by City pursuant to the terms of this Agreement.

If the term of this Agreement extends into fiscal years subsequent to that in which it is approved, such continuation of the Agreement is contingent on the appropriation of funds for such purpose by the City Council of the City of Vallejo. If funds to effect such continued payment are not appropriated, Consultant agrees to terminate any services supplied to City of Vallejo under this Agreement, and relieve City of any further obligation therefore.

17. Termination or Abandonment by City. The City has the right, at any time and in its sole discretion, to immediately terminate or abandon any portion or all of the services to be provided under this Agreement by giving notice to Consultant. Upon receipt of a notice of termination, Consultant shall perform no further work except as specified in the notice. Before the date of termination, Consultant shall deliver to City all work product, whether completed or not, as of the date of termination and not otherwise previously delivered.

The City shall pay Consultant for services performed in accordance with this Agreement before the date of termination. If this contract provides for payment of a lump sum for all services or by task and termination occurs before completion of the work or any defined task which according to the performance schedule was commenced before the notice of termination, the fee for services performed shall be based on an amount mutually agreed to by City and Consultant for the portion of work completed in conformance with this Agreement before the date of termination.

In addition, the City will reimburse Consultant for authorized expenses incurred and not previously reimbursed. The City shall not be liable for any fees or costs associated for the termination or abandonment except for the fees, and reimbursement of authorized expenses, payable pursuant to this section.

18. Products of Consulting Services. The work product, including without limitation, all writings, work sheets, reports, recordings, drawings, files, detailed calculations and other work products, whether complete or incomplete, of Consultant resulting from services rendered pursuant to this Agreement, shall

become the property of City. Consultant agrees that all copyrights which arise from creation of the work under this Agreement shall be vested in the City and waives and relinquishes all claims to copyright or other intellectual property rights in favor of the City. City acknowledges that its use of the work product is limited to the purposes contemplated by the scope of work and that the Consultant makes no representation of the suitability of the work product for use in or application to circumstances not contemplated by the scope of work.

Documents submitted to the City in electronic format shall be formatted according to specifications provided by the City, or if not otherwise specified, in Microsoft Word, Excel, PowerPoint or other Microsoft Office Suite (2002) format as appropriate for the particular work product or, if directed by the City Representative in Adobe Acrobat PDF format.

19. Cooperation by City. City shall, to the extent reasonable and practicable, assist and cooperate with Consultant in the performance of Consultant's services hereunder.

20. Assignment and Subcontracting. Consultant shall not subcontract, assign or transfer voluntarily or involuntarily any of its rights, duties or obligation under this Agreement without the express written consent of the City Manager or his or her designee in each instance. Any attempted or purported assignment of any right, duty or obligation under this Agreement without said consent shall be void and of no effect.

If subcontracting of work is permitted, Consultant shall pay its subcontractor within ten (10) days of receipt of payment by City for work performed by a subcontractor and billed by the Consultant. Use of the term subcontractor in any other provision of this contract shall not be construed to imply authorization for Consultant to use subcontractors for performance of any service under this Agreement.

The City is an intended beneficiary of any work performed by Consultant's subcontractor for purposes of establishing a duty of care between the subcontractor and City.

21. Successors and Assigns. All terms, conditions, and provisions of this Agreement shall apply to and bind the respective heirs, executors, administrators, successors, and assigns of the parties. Nothing in this section is intended to affect the limitation on assignment.

22. Non-Discrimination/Fair Employment Practices.

(a) Consultant warrants and represents it is an equal opportunity employer and agrees it shall not discriminate on the basis of race, religious creed, color, sex, national origin, ancestry, disability, medical condition, age, marital status or sexual orientation in the selection and retention of employees, subcontractors or procurement of materials or equipment.

In all solicitations either by competitive bidding or negotiations made by Consultant for work to be performed under any subcontract, including procurement of materials or equipment, each potential subcontractor or supplier shall be notified by Consultant of Consultant's obligation under this Agreement relative to nondiscrimination and fair employment practices.

Consultant shall include the above provisions of this section in every subcontract, including procurement of materials or equipment.

(b) Consultant agrees to comply with Title VII of the Civil Rights Act of 1964, as amended, the California Fair Employment Practices Act, the Americans with Disabilities Act of 1990, any other applicable federal and state laws and regulations and City ordinances and regulations hereinafter enacted.

23. Notices. All notices or instruments required to be given or delivered by law or this Agreement shall be in writing and shall be effective upon receipt thereof and shall be by personal service or delivered by depositing the same in any United States Post Office, registered or certified mail, postage prepaid, addressed to:

If to City: Michelle Hightower
Acting Planning Manager
Planning Division, Development Services
Department
555 Santa Clara Street
Vallejo, CA 94590

If to Consultant: Larry Kennings
Principal
LAK Associates, LLC
3030 Bridgeway, Suite 103
Sausalito, CA 94965

Any party may change its address for receiving notices by giving written notice of such change to the other party in accordance with this section.

Routine administrative communications shall be made pursuant to Section 1 of Exhibit A.

24. Integration Clause. This Agreement, including all Exhibits, contains the entire agreement between the parties and supersedes whatever oral or written understanding they may have had prior to the execution of this Agreement. This Agreement shall not be amended or modified except by a written agreement executed by each of the parties hereto.

25. Severability Clause. Should any provision of this Agreement ever be

deemed to be legally void or unenforceable, all remaining provisions shall survive and be enforceable.

26. Law Governing. This Agreement shall in all respects be governed by the law of the State of California without regard to its conflicts of law rules. Litigation arising out of or connected with this Agreement shall be instituted and maintained in the courts of Solano County in the State of California or in the United States District Court, Eastern District of California, Sacramento, California, and the parties consent to jurisdiction over their person and over the subject matter of any such litigation in such courts, and consent to service of process issued by such courts.

27. Waiver. Waiver by either party of any default, breach or condition precedent shall not be construed as a waiver of any other default, breach or condition precedent or any other right hereunder.

28. Ambiguity. The parties acknowledge that this is a negotiated agreement, that they have had the opportunity to have this Agreement reviewed by their respective legal counsel, and that the terms and conditions of this Agreement are not to be construed against any party on the basis of such party's draftsmanship thereof.

29. Gender. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural, as the identifications of the person or persons, firm or firms, corporation or corporations may require.

30. Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

31. Compliance with Laws. Consultant will comply with all statutes, regulations and ordinances in the performance of all services under this Agreement.

32. Confidentiality of City Information. During the performance of services under this Agreement, Consultant may gain access to and use City information regarding, but not limited to, procedures, policies, training, operational practices, and other vital information (hereafter collectively referred to as "City Information") which are valuable, special and unique assets of the City. Consultant agrees that it will not use any information obtained as a consequence of the performance of services under this Agreement for any purpose other than fulfillment of Consultant's scope of work, to protect all City Information and treat it as strictly confidential and proprietary to City, and that it will not at any time, either directly or indirectly, divulge, disclose or communicate in any manner any City Information to any third party, other than its own employees, agents or subcontractors who have a need for the City Information for the performance of services under this Agreement, without the prior written consent of City, or as required by law.

Consultant shall treat all records and work product prepared or maintained by

Consultant in the performance of this Agreement as confidential.

A violation by Consultant of this section shall be a material violation of this Agreement and will justify legal and/or equitable relief.

Consultant's obligations under this section shall survive the completion of services, expiration or termination of this Agreement.

33. News and Information Release. Consultant agrees that it will not issue any news releases in connection with either the award of this Agreement, or any subsequent amendment of or efforts under this Agreement, without first obtaining review and approval of said news releases from City through the City Representative.

34. City Representative. The City Representative specified in Exhibit A, or the representative's designee, shall administer this Agreement for the City.

35. Counterparts. The parties may execute this Agreement in one or more counterparts, each of which shall be deemed an original, but all of which together shall be deemed one and the same instrument.

36. Facsimile Signature; Electronic Signature. This Agreement shall be binding upon the receipt of facsimile signatures or e-mailed by PDF or otherwise. Any person transmitting his or her signature by facsimile or electronically shall promptly send an original signature to the other party pursuant to the notice provision of this Agreement. The failure to send an original shall not affect the binding nature of this Agreement.

37. Authority. The person signing this Agreement for Consultant hereby represents and warrants that he/she is fully authorized to sign this Agreement on behalf of Consultant.

38. Exhibits. The following exhibits are attached hereto and incorporated herein by reference:

Exhibit A, entitled "Scope of Work," including any attachments.

Exhibit B, entitled "Compensation," including any attachments.

Exhibit C, entitled "Insurance Requirements," including any attachments.

(SIGNATURES ARE ON THE FOLLOWING PAGE)

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year shown below the name of each of the parties.

LAK Associates, LLC
a California corporation

CITY OF VALLEJO,
a municipal corporation

By: _____
Larry Kennings
Principal

By: _____
Phil Batchelor
City Manager

DATE: _____

DATE: _____

0007017
Vallejo Business License No.

(City Seal)

ATTEST:

By: _____
Sherry Kelly
Interim City Clerk

APPROVED AS TO CONTENT:

Michelle D. Hightower
Acting Planning Manager

APPROVED AS TO INSURANCE
REQUIREMENTS:

Gail Braum
Acting Risk Manager

APPROVED AS TO FORM:

Frederick G. Soley
City Attorney

EXHIBIT A
SCOPE OF WORK

1. Representatives.

The City Representative for this Agreement is:

Michelle D. Hightower
Acting Planning Manager
Development Services Department
555 Santa Clara Street
Vallejo CA 94590
(707) 648-4506
(707) 553-0173 (Fax)
mhightower@ci.vallejo.ca.us

The Consultant's Representative for this Agreement is:

Larry Kennings
Principal
LAK Associates, LLC
3030 Bridgeway, Suite 103
Sausalito, CA 94965
(415) 331-4551
(415) 331-4573 (Fax)
info@lakassociates.com

All routine administrative communications between the parties will be between the above named representatives and may be by personal delivery, mail, facsimile transmission or electronic mail as agreed between the Consultant Representative and City's Representative.

2. Services to be Provided.

The services provided shall be as set forth in Attachment 1 of Exhibit A, attached hereto and incorporated herein by this reference.

3. Time for Performance. Consultant will perform the services according to the schedule contained in Attachment 1 of Exhibit A. If the schedule calls for the

services to be performed in phases or discrete increments, Consultant shall not proceed from one phase or increment to the next without written authorization from the City's Representative.

4. Key Personnel. All of the individuals identified in Attachment 1 of Exhibit A are necessary for the successful prosecution of the services due to their unique expertise and depth and breadth of experience. There shall be no change in the personnel listed in Attachment 1 of Exhibit A, without written approval of the City Representative. Consultant recognizes that the composition of this team was instrumental in the City's decision to award the work to Consultant and that compelling reasons for substituting these individuals must be demonstrated for the City's consent to be granted. Any substitutes shall be persons of comparable or superior expertise and experience. Failure to comply with the provisions of this section shall constitute a material breach of Consultant's obligations under this Agreement and shall be grounds for termination.

Solano360 County Fairgrounds Project

Scope of Services

LAK Associates, LLC.

Approach and Scope of Work

The LAK Associates, LLC approach to the Solano360 project is simple while being comprehensive. We understand that City and County are co-applicants in this project and we will work for the City to expeditiously review the merits of the Specific Plan while achieving the primary objectives of the applicants (City and Solano County). We will assign senior staff to this project and they will be available to the City at all times. As staff, we will review the available background information, including all materials on file, plans and supporting data as well as reports prepared by the City or Solano County. We will then identify the steps necessary to achieve project approval and schedules required to gain these approvals. Working with the City and Solano County staff, we will strive to create an efficient and appropriate work plan and schedule to satisfy both the applicant and the greater Vallejo and Solano County communities.

LAK Associates will work with the applicants to create a realistic timeline for the approval process. Working with the appropriate members of the project team, including City of Vallejo and Solano County staff, LAK will coordinate review and approval efforts to streamline the approval process. LAK will also help coordinate the process with local stakeholders.

For the Solano360 project, LAK Associates would perform the following general services:

- Serve as the Contract Planner to the City of Vallejo Planning Department (City) to facilitate the approvals required by the City and Solano County (Applicants) for the Solano360 Specific Plan.
- Review of the City's General Plan, Zoning Ordinance, specific plans, reports and other background materials relevant to the proposed development site.
- Review the proposed development plans prepared by the applicant.
- Establish office space at City of Vallejo for point of contact, coordination, and file storage.
- Conduct site visits, and analysis thereof, as required by City and County.
- Schedule and facilitate meetings, as needed, including Solano360 Committee meetings, Steering Committee meetings, Public Workshops, the EIR Scoping Meeting, and other work group meetings to further the objectives of the Applicant.
- Schedule and facilitate project related meetings, as needed, with City staff, Solano County, federal, state and local agency staff, interested stakeholders, including special interest groups and individuals to further the objectives of the City.
- Communicate by telephone, fax and email, as necessary, to facilitate the project application process.
- Schedule and facilitate public hearings and meetings as directed by the Acting Planning Manager

- Assist in the identification, selection and management of technical environmental consultants, as directed by the applicant and project team.
- Prepare written staff reports, memoranda, letters, public notices, and other documentation, as required to implement project timeline.
- Make oral presentations, as needed.
- Provide other, unspecified services, as requested by the Acting Planning Manager.

Status reports, using a format developed jointly with the City and County, will be submitted to the appropriate staff contact for review and discussion. Action items, with responsibilities and schedules will be included with both types of reports.

Draft and final documents will be submitted to City in Microsoft Word format, Adobe PDF, or compatible files using a format as determined by the City. In addition, all printed materials will be prepared in the most appropriate format to permit ease of photocopying, as defined by the Acting Planning Manager.

Task 1.0 – Project Initiation

1. Refine the final work plan including tasks, estimated hours, available information, interaction with City of Vallejo staff, and project schedule. Review the staff file for contact information for the applicant and interested members of the public.

Products: Final Work Plan and a Plan Outline
Schedule: Week One of the assignment

Task 2.0 – Project Review and Observation

2. Review the Solano360 conceptual plan and provide comments. Review the City of Vallejo General Plan and Zoning and other pertinent plans and regulations. Outline the necessary studies needed from project applicant.

Products: Meetings with City, County and staff reports (as needed)
Schedule: Weeks One through Four

Task 3.0 – Project Schedule and Deliverables

3. Develop work plan and schedule for application process. Coordinate deliverables and timelines for City and County in conjunction with weekly or bi-monthly updates. Develop review process for the appropriate studies to complete application.

Products: Project Schedule; meetings with applicant
Schedule: Weeks Three through Six

Task 4.0 – Specific Plan Oversight

4. Assist City and County to revise and refine land-use plan based on City of Vallejo's development standards and design guidelines, staff recommendations and community

input. Schedule, prepare and facilitate committee meetings or public hearings to determine draft project description.

- 4.1 Review and provide comments on the administrative draft, draft, and final Specific Plan as needed. Provide oversight for the Specific Plan process through public review and completion of design guidelines

Products: Staff Reports; public workshops: 10 hours/week (as needed)
Schedule: Months One to Fourteen
Meetings: Solano360 and Steering Committee meetings with Applicant and project team (as required)

Task 5.0 – Ongoing Project Management

5. Coordinate and review environmental studies based on project schedule. Oversee project applicant's progress in achieving necessary approvals from public agencies. Prepare weekly updates and staff reports as necessary. Prepare and facilitate public hearings as required.

Products: Meetings with City and County; staff reports: 10 hours/week (as needed).
Schedule: Ongoing

Environmental Impact Report

Task: 6.0 – EIR consultant selection process

6. LAK Associates will assist the County in the EIR consultant selection process. Interview potential consultants at one day interview session as required by City or County.

Product: Consultant interviews
Schedule: Three to Four weeks
Meeting: All-day session consultant interview

Task: 7.0 – EIR schedule and Draft EIR review process

- 7.1 Assist with selected consultant to prepare environmental reports if needed. Circulate finished reports within Vallejo City departments for review and comment.

Product: Environmental studies, staff reports, updates
Schedule: Four to Six Months
Meeting: Meetings as needed to review schedule and deliverables

- 7.2 Review the Administrative Draft EIR. Coordinate with inter-Vallejo agencies to review and provide comments. Compile all City agency generated comments into one document and send to consultant for revision.

Product: Admin Draft EIR
Schedule: Three to Four weeks
Meeting: Inter-agency comment meeting

- 7.3 Review screen-check Draft EIR and provide feedback prior to Draft EIR release. Assist with scheduling and facilitation of public comment hearing for Draft EIR comments. Compile and submit public comments to EIR consultant for review and response.

Product: Public Comments
Schedule: Two weeks for Screen Check review: 45 days for public comment
Meeting: Public Comment Hearing

Task 8.0 – Final EIR and Entitlement Approval Process

- 8.1 Review the Administrative Draft Final EIR and prepare draft comments for internal review. Coordinate with inter-Vallejo agencies to review and provide comments. Compile City generated comments into single document for consultant revision.

- 8.2 Review screen-check Draft Final EIR and provide feedback prior to Final EIR release.

Product: Public Comments
Schedule: Two weeks for Screen Check review

- 8.3 Schedule Planning Commission Hearing for FEIR certification and project approvals. Prepare staff report indicating staff recommendation. Coordinate and prepare staff report for Planning Commission hearing. Coordinate and prepare staff report for City Council hearing; present project at Planning Commission and City Council Hearings.

Product: Staff reports: 20 hours; Public hearing presentations: 3 hours
Schedule: Four to Six weeks
Meeting: Planning Commission / City Council Hearings

- 8.4 Prepare public notices and state required action notification forms. Publish in local newspapers and submit to State Clearinghouse as required (future status of OPR unclear to State budget).

Product: Notices and forms
Schedule: Subject to approval and certification process

KEY PROJECT PERSONNEL

Larry Kennings

Sean Kennings

EXHIBIT B

COMPENSATION

1. Consultant's Compensation.

A. Services: City agrees to pay Consultant, at the rate(s) specified below, for those services set forth in Exhibit A of this Agreement and for all authorized reimbursable expenses, for a total not to exceed amount of One-Hundred Fifty Thousand Dollars (\$150,000.00) and a monthly not to exceed amount of Ten Thousand Dollars (\$10,000.00).

Consultant shall notify City in writing no later than thirty (30) days prior to the estimated date when Consultant will have billed City the maximum monthly payment amount permitted under this Agreement.

B. Additional Services:

1. Additional services are those services related to the scope of Services of Consultant as set forth in Exhibit A but not anticipated at the time of execution of this Agreement ("Additional Services"). Additional Services shall be provided only when authorized by an amendment to this Agreement and approved by the City Manager, or his or her designee. City reserves the right to perform any Additional Services with its own staff or to retain other Consultants to perform said Additional Services. Any costs incurred due to the performance of Additional Services prior to the execution of an amendment will not be reimbursed under this Agreement or an amendment.

2. Consultant's compensation for Additional Services shall be based on the total number of hours spent on Additional Services multiplied by the employees' appropriate billable hourly rate as established below. City, at its option, may negotiate a fixed fee for some or all Additional Services as the need arises. Where a fixed fee for Additional Services is established by mutual agreement between City and Consultant, compensation to Consultant shall not exceed the fixed fee amount.

2. Appropriate Billable Hourly Rates for Services and Additional Services.

Consultant's billable hourly rates shall be: \$200.00 per hour.

3. Consultant's Reimbursable Expenses.

Reimbursable Expenses shall be limited to actual reasonable expenditures of Consultant for expenses that are necessary for the proper completion of the Services and shall only be payable if specifically authorized in advance by City.

4. Payments to Consultant.

A. Payments to Consultant shall be made within a reasonable time after receipt of Consultant's invoice, said payments to be made in proportion to services performed. Consultant may request payment on a monthly basis. Consultant shall be responsible for the cost of supplying all documentation necessary to verify the monthly billings to the satisfaction of City.

B. All invoices submitted by Consultant shall contain the following information:

1. Description of services billed under this invoice
2. Date of Invoice Issuance
3. Sequential Invoice Number
4. City's Purchase Order Number (if issued)
5. Social Security Number or Taxpayer Identification Number
6. Amount of this Invoice (Itemize all Reimbursable Expenses")
7. Total Billed to Date

C. Items shall be separated into Services and Reimbursable Expenses. Billings that do not conform to the format outlined above shall be returned to Consultant for correction. City shall not be responsible for delays in payment to Consultant resulting from Consultant's failure to comply with the invoice format described above.

D. Request for payment shall be sent to:

Michelle D. Hightower
Acting Planning Manager
Development Services Department
555 Santa Clara Street
Vallejo, CA 94590

5. Accounting Records of Consultant.

Consultant shall maintain for three (3) years after completion of all services hereunder, all records under this Agreement, including, but not limited to,

records of Consultant's direct salary costs for all Services and Additional Services performed under this Agreement and records of Consultant's Reimbursable Expenses, in accordance with generally accepted accounting practices. Consultant shall keep such records available for audit, inspection and copying by representatives of the City's Finance Department or other government agencies during regular business hours upon twenty four (24) hours notice.

The obligations of Consultant under this section shall survive this Agreement.

6. Taxes.

Consultant shall pay, when and as due, any and all taxes incurred as a result of Consultant's compensation hereunder, including estimated taxes, and shall provide City with proof of such payments upon request. Consultant hereby agrees to indemnify and defend City for any claims, losses, costs, fees, liabilities, damages or injuries suffered by City arising out of Consultant's breach of this section pursuant to the Indemnification provisions of this Agreement.

7. Taxpayer Identification Number. Consultant shall provide City with an IRS Form W-9, Request for Taxpayer Identification Number and Certification, containing an original signature and any other State or local tax identification number requested by City.

EXHIBIT C

INSURANCE REQUIREMENTS

Consultant shall procure and maintain for the duration of this Agreement, including any extensions thereto, insurance against claims for injuries to persons or damages to property which may arise from or in connection with the performance of services hereunder by the Consultant, their agents, representatives, or employees or subcontractors.

A. Minimum Scope of Insurance

Coverage shall be at least as broad as:

1. Insurance Services Office form number GL 0002 (Ed. 1/73) covering Comprehensive General Liability and Insurance Services Office form number GL 0404 covering Broad Form Comprehensive General Liability; or Insurance Services Office Commercial General Liability coverage (occurrence form CG 0001).
2. Insurance Services Office form number CA 0001 (Ed. 1/78) covering Automobile Liability, code 1 any auto and endorsement CA 0025.
3. Workers' Compensation insurance as required by the State of California and Employer's Liability Insurance.
4. Professional Liability insurance appropriate to the Consultant's profession (Errors and Omission).

B. Minimum Limits of Insurance

Consultant shall maintain limits no less than:

1. General Liability: \$2,000,000 per occurrence for bodily injury, personal injury and property damage. If Commercial General Liability Insurance or other form with a general aggregate limit is used, coverage shall be twice the per occurrence amount.
2. Automobile Liability: \$1,000,000 per accident for bodily injury and property damage.
3. Workers' Compensation and Employer's Liability: \$1,000,000 per accident for bodily injury or disease. If Consultant is not subject to

California Workers' Compensation requirements, Consultant shall file a completed certificate of exemption form which may be obtained from the City prior to commencing any activity authorized hereunder.

4. Professional Liability (Errors and Omission): \$1,000,000 combined single limit per claim, and annual aggregate.

C. Deductible and Self-Insured Retention

Any deductibles or self-insured retention must be declared to and approved by the City's Risk Manager. If the deductibles or self-insured retention limit is unacceptable to the City's Risk Manager, at his or her option, the insurer shall either reduce or eliminate such deductibles or self insured retention as respects the City of Vallejo, its officers, officials, employees and volunteers; or the Consultant shall procure a bond guaranteeing payment of losses and related investigations, claim administration and defense expenses.

D. Other Insurance Provisions

The general liability and automobile liability policies, as can be provided, are to contain, or be endorsed to contain, the following provisions:

1. The City of Vallejo, its officers, officials, employees, agents and volunteers are to be covered as additional insureds as respects; liability, including defense costs, arising out of activities performed by or on behalf of the Consultant; products and completed operations of the Consultant; premises owned, occupied or used by the Consultant; or automobiles owned, leased hired or borrowed by the Consultant. The coverage shall contain no special limitations on the scope of protection afforded to the City of Vallejo, its officers, officials, employees, agents or volunteers. The insurance is to be issued by companies licensed to do business in the State of California.
2. For any claims related to this project, the Consultant's insurance coverage shall be primary insurance as respects the City of Vallejo, its officers, officials, employees, agents and volunteers. Any insurance or self-insurance maintained by the City of Vallejo, its officers, officials, employees, agents or volunteers shall be excess of the Consultant's insurance and shall not contribute with it.
3. Any failure to comply with reporting or other provisions of the policies including breaches of warranties shall not affect coverage provided to the City, its officers, officials, employees, agents or volunteers.

4. The Consultant's insurance shall apply separately to each insured against whom claim is made or suit is brought, except with respect to the limits of the insurer's liability.
5. Each insurance policy required by this clause shall be endorsed to state that coverage shall not be suspended, voided, canceled by either party, reduced in coverage or in limits except after thirty (30) days' prior written notice by certified mail, return receipt requested, has been given to the City.

The workers' compensation and employer's liability policy required hereunder shall be endorsed to state that the workers' compensation carrier waives its right of subrogation against City, its officers, officials, employees, agents and volunteers, which might arise by reason of payment under such policy in connection with Consultant's performance under this Agreement.

E. Acceptability of Insurers

Insurance is to be placed with insurers with a current A.M. Best's rating of no less than A:VII.

F. Verification of Coverage

Consultant shall furnish the City with original certificates of insurance for all insurances required by this Agreement and endorsements effecting general and automobile liability insurance coverage required by this clause. The endorsements are to be signed by a person authorized by that insurer to bind coverage on its behalf. All endorsements are to be received and approved by the City's Risk Manager before work commences. The City reserves the right to require complete, certified copies of all required insurance policies, including endorsements affecting the coverage, by this Agreement at any time. All verification of coverage and other insurance documents shall be mailed to the following address or to any other subsequent address as may be directed in writing by the City's Risk Manager:

City of Vallejo
Attn.: Risk Manager
555 Santa Clara Street
Vallejo, CA 94590

G. Subcontractors

Consultant shall include all subcontractors as insureds under its policies or

shall furnish separate certificates and endorsements for each subcontractor. All coverages for subcontractors shall be subject to all of the requirements stated herein.

H. Payment Withhold

City will withhold payments to Consultant if the certificates of insurance and endorsements required in Paragraph F, above, are canceled or Consultant otherwise ceases to be insured as required herein.

Reimbursement Agreement

THIS REIMBURSEMENT AGREEMENT ("Agreement") is entered into this 17th day of MAY, 2010, ("Effective Date"), between the County of Solano, a political subdivision of the State of California, referred to as "County" and City of Vallejo, a municipal corporation, referred to as "City" and the Vallejo Redevelopment Agency, "Agency", who agree as follows:

RECITALS

This Agreement is predicated upon the following findings:

- A. County will submit an application for a Specific Plan Amendment, a General Plan Amendment and Zoning Amendment to facilitate development the Solano County Fairgrounds project ("Project") consistent with the Solano 360 Vision ("Project Vision") adopted by the Solano County Board of Supervisors and the Vallejo City Council on June 9, 2009 and the Amended and Restated Memorandum of Understanding between the City of Vallejo, the Vallejo Redevelopment Agency and the County of Solano entered into and executed on February 10, 2010, the ("2010 MOU").
- B. The Project Vision includes but is not limited to: office, retail, entertainment, mixed-use, residential and other related uses that support operationally and financially the renovation of the Fairgrounds.
- C. The proposed Project will be subject to a comprehensive planning and environmental review process, consistent with paragraph 6 of the 2010 MOU. In connection with the Project, City will consider planning entitlements including adoption of a General Plan Amendment, a Specific Plan, a Zoning Amendment and Environmental Impact Report.
- D. In addition, the Agency, County and City envision negotiating financial contribution and future revenue participation agreements as described in paragraph 7 of the 2010 MOU.
- E. Based on staff work load, and the 2010 MOU, the City desires to hire additional contract professional staff to expedite the review of the County's Project on the condition that the County reimburse the City and the Agency for their expense in contracting professional staff for the planning, legal and economic analysis ("Professional Services") required to process the entitlements, and produce and assist staff in negotiating the financial contribution and future revenue participation agreements as envisioned in the 2010 MOU.
- F. City Staff will solicit and identify Professional Services providers "Consultant(s)" to assist staff in the processing of the Project application and the preparation of agreements and reports. City will consult and discuss with County regarding the selection process for each Consultant.
- G. The intent of this Agreement is to set forth procedures and a funding mechanism for the provision of Professional Services by the Consultants and legal Counsel for the Project, on agreements which are substantially in the same form as that shown on Exhibit 1 (Consultant and Professional Services Agreement between the City of Vallejo and

CONSULTANT) The planning, legal and economic analysis services described herein are henceforth referred to as "Professional Services". Any additional analysis may only be conducted upon agreement by all parties to this Agreement.

NOW, THEREFORE, in consideration of the mutual promises set forth herein, the parties agree as follows:

1. Professional Services. City will contract directly with Consultants and legal Counsel, in a form substantially similar to Exhibit A, to provide Professional Services including but not limited to the following:
 - a. **Planning.** Services will generally involve drafting, editing and presenting planning documents, staff report, ordinances and resolutions for the Project and presentation before the Planning Commission, City Council and Redevelopment Agency, adhering to applicable notification requirements, reviewing application material and commenting and reviewing CEQA treatment.
 - b. **Legal review.** Services will generally involve Counsel's legal review and comment regarding Project and related documents as needed.
 - c. **Economic Analysis/ peer review.** Services will generally involve determining fiscal impact to the City, including impact on city services, 'pro-forma' analysis, assisting City staff in devising fair mechanisms designed to assist the City in recuperating its costs and provide input to staff, assisting in the negotiation of financial contribution and future revenue participation agreements with County.
 - d. **Redevelopment.** Services will generally involve determining Project consistency with Flosden Redevelopment Plan, and whether any amendment to the Redevelopment Plan or the Project is necessary or desirable.
2. Reimbursement for Professional Services. County will reimburse City and Agency for all direct costs associated with or arising out of the contracts with the Consultant and Counsel to the extent that such costs relate to the Project. City will account for and manage funds on behalf of Agency. It is understood that these reimbursement costs are in addition to any generally applicable processing or development fees which may also be due to the City. County agrees to be liable to City and Agency for any costs resulting from the Professional Services contracted by City and Agency on behalf of County's project except that County will cap reimbursement at \$10,000 a month. In the event that funds remain on deposit at the conclusion of the Project they shall be refunded to County.
3. Deposit. County shall deposit twenty thousand dollars and no cents (\$20,000.00) with the City within 15 days of receiving notice of the execution of a contract for Professional Services. The City will hold the deposit and charge invoices received from the Consultants and legal Counsel against the deposit. Each time the deposit is drawn down due to Professional Services charges to a balance of less than \$5,000, County shall deposit an additional ten thousand dollars and no cents (\$10,000.00) ("County's Deposit") with City. County shall submit the County's Deposit within 15 days of receiving notice and supporting documentation from the City and shall continue to make such deposits until all of City's costs for professional services are reimbursed.

4. Binding Effect of Agreement. The burdens of this Agreement shall apply to and bind and the benefits of the Agreement inure to the successors in interest to the parties to it.
5. Relationship of Parties.
 - a. It is understood that the contractual relationships between the City and Consultants and the City and Counsel is such that both Consultants and Counsel are independent contractors working for the City.
 - b. Consistent with the purpose of the 2010 MOU, the parties agree to work cooperatively to prepare the entitlement processing plan.
 - c. This Agreement is made and entered into for the sole protection and benefit of the parties and their successors and assigns. No other person shall have any right of action based upon any provision in this Agreement.
6. No Entitlements Granted. Nothing in this Agreement shall provide County with any right to secure approval of any legislative act, specific plan amendment, general plan amendment, development plan, adoption or certification of the EIR or other entitlement. Any CEQA determination made by City shall reflect the agency's independent judgment in fulfillment of the obligations of the City as the public agency having primary responsibility for discretionary actions involved in said Project. Accordingly, Consultants shall prepare said reports so as to be accurate and objective as reasonably possible. It is further agreed that in all matters pertinent to County, the Consultants and shall act solely as the Consultant to the City and shall not act, in any capacity as consultant to, representative of, or agent of the County. The County shall not engage in communications or contact with the Consultant and its subconsultants without prior written authorization of the City.
7. Term. The term of this Agreement shall be for two (2) years from the date of execution or superseded by a revised Agreement, whichever occurs first.
8. Notices. All notices required or provided for under this Agreement shall be in writing and delivered in person or sent by certified mail, postage prepaid, return receipt requested, to the principal offices of the City and County and its representative and County's successors and assigns. Notice shall be effective on the date it is delivered in person, or the date when the postal authorities indicate the mailing was delivered to the address of the receiving party indicated below:

Notice to City:

Michelle Hightower, Acting Planning Manager
Planning Division
555 Santa Clara Street
Vallejo, CA 94590
mhightower@ci.vallejo.ca.us

Notice to County:

Birgitta E. Corsello, Assistant CAO
County Administrator's Office
675 Texas St., Ste. 650
Fairfield, CA 94533
BECorsello@solanocounty.com

9. Indemnification, Defense and Hold Harmless.

a. County to indemnify City

County agrees to defend and indemnify City, its agents, officers and employees (collectively referred to in this paragraph as 'City'), from any claim, action or proceeding against City, arising solely out of the acts or omissions of County in the performance of this Agreement. At its sole discretion, City may participate at its own expense in the defense of any claim, action or proceeding, but such participation shall not relieve County of any obligation imposed by this Section. City shall notify County promptly of any claim, action or proceeding and cooperate fully in the defense.

b. City to Indemnify County

City agrees to defend and indemnify the County, its agents, officers and employees (collectively referred to in this paragraph as 'County') from any claim, action or proceeding against County, arising solely out of the acts or omissions of City in the performance of this Agreement. At its sole discretion, County may participate at its own expense in the defense of any such claim, action or proceeding, but such participation shall not relieve City of any obligation imposed by this Section. County shall notify City promptly of any claim, action or proceeding and cooperate fully in the defense.

c. Each party to defend itself for concurrent claims

County agrees to defend itself, and City agrees to defend itself, from any claim, action or proceeding arising out of the concurrent acts or omissions of County and City in the performance of this Agreement. In such cases, County and City agree to retain their own legal counsel, bear their own defense costs, and waive their right to seek reimbursement of such costs, except as provided in paragraph 5 below.

d. Joint Defense

Notwithstanding paragraph c above, in cases where County and City agree in writing to a joint defense, County and City may appoint joint defense counsel to defend the claim, action or proceeding arising out of the concurrent acts or omissions of City and County. Joint defense counsel shall be selected by mutual agreement of County and City. County and City agree to share the costs of such joint defense and any agreed settlement in equal amounts, except as provided in paragraph e below. County and City further agree that neither party may bind the other to a settlement agreement without the written consent of both County and City.

e. Reimbursement and/or Reallocation

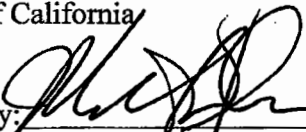
Where a trial verdict or arbitration award allocates or determines the comparative fault of the parties in a lawsuit arising from the performance of this Agreement, County and City may seek reimbursement and/or reallocation of defense costs, settlement payments, judgments and awards, consistent with such comparative fault.

10. Amendments. No amendment of this Agreement shall be valid or binding unless made in writing, signed, and duly authorized on behalf of both parties.
11. No Third Party Beneficiaries. This Agreement is solely for the benefit of the parties, and it does not, nor is it intended to, create any rights in favor of or obligation owing to any third parties.
12. Administrator. The City employee with responsibility for administering this Agreement is Michelle Hightower, Acting Planning Manager or other employee as designated by the Assistant City Manager/ Community Development.
13. Integration Clause. This Agreement contains the entire agreement between the parties and supersedes whatever oral or written understanding they may have had prior to the execution of this Agreement.
14. Severability Clause. Should any provision of this Agreement ever be deemed to be legally void or unenforceable, all remaining provisions shall survive and be enforceable.
15. Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.
16. Waiver. Waiver by either party of any default, breach or condition precedent shall not be construed as a waiver of any other default, breach or condition precedent or any other right pursuant to this Agreement.
17. Public Record. This Agreement and all written non-privileged documents prepared pursuant to this Agreement shall be maintained as a public record.
18. Ambiguity. The parties acknowledge that this is a negotiated agreement, that they have had the opportunity to have this Agreement reviewed by their respective legal counsel, and that the terms and conditions of this Agreement are not to be construed against any party on the basis of such party's draftsmanship.
19. Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of California. Litigation arising out of or connected with this Agreement shall be instituted and maintained in the courts of Solano County in the State of California or in the United States District Court, Eastern District of California, Sacramento, California, and the parties consent to jurisdiction over their person and over the subject matter of any such litigation in such courts, and consent to service of process issued by such courts.
20. Counterparts. The parties may execute this Agreement in one or more counterparts, each of which shall be deemed an original, but all of which together shall be deemed one and the same instrument.


21. Authority. The parties executing this Agreement certify that they have the proper authority to bind their respective entities to all terms and conditions set forth in this Agreement.

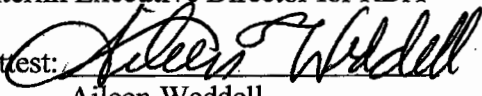
IN WITNESS WHEREOF this Agreement has been executed by the parties on the day and year first above written.

COUNTY OF SOLANO
a political subdivision of the State
of California

By: 
Michael D. Johnson
County Administrator

CITY OF VALLEJO ;
VALLEJO REDEVELOPMENT AGENCY

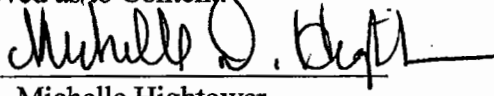
By: 
Robert F.D. Adams
Interim City Manager for City of Vallejo
Interim Executive Director for RDA

Attest: 
Aileen Weddell
Interim City Clerk

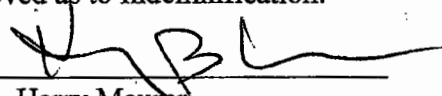
Approved as to Form

By: 
Bernadette Curry
County Counsel

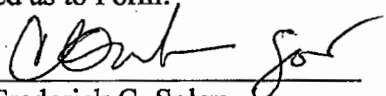
Approved as to Content:

By: 
Michelle Hightower
Interim Planning Manager

Approved as to Indemnification:

By: 
Harry Maurer
Risk Manager

Approved as to Form:

By: 
Frederick G. Soley
City Attorney; Agency Counsel

VALLEJO REDEVELOPMENT AGENCY
SPECIAL MEETING MINUTES
COUNCIL CHAMBERS
JANUARY 11, 2011

1. **CALL TO ORDER**

The meeting was called to order by Chair Davis at 7:37 p.m.

2. **ROLL CALL**

Present: Chair Davis, Vice Chair Wilson, Agency Members Brown, Gomes, Hannigan, Schivley, and Sunga

Absent: None

Staff present: Executive Director Batchelor, City Attorney Soley, and Secretary Kelly

3. **CONSENT CALENDAR AND APPROVAL OF AGENDA**

Action: Offered by Vice Chair Wilson, and approved by unanimous vote of the Board, unless otherwise noted, approval of the Agenda and the Consent Calendar.

A. **Approval of Minutes**

Recommendation: Approve the Redevelopment Agency Minutes for the meetings of: 1) December 14, 2010 (closed) and 2) December 14, 2010 (special)

Contact: Sherry M. Kelly, City Clerk, 648-4527

Action: Approved the minutes

B. **Meeting Schedule**

Recommendation: Adopt a Resolution establishing a schedule of regular meetings for the Redevelopment Agency for 2011 and 2012

Contact: Sherry M. Kelly, City Clerk, 648-4527

Action: Adopted Resolution No. 11-001

C. **Solano County Fairgrounds MOU**

Recommendation: Adopt a Joint Resolution of the City Council of the City of Vallejo and the Vallejo Redevelopment Agency authorizing the City Manager/Executive Director to execute the First Amendment to the Amended and Restated Memorandum of Understanding (MOU) between the County of Solano, the City of Vallejo Redevelopment Agency and the City of Vallejo regarding development of the Solano County Fairgrounds

Contact: Craig Whittom, Assistant City Manager/Community Development, 648-4579

Action: Removed by the Council and to be continued to the meeting of January 25, 2011

4. ADJOURNMENT

The meeting adjourned at 7:38 p.m.

OSBY DAVIS, CHAIR

ATTEST:

SHERRY M. KELLY, INTERIM SECRETARY



CONSENT B

Agenda Item No.

**VALLEJO REDEVELOPMENT AGENCY
COUNCIL COMMUNICATION**

Date: January 25, 2011

TO: Honorable Chairperson and Members of the Redevelopment Agency
Honorable Mayor and Members of the City Council

FROM: Robert V. Stout, Finance Director

SUBJECT: ADOPTION OF RESOLUTIONS APPROVING 1) THE CITY AND THE REDEVELOPMENT AGENCY STATEMENT OF INVESTMENT POLICY PURSUANT TO STATE OF CALIFORNIA GOVERNMENT CODE AND 2) DELEGATION OF INVESTMENT AUTHORITY TO CITY FINANCE DIRECTOR/TREASURER.

RECOMMENDATION

CITY:

1. Adopt a Resolution of the City Council of the City of Vallejo ("City") approving the revised Statement of Investment Policy (Attachment C), and continue delegation of investment authority to the City Finance Director/Treasurer for the period March 1, 2011, through February 28, 2012.

RDA:

2. Adopt a Resolution of the Redevelopment Agency of the City of Vallejo ("Agency") approving the revised Statement of Investment Policy (Attachment C), and continue delegation of investment authority to the City Finance Director/Treasurer for the period March 1, 2011, through February 28, 2012.

REASONS FOR RECOMMENDATION

Until 2000, the City Treasurer was required to submit a Statement of Investment Policy to the City Council at a public meeting and to make quarterly reports to the City Council on the City's investments pursuant to Government Code Section 53600, et. seq. Although these requirements have been made optional, the City Treasurer has and will continue to provide investment reporting and an annual update of the Investment Policy to the City Council pursuant to Government Code section 53646. Government Code section 53607 requires that the City Council delegate investment authority to the City Treasurer for a one year period, renewable annually.



Date: January 25, 2011

Subject: Investment Policy

Page No. 2

FISCAL IMPACT

There is no budget or financial impact resulting from this staff report.

BACKGROUND & DISCUSSION:

The City's Statement of Investment Policy requires that it be reviewed annually to ensure consistency with respect to the objectives of safety, liquidity, yield and relevance to current laws and financial and economic trends.

The City's Statement of Investment Policy has been reviewed by the City's outside professional investment managers, Wells Capital Management and Chandler Asset Management. The proposed changes in the Investment Policy are a result of this review process and staff's review of other agencies policies. The prior Council-approved Investment Policy dated February 23, 2010, showing all proposed additions and deletions is also attached (Attachment D).

In 2001, the City's investment policy was awarded the Association of Public Treasurers' of the United States and Canada (APT) Certification of Excellence Award. The revised Investment Policy continues to adhere to these standards.

The City Council last approved the Statement of Investment Policy and continued delegation of investment authority to the City Finance Director/Treasurer on February 23, 2010. This policy has routinely been updated on an annual basis.

The Finance Director/Treasurer has the responsibility for ensuring that any investment decision complies with the investment policy. The Treasurer files a quarterly investment report with the City Council within 45 days following the end of the quarter covered by the report to ensure that the City Council has timely information.

The key provisions of the existing policy are as follows:

Safety of principal is the foremost objective of the investment policy. Diversification and maturity limitations are required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity. The portfolio will remain sufficiently liquid to enable the City to meet all cash flow



Date: January 25, 2011

Subject: Investment Policy

Page No. 3

requirements that might be reasonably anticipated for the next six months.

The investments and budgeted revenues for the Vallejo Redevelopment Agency will provide sufficient cash flow to meet the anticipated cash needs of the Agency for the next six months.

In May, 2008, the City filed a case under chapter 9 of the United States Bankruptcy Code. The chapter 9 filing has enabled the City to continue to operate and provide services to its residents. On June 17, 2010, the City adopted a balanced budget for the General Fund which projected an ending fund balance of \$1.5 million. The City has now reached post-bankruptcy agreements with all of its labor groups. On November 30, 2010, the City, to demonstrate long term fiscal stability, adopted a 5-Year Business Plan that projected a balanced operating budget for the period and addressed creditor and debt obligations. On the same date, the City authorized the filing of a chapter 9 Plan of Adjustment with the Bankruptcy Court, which will be based in part on the 5-Year Business Plan. The city filed this plan on January 18, 2011. Therefore, even with the uncertainties concerning the national, state and local economies, I believe that the City can provide sufficient cash flows to meet its anticipated cash flows for the next six months.

Return on Investment. The portfolio will be maintained with the objectives of safety and liquidity first, and then the objective of obtaining a market-average rate of return.

This year, staff proposes making minor changes to the policy in order to add language for clarification purposes.

DOCUMENTS ATTACHED:

- Attachment A Resolution of the City Council of the City of Vallejo ("City") approving the revised Statement of Investment Policy (Attachment C), and continue delegation of investment authority to the City Finance Director/Treasurer for the period March 1, 2011, through February 28, 2012.
- Attachment B Resolution of the Vallejo Redevelopment Agency ("Agency") approving the revised Statement of Investment Policy (Attachment C), and continue delegation of investment authority to the City Finance Director/Treasurer for the period March 1, 2011, through February 28, 2012.



Date: January 25, 2011

Subject: Investment Policy

Page No. 4

Attachment C Revised City of Vallejo, and Redevelopment Agency of the City of Vallejo Statement of Investment Policy Dated January 25, 2011.

Attachment D Prior Year City of Vallejo Statement of Investment Policy Dated February 23, 2010, Showing All Proposed Additions And Deletions.

PREPARED BY:

Jon R. Oiler, Auditor Controller
(707) 648-4593

CONTACT:

Robert V. Stout, Finance Director
(707) 648-4592.

RESOLUTION NO. _____ N.C.

RESOLUTION OF THE CITY COUNCIL APPROVING THE STATEMENT OF INVESTMENT POLICY PURSUANT TO STATE OF CALIFORNIA GOVERNMENT CODE AND DELEGATING INVESTMENT AUTHORITY TO THE CITY FINANCE DIRECTOR/TREASURER FOR THE PERIOD MARCH 1, 2011, THROUGH FEBRUARY 28, 2012

BE IT RESOLVED by the Council of the City of Vallejo as follows:

WHEREAS, Section 53646 of the Government Code provides that "...the treasurer or chief fiscal officer may annually render to the legislative body of the local agency and any oversight committee a Statement of Investment Policy..."; and

WHEREAS, Section 53607 of the Government Code provides that a legislative body may delegate the authority to invest to the treasurer on an annual basis; and

WHEREAS, the legislative body of a local agency may invest surplus monies not required for the immediate necessities of the local agency in accordance with the provisions of California Government Code Section 53601 et seq.; and

WHEREAS, Section 53646 (a) of the Government Code provides that the City Treasurer may annually prepare and submit a Statement of Investment Policy and such policy, and any changes thereto, may be considered by the City Council at a public meeting; and

WHEREAS, the Annual Statement of Investment Policy was last reviewed and adopted on February 23, 2010.

NOW, THEREFORE, BE IT RESOLVED that the Vallejo City Council hereby approves the Statement of Investment Policy for the City of Vallejo, as amended and set forth in Attachment C of the Staff Report accompanying this Resolution.

BE IT FURTHER RESOLVED that the Council hereby delegates investment authority to the City Finance Director/Treasurer for a period of one year, from March 1, 2011, through February 28, 2012, in accordance with the Policy.

RESOLUTION NO. _____

RESOLUTION OF THE REDEVELOPMENT AGENCY OF THE CITY OF VALLEJO APPROVING THE STATEMENT OF INVESTMENT POLICY PURSUANT TO STATE OF CALIFORNIA GOVERNMENT CODE AND DELEGATING INVESTMENT AUTHORITY TO THE CITY FINANCE DIRECTOR/TREASURER FOR THE PERIOD MARCH 1, 2011 THROUGH FEBRUARY 28, 2012

BE IT RESOLVED by the Redevelopment Agency of the City of Vallejo ("Agency"), as follows:

WHEREAS, Section 53646 of the Government Code provides that "...the treasurer or chief fiscal officer may annually render to the legislative body of the local agency and any oversight committee a Statement of Investment Policy..."; and

WHEREAS, Section 53607 of the Government Code provides that a legislative body may delegate the authority to invest to the treasurer on an annual basis; and

WHEREAS, the legislative body of a local agency may invest surplus monies not required for the immediate necessities of the local agency in accordance with the provisions of California Government Code Section 53601 et seq.; and

WHEREAS, Section 53646 (a) of the Government Code provides that the Agency Treasurer may annually prepare and submit a Statement of Investment Policy and such policy, and any changes thereto, may be considered by the legislative body at a public meeting; and

WHEREAS, the City Finance Director/Treasurer serves as the Agency's Treasurer; and

WHEREAS, the Annual Statement of Investment Policy was last reviewed and adopted on February 23, 2010.

NOW, THEREFORE, BE IT RESOLVED that the Board of the Vallejo Redevelopment Agency of the City of Vallejo hereby approves the Statement of Investment Policy for the Agency, as amended and set forth in Attachment C of the Staff Report accompanying this Resolution.

BE IT FURTHER RESOLVED that the Vallejo Redevelopment Agency of the City of Vallejo hereby delegates investment authority to the City Finance Director/Treasurer for a period of one year, from March 1, 2011, through February 28, 2012, in accordance with the Policy.



**CITY OF VALLEJO, CALIFORNIA AND
REDEVELOPMENT AGENCY OF THE CITY OF VALLEJO**

**STATEMENT OF
INVESTMENT POLICY**

**Considered by the City Council and Redevelopment Agency of the City of Vallejo
On January 25, 2011**

TABLE OF CONTENTS

1.0	POLICY.....	3
2.0	SCOPE.....	3
3.0	INVESTMENT INCOME AND EXPENSE ALLOCATIONS.....	4
4.0	PRUDENCE.....	4
5.0	INVESTMENT OBJECTIVES.....	5
6.0	PERFORMANCE STANDARDS.....	7
7.0	DIVERSIFICATION.....	7
8.0	REPORTING.....	7
9.0	SAFEKEEPING AND CUSTODY.....	8
10.0	AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS.....	9
11.0	COLLATERALIZATION.....	9
12.0	DELEGATION OF AUTHORITY.....	9
13.0	ETHICS AND CONFLICT OF INTEREST.....	10
14.0	INTERNAL CONTROL.....	10
15.0	POLICY REVISION AND ADOPTION.....	10
16.0	PROHIBITED TRANSACTIONS.....	10
17.0	MAXIMUM MATURITY LIMIT.....	11
18.0	PORTFOLIO MANAGEMENT.....	12
19.0	USE OF EXTERNAL PROFESSIONAL INVESTMENT MANAGERS.....	12
20.0	INDEMNIFICATION OF CITY INVESTMENT OFFICIALS.....	12
21.0	ALLOCATION OF ANY INVESTMENT GAIN OR LOSS.....	13
22.0	POLICY EXCEPTIONS.....	13
	SCHEDULE OF AUTHORIZED INVESTMENT INSTRUMENTS.....	14
	SUMMARY OF AUTHORIZED SECURITIES AND CRITERIA INCLUDING DIVERSIFICATION CRITERIA.....	18
	GLOSSARY OF CASH MANAGEMENT TERMS.....	20

CITY OF VALLEJO AND REDEVELOPMENT AGENCY OF THE CITY OF VALLEJO INVESTMENT POLICY

1.0 POLICY

It is the policy of the City of Vallejo and the Redevelopment Agency of the City of Vallejo (hereinafter collectively "City") to invest public funds of the City in a prudent manner which will preserve principal, maintain liquidity and achieve a reasonable rate of return. Sufficient liquidity will insure that the City is able to meet daily cash flow requirements, while conforming to all state and local statutes governing the investment of said public funds.

2.0 SCOPE

Pursuant to California Government Code Section 53600 et. seq., the City Council as the legislative body of the City has primary responsibility for investment of money in the City Treasury not required for the immediate needs of the City. In accordance with the Charter of the City, the City Council has assigned the responsibility of investing the unexpended cash of the City Treasury to the City Manager. Furthermore, the City Manager has delegated his or her responsibility for investing the unexpended cash of the City Treasury and daily management of the investment portfolio to the City Finance Director who serves as the City Treasurer. The City Finance Director/Treasurer is authorized to invest or reinvest the City's funds, to sell or exchange securities so purchased, and to deposit securities for safekeeping. This Investment Policy applies equally to both the City of Vallejo and the Redevelopment Agency of the City of Vallejo.

Therefore, as authorized under California Government Code Section 53607, the City Council hereby delegates its authority to invest or reinvest the funds of the City, and to buy, sell or exchange securities so purchased, to the City Finance Director/Treasurer who shall assume full responsibility for all such transactions until such time as this delegation of authority may expire or be revoked by the City Council.

A. This investment policy shall apply to all financial assets and investment activities of the City of Vallejo and the Vallejo Redevelopment Agency including the following fund types:

1. General Fund
2. Special Revenue Funds
3. Debt Service Funds
4. Capital Project Funds
5. Enterprise Funds
6. Internal Service Funds
7. Trust & Agency Funds

B. This policy does not cover funds held by the Public Employees Retirement System nor shall it apply to investments held by the administrators of the City's IRS Code Section 457 Deferred Compensation program.

- C. Except for cash in certain restricted and special funds, the City will consolidate cash balances from all funds to maximize investment options.
- D. The proceeds of City bond issues, notes or similar financings including, but not limited to reserve funds, project funds, debt service funds and capital trust funds derived from such financings, as well as funds set aside to defease City or RDA debt in conjunction with an advance refunding agreement, shall be invested pursuant to their respective bond or trust indentures or the State of California Government Code 53600 et. seq., as applicable and not necessarily in compliance with this policy.
- E. This Investment Policy is now amended and adopted as of February 24, 2009, and will serve as the City of Vallejo and Redevelopment Agency Investment Policy. The Investment Policy will be reviewed annually and recommendation for revision will be made to the Council when necessary.

3.0 INVESTMENT INCOME AND EXPENSE ALLOCATIONS

Investment income will be allocated to the various funds based on their respective participation based on the cash balance in each fund as a percentage of the entire pooled portfolio, or other such method as directed by the City Finance Director/Treasurer, and in accordance with generally accepted accounting principles.

The costs of managing the investment portfolio, including but not limited to: investment management fees; accounting for the investment activity; custody of the assets and oversight control expenses are charged to the individual funds on an annual basis, based upon actual expenses incurred, or using other such methods as directed by the City Finance Director/Treasurer.

4.0 PRUDENCE

The City will manage the investment portfolio under the Prudent Investor Standard, which as authorized under California Government Code Section 53600.3 states that:

“Except as provided in subdivision (a) of Section 27000.3, 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.”

In determining whether an investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than consideration as to the prudence of a single investment and, whether the investment decision was consistent with the City's Investment Policy and written investment procedures.

The City recognizes that in a diversified portfolio selected losses may occur when selected securities are sold to meet cash flow needs or to improve the overall portfolio performance and must be considered within the context of the overall portfolio's investment return.

This standard of prudence shall be applied in the context of managing the City and RDA's investment portfolios.

5.0 INVESTMENT OBJECTIVES

The objective of this policy is to provide guidance to invest City funds in accordance with California Government Code Section 53600 et. seq., using sound treasury management principles with the following objectives, in order of priority:

- A. **Safety:** Safety of invested funds is the first and primary objective of the City's investment program. The highest priority must be accorded to the preservation and protection of principal.
- B. **Liquidity:** Maintenance of sufficient liquidity to meet all cash flow requirements that might be reasonably anticipated for at least six (6) months.
- C. **Return:** The City's investment portfolio shall be designed with the objective of attaining the best return, throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow requirements of the portfolio. Return will however be a secondary consideration subordinate to the higher priorities accorded to the safety and liquidity of principal.

Investments shall be selected in a manner that will attempt to ensure the safety of the City's principal. This will be accomplished through a program of investment instrument selection, diversification, maturity limitations, and quality constraints. Investment transactions shall seek to keep principal losses at a minimum, whether they are from individual security defaults/downgrades or general erosion of market value due to rising interest rates.

A. SAFETY

To protect the value of the principal and interest of the invested funds, the City will invest only in securities with acceptable credit quality as outlined in the California Government Code Section 53600 et. Seq. which include, but are not limited to, those backed by the U.S. Government or its agencies; those which have insurance on principal backed by FDIC, or those which have been legally defeased with U.S. Government collateral.

Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. This statement refers to the overall portfolio as opposed to individual investments. The objective will be to minimize credit risk and market risk.

It is recognized that within a well-diversified portfolio, at any particular point in time, that security valuations are impacted by changes in interest rates and economic conditions. Accordingly, securities may at times be worth less than the original purchase price based on market fluctuations. It is further understood, that in the event of the need for a forced liquidation of investments to meet unplanned or unanticipated cash flow demands, a potential loss of investment principal might occur.

The City recognizes that investment risk can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to minimize and control these risks.

a. Credit Risk - Credit Risk is the risk of loss due to the failure, degradation, or decreased likelihood that the security issuer or backer will fulfill its obligations with respect to timely principal and interest payment. Credit risk will be mitigated by:

- Limiting investments to the acceptable credit quality as outlined in the California Government Code Section 53600 et. Seq.; and
- Pre-qualifying the financial institutions, broker/dealers and intermediaries with which the City will do business; and
- Diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the City's cash flow.

b. Market Risk - Market risk is the risk that the market value of securities in the portfolio will fall due to market influence such as changes in general interest rates. Market risk may be minimized by:

- Structuring the investment portfolio to limit the average maturity of the City's portfolio to a maximum of three years and the maximum legal final maturity of any one security in the portfolio to five years, and by structuring the portfolio with an adequate mix of highly liquid securities and maturities to meet major cash outflow requirements.

B. LIQUIDITY

Maturity dates of investments will be timed to assure that funds are available for payment obligations that may be reasonably anticipated. Liquidity refers to the ability to sell investments at any given moment while minimizing the chance of losing some portion of principal. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of liquid securities with active secondary or resale markets.

Furthermore, the City shall maintain short term investments which offer same day liquidity for short-term funds.

C. RETURN ON INVESTMENTS

The City of Vallejo's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio. Return on investments is subordinate to the requirements of safety and liquidity. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

6.0 PERFORMANCE STANDARDS

In order to assist in the evaluation of the portfolios' performance, the City will employ a relevant performance benchmark for the portfolio consistent with the Investment Policy mandated maturity, quality and concentration constraints. Useful comparative benchmarks of the City's portfolio performance will be the quarter-to-date LAIF apportionment rate, and the two-year U.S. Treasury Note yield. This maturity range is an appropriate benchmark based on the objectives of the City and the investment constraints set forth herein. Since return on investment is not the most important objective of the portfolio, the benchmark will be used solely as a reference tool. The reporting of a benchmark does not imply that the City Treasurer will add additional investment risk to the portfolio in order to attain or exceed the benchmark. Whenever possible, and consistent with risk limitations as defined herein and prudent investment principles, the Treasurer shall seek to augment returns above the risk free rate of return.

7.0 DIVERSIFICATION

The City will diversify its investments to reduce credit risk or market risk losses to the portfolio as a whole, while still attaining a market-average rate of return. Diversification requires not just an array of instrument types, but also an array of maturities and issuers. The following represents the quality and concentration limits to which the investment portfolio must conform:

- a. No more than 5% of the portfolio is to be invested in any single issue/issuer at the time of purchase (except U.S. Treasury and Agency securities and the Local Agency Investment Fund).
- b. No more than 50% of the portfolio will be invested in any one asset class (with the exception of U.S. Treasury securities, and authorized pools).
- c. No more than 5% of any total outstanding issue may be purchased.

8.0 REPORTING

Government Code Section 53646 previously mandated that annual investment policies and quarterly investment reports be rendered to the legislative body. AB 2853 amended Government Code Section 53646 to remove these requirements; now, the rendering of these documents is permissive rather than mandated.

In accordance with California Government Code Section 53646, the Treasurer may submit an investment report to the City Council on a quarterly basis within 45 days of the end of the

quarter, which provides a review of investments and summarizes total investment return as described in items A through E found below within this section.

The report shall include the following information:

- A. Type of investment, issuer, date of maturity, par value and dollar amount invested in all securities, investments and money held by the City at the end of the reporting period; and
- B. A listing of individual securities held at the end of the reporting period by authorized investment category and percentage of portfolio represented by each investment category; and
- C. Average life and final maturity of all investments listed, and coupon, discount or earnings rate; and
- D. Par Value, Fair Value and Cost Value; and
- E. For all securities held by the City or under management by an outside party that is not a local agency pool or the State of California Local Agency Investment Fund, the current fair value as of the date of the report; and
- F. Statement that the portfolio complies with the Investment Policy or the manner in which the portfolio is not in compliance; and
- G. Statement that the City has the ability to meet its pooled expenditure requirements (cash flow) for the next six months or provide an explanation as to why sufficient money shall or may not be available.

If the City places all of its investments in the Local Agency Investment Fund, Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association (or any combination of these three), the Finance Director can simply submit, on at least a quarterly basis, the most recent statements from these institutions to meet the requirements of items A - D above, with a supplemental report addressing items E - H above, per California Government Code Section 53646(b)-(e).

9.0 SAFEKEEPING AND CUSTODY

All security transactions of the City and RDA, including collateral on repurchase agreements, will be executed by delivery-versus-payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. A third party custodian, as designated by the Treasurer and as evidenced by safekeeping receipts, will hold securities of the City and RDA.

10.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

If deemed necessary by the Finance Director/Treasurer, the Treasurer's office will maintain a list of financial institutions authorized to provide investment services, including approved security broker/dealers.

- A. The City and Redevelopment Agency shall transact business only with banks, savings and loans, and with investment securities dealers as defined in Government Code Section 53601.5:

53601.5 – Designated entities from whom a local agency may purchase authorized investments:

“The purchase by a local agency of any investment authorized pursuant to Section 53601 or 53601.1, not 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 from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a federal or state association (as defined by Section 5102 of the Financial Code) or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank.”

- B. Before accepting funds or engaging in investment transactions with the City, the supervising officer at each depository and recognized securities broker/dealer shall submit a certification that the officer has reviewed the investment policies and objectives and agrees to disclose potential conflicts or risks to public funds that might arise out of business transactions between the firm/depository and the City of Vallejo.

11.0 COLLATERALIZATION

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level for any amount exceeding FDIC coverage shall be in accordance with California Government Code Section 53652 and/or 53651 (m)(1).

The City chooses to limit acceptable collateral to the following: Cash, U.S. Treasury Bills, Notes and Bonds, and Federal Agency issues.

Collateral will always be held in the City's name by an independent third party with whom the City of Vallejo has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City.

The right of collateral substitution is reserved by the City.

12.0 DELEGATION OF AUTHORITY

In accordance with State law (SB 109), the City Council designates the Finance Director/Treasurer and/or those person(s), city employees, outside professional investment managers or fund managers assigned or designated by the Finance Director/Treasurer, to

perform the needed investment transactions in accordance with this Policy. At times of absence of the Finance Director/Treasurer, the Assistant Finance Director, or other City Finance Director/Treasurer designee shall perform those functions of the investment of City or RDA Funds. In the absence of the Finance Director/Treasurer, the Assistant Finance Director, and other City Finance Director/Treasurer designees, the City Manager shall assume this responsibility. The investment authority granted to the investing officers is effective until rescinded by the City Council or until termination of the person's employment by the City. No person may engage in an investment transaction except as provided for under the terms of this policy. Although the Finance Director/Treasurer may delegate these duties to another official in the Department of Finance, the Finance Director shall be responsible for all transactions undertaken and will establish a system of controls to regulate the activities of subordinate officials. Section 53607 of the State of California Government Code limits the authorization of the legislative body to delegate investment authority to a one-year period, renewable annually.

13.0 ETHICS AND CONFLICT OF INTEREST

In accordance with California Government Code Sections 1090 et seq. and 87100 et seq., officers and employees of the City will refrain from any activity that could conflict with the proper execution of the investment program or which could impair their ability to make impartial investment decisions for the City or RDA. All investment personnel shall comply with the reporting requirements of the Political Reform Act, to include the annual filing of Statements of Economic interest. No investments will be made with or through any family or blood-related relative or any firm that employs any family or blood-related relative of any City Elected Official, Appointed Official, or City employee.

14.0 INTERNAL CONTROL

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

15.0 POLICY REVISION AND ADOPTION

This Investment Policy shall be reviewed and adopted at least annually by resolution of the City Council of Vallejo. Furthermore, it can be revised whenever necessary by the City Council or Finance Director with City Council approval, and any modifications made thereto must be approved by the City Council, as required by law.

16.0 PROHIBITED TRANSACTIONS

Certain investment practices and instruments may be inconsistent with the safety of invested funds, or prohibited by the State of California Government Code Section 53601.6 and are therefore prohibited transactions. Prohibited investments include securities not listed in Attachment A below, as well as but not limited to:

A. Investments Prohibited by State of California Government Code Section 53601.6:

1. Mortgage Derived Interest-Only Strips.
2. Any security that could result in zero interest accrual if held to maturity.
3. "Complex" derivative structures such as range notes or inverse floaters.
4. Auction-rate preferred securities.

B. Additional Investments Prohibited by the City of Vallejo:

1. No direct investment in financial agreements whose returns are linked to or derived from the performance of some underlying assets such as stocks, bonds, currencies or commodities products ("Derivatives"). Only allowed as part of the City's investments in Government Investment Pools and sweep accounts. This may include dual index notes, leveraged or de-leveraged floating rate notes, or any other complex variable rate or structured note, and any other financial derivative.
2. Leveraged investing, such as in margin accounts or any form of borrowing against or otherwise obligating city investments for the purpose of investment.
3. Options and future contracts.
4. Taking short positions; that is, selling securities that the City does not own.
5. Equity Securities (Common or Preferred Stocks).

Purchasing these types of instruments does not coincide with the City's Investment Policy objectives and would require a thorough review and monitoring of the underlying security. Although some of these transactions are legal under California Government Code, they do not meet the objectives contained in this Investment Policy.

Prohibited investments already held in the portfolio at the time of adoption of this policy may continue to be held until maturity at the discretion of the Finance Director/Treasurer.

17.0 MAXIMUM MATURITY LIMIT

To the extent possible, the City of Vallejo will attempt to match its investments with anticipated cash flow requirements. In compliance with State of California Government Code Section 53601, the City will not directly invest in any securities with a legal final maturity of more than five years from the date of purchase unless specifically approved by the City Council.

Furthermore, in order to maintain liquidity, the weighted average time to maturity of the City's investment portfolio shall not exceed three years. The Treasurer shall adjust average portfolio maturity to market conditions and specific investment goals/return objectives, as needed.

18.0 PORTFOLIO MANAGEMENT

Following the primary objective of preservation of capital, the investment portfolio may be actively managed to take advantage of market opportunities. In doing so, negotiable securities may be sold prior to their maturity to provide liquid funds as needed for cash flow purposes, to enhance portfolio returns, or to restructure maturities to increase yield and/or decrease risk. In addition, fluctuations in market rates or changes in credit quality may produce situations where securities may be sold at a loss in order to mitigate further erosion of principal or to reinvest proceeds of sale in securities that will out-perform the original investment. In practice, however, it is primarily a hold to maturity portfolio.

19.0 USE OF EXTERNAL PROFESSIONAL INVESTMENT MANAGERS

The City may employ the services of professional investment managers to assist in the management of the City's investment portfolio. Such managers may be granted the discretion to purchase and sell investment securities in accordance with this Investment Policy. In addition, such managers may review cash flow requirements, formulate investment strategies, and execute security purchases, sales and deliveries. External investment managers must be well established and exceptionally reputable. Members of the staffs of such companies who will have primary responsibility for managing the City's investments must have a working familiarity with the special requirements and constraints of investing municipal funds in general and this City's funds in particular. Such managers shall only be retained by written agreement with the City, and approved by the City Council. They must contractually agree to conform to the City's Investment Policy and all provisions of governing law and collateralization and other requirements contained herein.

Investment Managers shall exercise reasonable care in compliance with this Investment Policy and their Investment Management Agreements. If an Investment Manager causes a loss of funds to the City where the Manager is held to be liable for the loss of funds, compensation due to the City from the Investment Manager for such loss of funds is defined in each investment management agreement.

No more than 40 percent of the City's total investment portfolio may be placed in any one investment management account. In order to implement this requirement, the City's portfolio assets will be reallocated annually among its investment managers based on June 30 year-end values.

20.0 INDEMNIFICATION OF CITY INVESTMENT OFFICIALS

The City Finance Director/Treasurer and any other City of Vallejo employee designated or assigned to perform the investment transactions and/or manage the City's investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, will not be held personally liable for any individual investment losses or total portfolio losses and shall be relieved of personal responsibility and liability for any individual security's credit risk or market price changes. Such indemnity shall extend to judgments, fines, attorney fees, and any other amounts paid in settlement of any such claim, suit, or proceeding, including any appeal thereof.

21.0 ALLOCATION OF ANY INVESTMENT GAIN OR LOSS

Any gain or loss realized on any investments will be distributed on a pro rata basis to all non-restricted funds which at the time of the investment gain or loss were part of the City's portfolio, or using other such methods as directed by the City Finance Director/Treasurer, and in accordance with generally accepted accounting principles.

22.0 POLICY EXCEPTIONS

Occasionally, exceptions to some of the requirements specified in this Investment Policy may occur for pooled investments because of events subsequent to the purchase of investment instruments, e.g., the rating of a corporate note held in the portfolio is downgraded below an "A" rating, or total assets in the portfolio decline causing the percentage invested in corporate notes to rise above 30%.

State law is silent as to how exceptions should be corrected. Exceptions may be temporary or more lasting; they may be self-correcting or require specific action. If specific action is required, the City Finance Director/Treasurer should determine the course of action that would correct exceptions to move the portfolio into compliance with State and City requirements. Decisions to correct exceptions should not expose the assets of the portfolio to undue risk, and should not impair the meeting of financial obligations as they fall due. Evaluation of divestiture of securities will be determined on a case-by-case basis. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

23. USE OF STATE GUIDELINES

State of California Government Code Sections 16429.1, 53600, 53601, 53631.5, 53635, and 53646 regulate investment practices. It is the policy of the City of Vallejo to use the State's provisions for local government investments as a guide in the developing and implementing the City's investment policies and practices with the exception of those investments listed as Prohibited Transactions in Section 16 above.

24. LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment types or percentage allocations will be incorporated into the City of Vallejo Statement of Investment Policy and supersede any and all previous applicable language. If the City is holding an investment that is subsequently prohibited by a legislative change, the City may hold that investment until the maturity date, if it is deemed prudent by the Finance Director/Treasurer.

ATTACHMENT A

SCHEDULE OF AUTHORIZED INVESTMENT INSTRUMENTS

Allowable Investment Instruments

The City Finance Director/Treasurer is authorized to invest in any of the investment instruments allowed by Sections 53601, 53635 and 16429.1 of the California Government Code with the exception of those investments listed as Prohibited Transactions in Section 16 above. Exclusion of the instruments in Section 16 (B) is consistent with the City's and RDA's overall objective of achieving reasonable yields on public funds while minimizing risk and capital losses. Although the potential exists for greater interest yields with these instruments, it is believed that the potential level of risk exceeds their benefits except in very limited circumstances. Accordingly, City Council approval is required on a case-by-case basis for any investments listed in Prohibited Transactions Section 16 (B).

Term

Reserve funds from the proceeds of debt issues of the City or RDA may be invested by the City Finance Director/ Treasurer in government agency securities with terms exceeding five (5) years if the maturity of such investments is made to coincide as nearly as practicable with the life of the debt issue.

In all other cases, City Council approval to make investments with terms in excess of five (5) years is required on a case-by-case basis.

The City's and RDA's funds may be invested in any of the following instruments, which are not prohibited by law (California Government Code Section 53601.6):

- A. **LOCAL AGENCY INVESTMENT FUND (LAIF).** As authorized in Government Code Section 16429.1, local agencies may invest in the Local Agency Investment Fund (LAIF), a pooled investment money market fund established by the State of California, and overseen by the State Treasurer, which allows local agencies to pool their investment resources. Principal may be withdrawn on a one-day notice. Interest earned is paid quarterly. The fees charged are limited to one-quarter of one percent of the earnings of the fund. Current policies of LAIF set minimum and maximum amounts of monies that may be invested as well as maximum numbers of transactions that are allowed per month. Currently, there is a limitation of \$50 million per agency subject to a maximum of 15 total transactions per month. The LAIF is in trust in the custody of the State Treasurer. The City's right to withdraw its deposited monies from LAIF is not contingent upon the State's ability to adopt a State Budget by July 1st of each new fiscal year.
- B. **U.S. TREASURY BILLS.** Commonly referred to as T-Bills, these are short-term marketable securities sold as obligations of the U.S. Government. They are offered in three-month, six-month, and one-year maturities. T-Bills do not accrue interest but are sold at a discount to pay face value at maturity.
- C. **U.S. TREASURY NOTES.** These are marketable, interest-bearing securities sold as obligations of the U.S. Government with original maturities of one to ten years at

issuance. Interest is paid semiannually. Purchases of these assets are limited to a remaining maturity of 5 years or less.

- D. **U.S. TREASURY BONDS.** These are the same as U.S. Treasury Notes except they have original maturities of ten years or longer at issuance. Purchases of these assets are limited to a remaining maturity of 5 years or less.
- E. **U.S. GOVERNMENT AGENCY ISSUES AND GOVERNMENT SPONSORED ENTERPRISES (GSE's).** This includes obligations, participations, or other instruments of, or issued by, a federal government agency or a United States government-sponsored enterprise. Purchase of U.S. Government Agency securities may not exceed 50% of the City's Portfolio.

These securities fall into three categories: 1) Issues which are backed by the full faith and credit of the United States, 2) Issues which are conditionally backed by the full faith and credit of the United States and 3) Issues which are not backed by the full faith and credit of the United States.

These Issues include, but are not limited to:

1. Issues, which are unconditionally backed by the full faith and credit of the United States, including: Small Business Administration (SBA) and General Services Administration (GSA).
 2. Issues which are not backed by the full faith and credit of the United States including but are not limited to: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Farm Credit System, Banks for Cooperation (Co-ops), Federal Lands Banks (FLB), Federal Intermediate Credit Banks (FICB), Tennessee Valley Authority (TVA), Student Loan Marketing Association (SLMA) and the Federal Deposit Insurance Corporation (FDIC).
- F. **BANKER'S ACCEPTANCE.** Otherwise known as bills of exchange or time drafts, are negotiable instruments with a maturity of six months or less drawn on and accepted by a commercial bank. These instruments are usually created to finance the import or export of goods, or the shipment of goods within the United States.
- G. **CERTIFICATE OF DEPOSIT (CDS).** As authorized in Government Code Section 53601.7 (7), local agencies may invest in Certificates of Deposit. These instruments must comply with Government Code Sections 16500 or 16600. This is a receipt for funds deposited in a Bank or Savings and Loan Association for a specified period at a specified rate of interest. The first \$250,000 of a CD is guaranteed by the FDIC. CD's with a face value in excess of \$250,000 can be collateralized by Treasury Department Securities, which must be at least 110% of the face value of the CD's in excess of the first \$250,000, or by first mortgage loans, which must be at least 150% of the face value of the CD balance in excess of the first \$250,000.

All institutions must: (1) have a minimum of \$100 million in assets; (2) have a demonstrated history of positive earnings; and, (3) must carry a minimum 3.5% equity ratio and hold that ratio for at least one year prior to the City's investment. All

institutions must be located within the State of California. For collateralized or negotiable certificates of deposit, the institution must have a minimum \$1 billion in assets, in addition to meeting the above criteria.

- H. **NEGOTIABLE CERTIFICATE OF DEPOSIT.** Allowable certificates of deposits must be issued by a nationally or state-chartered bank or a state or federal association or by a state-licensed branch of a foreign bank. The maturity period for this investment vehicle may not exceed five years unless approved by the Council.
- I. **COMMERCIAL PAPER.** As authorized in Government Code Section 53601(g), 25% of the City's portfolio may be invested in "prime" quality commercial paper of the highest ranking or of the highest letter and numerical rating as provided for by Moody's or Standard and Poor's, with maturities not to exceed 270 days. These notes are secured promissory notes of industrial corporations, utilities and bank holding companies. State law limits a city to investments in US corporations having assets in excess of five hundred million dollars with an "A" or higher rating.
- J. **REPURCHASE AGREEMENTS.** As authorized in Government Code Section 53601(i), repurchase agreements are agreements between the local agency and seller for the purchase of government securities to be resold at a specific date and for a specific amount. Repurchase agreements are generally used for short term investments for the City's daily automatic sweep account and will generally not exceed 30 days. The legal limitation on the maturity period for a repurchase agreement is for one year with the required market value underlying the agreement at 102% of the funds borrowed with the value adjusted quarterly.
- K. **BONDS OF THE STATE OF CALIFORNIA OR LOCAL AGENCIES.** Bonds of the State of California and any local government in the State of California, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency. In no event shall this classification of investment exceed 10% of the value of the portfolio.
- L. **MUTUAL FUNDS.** Mutual Funds are referred to in California Government Code, Section 53601(k), as "shares of beneficial interest issued by diversified management companies." The following mutual funds and money market funds are authorized investments for funds subject to the following provisions:
 - 1. Shares of mutual funds with portfolios consisting only of United States government bonds or United States government agencies with average maturities less than four years.
 - 2. Shares of money market funds with portfolios consisting of only bonds of states and local governments or other issuers authorized by State law for investment by local governments, which bonds have at the time of investment one of the two highest credit ratings of a nationally recognized rating agency.
 - 3. Shares of money market funds with portfolios consisting of securities otherwise authorized by State law for investment by local governments.

M. **LOCAL GOVERNMENT INVESTMENT POOLS (LGIP).** Established by the State of California to enable Finance Directors to place funds in a pool for investments. In no event shall this classification of investment exceed the maximum limit allowed by the pool.

N. **CORPORATE NOTES.** As authorized in Government Code Sections 53601(j), local agencies may invest in corporate notes issued by corporations organized and operating in the United States that have an "A" or higher rating for the issuer's debt as provided by at least two of nationally recognized rating services and having a maximum remaining maturity period of five years or less in an amount not to exceed 30% of the agency's portfolio. Furthermore, the maximum principal amount in any one company will not exceed 5% of the City's portfolio.

Issuers must possess an acceptable long-term senior debt rating by one of the nationally recognized rating services, i.e. Moody's, Standard and Poors, or Fitch or Duff & Phelps, as detailed below:

1. For maturities of two years or less, a minimum rating of "A" or better.
2. For maturities of two to four years, a minimum rating of "AA" or better.
3. For maturities of four to five years, a minimum rating of "AAA".

O. **ASSET BACKED SECURITIES.** As authorized in Government Code Section 53601(n), local agencies may invest in any equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable-backed bond with a maximum remaining maturity of five years.

Securities eligible for investment under this subdivision shall be rated "AAA" by a nationally recognized rating service. Purchases of securities authorized by this subdivision may not exceed 20% of the agency's portfolio.

P. **MORTGAGE-BACKED SECURITIES.** As authorized in Government Code Section 53601(n), local agencies may invest in any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, with a maximum remaining maturity of five years.

Securities eligible for investment under this subdivision shall be rated "AAA" by a nationally recognized rating service. Purchases of securities authorized by this subdivision may not exceed 20% of the agency's portfolio.

It should be noted that while the Government Code specifies the maximum percentage of the portfolio that may be held in each type of investment at any one time, fluctuations in the portfolio balance will prevent strict adherence to such restrictions. Therefore, the constraints listed in this policy are to be applied at the time the investment is made and not necessarily to subsequent events which may change the percentage.

SUMMARY OF AUTHORIZED SECURITIES AND CRITERIA INCLUDING DIVERSIFICATION CRITERIA

The City's investment portfolio, in aggregate, will be diversified to limit market and credit risk by observing the following City Policy Legal limitations:

Permitted Investments	State Code Legal Limit (% or \$)	City Policy Legal Limit (% or \$)	City Maximum Maturity Constraints	City Policy Other Constraints
U.S. Government Treasury Bills	Unlimited	Unlimited	5 years	None
U.S. Government Treasury Notes	Unlimited	Unlimited	5 years	None
U.S. Government Treasury Bonds	Unlimited	Unlimited	5 years	None
U.S. Government Agencies (e.g., GNMA, FNMA)	Unlimited	50%	5 years	None
Repurchase Agreements	Unlimited	20%	N.A.	Collateralized by securities with a market value of at least 102% of the loan amount.
Bankers Acceptances	40%	5%	180 days	No more than \$1,000,000 invested in any one commercial bank
Commercial Paper	25%	25%	270 days	U.S. Corporations with assets in excess of \$500,000,000; "A" debt rating; maximum of \$1,000,000 from an issuing corporation
Corporate Medium Term Notes	30%	30%	5 years	U.S. Corporations; minimum "A" debt rating; maximum of 5% of portfolio per issuing company
Certificates of Deposit	Unlimited	10%	5 years	Must be collateralized to 110% of the CD value by other eligible securities
Negotiable Certificates of Deposit	30%	5%	5 years	State and Federally chartered banks and savings institutions, "AA" rating by one agency
LAIF State Pool	\$50,000,000	\$50,000,000	On Demand	Limited to 15 transactions per month, per account, per State Policy
State of California or Local Agency Bonds	Unlimited	10%	5 years	None
Mutual Funds	20%	20%	4 years	Funds invested as defined in Section 53601 (a) to (I); maximum of 10% in any one fund
Asset-backed Securities	20%	20%	5 years	Minimum "AAA" Debt rating
Mortgage-backed Securities	20%	20%	5 years	Minimum "AAA" Debt rating
Local Government Investment Pools	Unlimited	Unlimited	On Demand	None

1) Limits on percent of portfolio do not apply to investments made by LAIF or other Government Investment Pools.

2) U.S. Treasury Bonds are currently only available for 10 years or more, which currently prohibits the use of newly issued bonds as an investment tool. However, existing bonds could be purchased if remaining term to maturity is less than 5 years.

MASTER REPURCHASE AGREEMENT

If repurchase agreements are legal or authorized, a Master Repurchase Agreement must be signed with the bank or dealer.

ATTACHMENT B

GLOSSARY OF CASH MANAGEMENT TERMS

ACCRETION OF DISCOUNT - Periodic straight-line increases in the book or carrying value of a security so the amount of the purchase price discount below face value is completely eliminated by the time the bond matures or by the call date, if applicable.

ACCRUED INTEREST - Interest earned but not yet received. The interest accumulated on a bond since issue date or the last coupon payment. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

AGENCIES - A debt security issued by a federal or federally sponsored agency.

In the government securities industry, investors frequently refer to all debt instruments issued by U.S. government agencies, departments, and related instrumentalities as *agency* securities. Only those securities backed by the full faith and credit of the U. S. Government are true agency securities. Only securities issued by the Government National Mortgage Association (Ginnie Mae or GNMA) are widely used by public investors as true agency securities backed by the full faith and credit of the U.S. Government.

Generally, the underlying security associated with a U.S. agency is considered to be as risk-free as direct Treasury securities. The key difference in risk with these instruments is their liquidity and marketability, which is diminished as a result of smaller, irregular, and less familiar issues.

U.S. Government Instrumentalities, also known as government sponsored enterprises (GSEs), are financial intermediaries established by the federal government to fund loans to certain groups of borrowers, such as homeowners, farmers, and students. In short, GSEs are privately owned corporations with a public purpose. The most common instrumentalities are:

- Federal Farm Credit System Banks,
- Federal Home Loan Banks (FHLB),
- Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC),
- Federal National Mortgage Association (Fannie Mae or FNMA),
- Tennessee Valley Authority (TVA),
- Federal Deposit Insurance Corporation (FDIC).

GSEs sell securities on a regularly scheduled basis through selling groups, which are chosen groups of dealers that the GSE uses to "bring the paper to the streets." Short-term securities are regularly issued as discount notes with maturities ranging from overnight to 360 days. GSEs also issue securities with fixed interest rates, ranging in maturity from three months to 30 years.

AMORTIZATION OF PREMIUM - Periodic straight-line decreases in the book or carrying value of a security so the premium paid for a bond above its face value or call price is completely eliminated.

ASK – The price at which securities are offered for sale.

ASSET BACKED SECURITIES (ABS) – Asset Backed Securities are pass-through instruments collateralized by installment loans, leases, revolving lines of credit or other consumer finance receivables. Securitizations are structured to separate the credit of the ABS issuer from the assets being securitized.

AVERAGE MATURITY - A weighted average of the expiration dates for a portfolio of debt securities. An income fund's volatility can be managed by shortening or lengthening the average maturity of its portfolio.

BANK WIRE - A virtually instantaneous electronic transfer of funds between two financial institutions.

BANKERS ACCEPTANCES (BAs) - Bankers Acceptances generally are created based on a letter of credit issued in a foreign trade transaction. They are used to finance the shipment of commodities between countries as well as the shipment of some specific goods within the United States. BAs are short-term, non-interest bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value. These notes trade at a rate equal to or slightly higher than Certificates of Deposit (CDs), depending on market supply and demand.

Bankers Acceptances are sold in amounts that vary from \$100,000 to \$5,000,000, or more, with maturities ranging from 30 - 270 days. They offer liquidity to the investor as it is possible to sell BAs prior to maturity at the current market price.

BASIS POINT - A measure of an interest rate, i.e., 1/100 of 1 percent, or .0001.

BID - The indicated price at which a buyer is willing to purchase a security or commodity. When selling a security a bid is obtained.

BOND - A long-term debt security, or IOU, issued by a government or corporation that generally pays a stated rate of interest and returns the face value on the maturity date.

BOOK ENTRY SECURITIES - U.S. government and federal agency securities that do not exist in definitive (paper) form; they exist only in computerized files maintained by the Federal Reserve Bank.

BOOK VALUE - The amount at which an asset is carried on the books of the owner. The book value of an asset does not necessarily have a significant relationship to market value.

BROKER – A broker brings buyers and sellers together for a commission.

CALLABLE BOND - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions. Bonds are generally called when interest rates fall so that the bond issuer can save money by floating new bonds at the lower rate. The first call date is the date which a specific call price will be offered by the issuer, usually a premium price to par, as an incentive to the bondholder to redeem the bond.

CALL PRICE - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

CALL RISK - The risk to a bondholder that a bond may be redeemed prior to maturity.

CASH SALE/PURCHASE - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

CERTIFICATES OF DEPOSIT - Certificates of Deposit, familiarly known as CDs, are certificates issued against funds deposited in a bank for a definite period of time and earning a specified rate of return. Certificates of Deposit bear rates of interest in line with money market rates current at the time of issuance.

COLLATERALIZATION - Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

COMMERCIAL PAPER - Commercial paper is an unsecured promissory note issued by a corporation for a specific amount and maturing on a specific day that cannot be farther into the future than 270 days. Commercial Paper is typically rated by credit agencies that attempt to evaluate the liquidity, cash flow, profitability, and backup credit availability of the entity that is issuing the paper.

COMPETITIVE BID PROCESS - A process by which three or more institutions are contacted via the telephone to obtain interest rates for specific securities.

CONVEXITY - A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

COUPON RATE - The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

CREDIT QUALITY - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

CREDIT RISK - The risk that another party to an investment transaction will not fulfill its obligations. Credit risk can be associated with the issuer of a security, a financial institution holding the entity's deposit, or a third party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one investment type or with any one party.

CUSIP NUMBER - A nine-digit number established by the Committee on Uniform Securities Identification Procedures that is used to identify publicly traded securities. Each publicly traded security receives a unique CUSIP number when the security is issued.

CURRENT YIELD - A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

CUSTODIAN - An independent third party (usually bank or trust company) that holds securities in safekeeping as an agent for the city.

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

DEFEASE - To discharge the lien of an ordinance, resolution, or indenture relating to a bond issue, and in the process, render inoperative restrictions under which the issuer has been obliged to operate. Comment: Ordinarily an issuer may defease an indenture requirement by depositing with a trustee an amount sufficient to fully pay all amounts under a bond contract as they become due.

DELIVERY - The providing of a security in an acceptable form to the City or to an agent acting on behalf of the City and independent of the seller. Acceptable forms can be physical securities or the

transfer of book entry securities. The important distinction is that the transfer accomplishes absolute ownership control by the City.

DELIVERY VS PAYMENT - There are two methods of delivery of securities: Delivery vs. payment and delivery vs. receipt (also called free). Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

DEPOSITORY BANK - A local bank used as the point of deposit for cash receipts.

DEPOSITORY INSURANCE - Insurance on deposits with financial institutions. For purposes of this policy statement, depository insurance includes: a) Federal depository insurance funds, such as those maintained by the Federal Deposit Insurance Corporation (FDIC).

DERIVATIVE SECURITY - Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

DISCOUNT - 1. (n.) selling below par; e.g., a \$1,000 bond selling for \$900. 2. (v.) anticipating the effects of news on a security's value; e.g., "The market had already discounted the effect of the labor strike by bidding the company's stock down."

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 available funds among a variety of securities and institutions so as to minimize market risk.

DOLLAR-WEIGHTED AVERAGE MATURITY - The sum of the amount of each outstanding investment multiplied by the number of days to maturity, divided by the total amount of outstanding investment.

EFFECTIVE RATE - The yield you would receive on a debt security over a period of time taking into account any compounding effect.

FACE VALUE - The value of a bond stated on the bond certificate; thus, the redemption value at maturity. Most bonds have a face value, or par, of \$1,000.

FAIR VALUE - The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FDIC Insured Notes - Notes issued by corporations under the Federal Deposit Insurance Corporation's (FDIC) Temporary Liquidity Guarantee Program (TLGP). These notes are backed by the full faith and credit of the United States Government.

FEDERAL AGENCY SECURITIES - Several government-sponsored agencies, in recent years, have issued short and long-term notes. Such notes typically are issued through dealers, mostly investment banking houses. These Federal government-sponsored agencies were established by the U.S. Congress to undertake various types of financing without tapping the public treasury. In order to do so, the agencies have been given the power to borrow money by issuing securities, generally under the authority of an act of Congress. These securities are highly acceptable and marketable for several reasons, mainly because they are exempt from state, municipal and local income taxes.

Furthermore, agency securities must offer a higher yield than direct Treasury debt of the same maturity to find investors, partly because these securities are not direct obligations of the Treasury.

The main agency borrowing institutions are the Federal National Mortgage Association (FNMA), the Federal Home Loan Bank System (FHLB), and the Federal Farm Credit System (FFCS).

FLOATING-RATE NOTES - The term floating-rate notes includes different types of securities with a similar feature that the interest rate or coupon rate is adjusted periodically to a benchmark or base rate. A simple example of a floating-rate instrument is a Series EE savings bond where the semiannual interest rate is determined in May and November based on 85 percent of the average market return of the five-year Treasury note for the preceding six months. In theory, floating-rate notes are securities with coupons based on a short-term rate index.

FNMA - FEDERAL NATIONAL MORTGAGE ASSOCIATION - issues notes tailored to the maturity needs of the investor. Maturities range from 30 days up to 10 years. These notes are made attractive by their denominations from \$5,000 to \$1 million.

FHLB - FEDERAL HOME LOAN BANK SYSTEM - consists of twelve Federal Home Loan Banks, issues, in addition to long-term bonds, coupon notes with maturities of up to one year. Their attractiveness stems from their investment denominations of \$10,000 to \$1 million.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) - A Federal institution that insures bank deposits.

FEDERAL FUNDS (Fed Funds) - Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

FEDERAL FUNDS RATE - The rate of interest at which Fed Funds are traded between banks. Fed Funds are excess reserves held by banks that desire to invest or lend them to banks needing reserves. The particular rate is heavily influenced through the open market operations of the Federal Reserve Board. Also referred to as the "Fed Funds rate."

FEDERAL HOME LOAN BANKS (FHLB) - The institutions that regulate and lend to savings and loan associations. These are Government sponsored wholesale banks which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLB's 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 which has regulated credit in the economy since its inception in 1913. Includes the Federal Reserve Bank, 12 district banks and the member banks of the Federal Reserve, and is governed by the Federal Board.

FLEXIBLE REPURCHASE AGREEMENTS (Flex Repos) - Similar to a term repurchase agreement, a flex repo is a contractual transfer of U.S. government securities during the investment period, whereby the Seller agrees to repurchase the collateral securities from the Buyer on the Buyer's demand, subject to provisions of the agreement. The Seller is generally a financial institution such as a securities dealer or a bank. As buyers, most issuers require over-collateralization, marking-to-market of collateral and delivery-vs.-payment of collateral.

GINNIE MAES (GNMAs) - Mortgage securities issued and guaranteed, as to timely interest and principal payments, by the Government National Mortgage Association, an agency within the Department of Housing and Urban Development (HUD).

GOVERNMENT SECURITY - Any debt obligation issued by the U.S. government, its agencies or instrumentalities. Certain securities, such as Treasury bonds and Ginnie Maes, are backed by the government as to both principal and interest payments. Other securities, such as those issued by the Federal Home Loan Mortgage Corporation, or Freddie Mac, are backed by the issuing agency.

GOVERNMENT-SPONSORED ENTERPRISES (GSE's) - Payment of principal and interest on securities issued by these corporations is not guaranteed explicitly by the U.S. government, however, most investors consider these securities to carry an implicit U.S. government guarantee. The debt is fully guaranteed by the issuing corporations. GSE's include: Farm Credit System, Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and the Tennessee Valley Authority.

HAIRCUT - This term describes the way brokers and clients protect themselves from market risk in doing repos. An entity wanting to finance the purchase of \$100 million in Treasury bonds may borrow just \$98 million of the money. The two percent difference between the amount of securities purchased and the amount of money borrowed is the haircut. Similarly, an entity looking to borrow \$100 million may need to provide, as collateral, Treasury securities with a market price equal to \$102 million.

INTERNAL CONTROLS - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

1. **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

2. **Separation of transaction authority from accounting and record keeping** - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

INVERSE FLOATER - A bond or note that does not earn a fixed rate of interest. Rather, the interest rate that is earned is tied to a specific interest-rate index identified in the bond/note structure. The interest rate earned by the bond/note will move in the opposite direction of the index, e.g., if market interest rates as measured by the selected index rises, the interest rate earned by the bond/note will decline. An inverse floater increases the market rate risk and modified duration of the investment.

INVERTED YIELD CURVE - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

INVESTMENT COMPANY ACT OF 1940- Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

INVESTMENT POLICY - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

INVESTMENT-GRADE OBLIGATIONS - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

LIQUIDATION - Conversion into cash.

LIQUIDITY - Refers to the ease and speed with which an asset can be converted into cash without a substantial loss in 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.

LOSS - The excess of the cost or book value of an asset over selling price.

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

LONG-TERM INVESTMENTS - Investments considered long-term are generally defined as those instruments maturing in one year or longer.

MARK-TO-MARKET - The practice of valuing a security or portfolio according to its market value, rather than its cost or book value. An adjustment in the valuation of a securities portfolio to reflect the current market values of the respective securities in the portfolio.

MARKETABILITY - Ability to sell large blocks of money market instruments quickly and at competitive prices.

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

MARKET RISK - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value. The risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline.

MASTER REPURCHASE AGREEMENT - An agreement between the investor and the dealer or financial institute. This agreement defines the nature of the transactions, identifies the relationship between the parties, establishes normal practices regarding ownership and custody of the collateral securities during the term of the investment, provides for remedies in the event of a default by either party and otherwise clarifies issues of ownership.

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

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

MORTGAGE-BACKED SECURITIES - Mortgage-backed securities have several unique characteristics, beginning with the payment of interest on a monthly basis. Mortgage Backed Securities also differ from standard Treasury investments in that the cash flow pattern is uncertain due to the risk of prepayments or the unscheduled payment of principal. Moreover, a change in the future assumption for prepayments will also affect the rate of return on the investment of a mortgage-backed security. Mortgage-backed securities are created when mortgage pools are collateralized into interest-bearing securities. This securitization process can be accomplished via either a sale of assets or as a debt obligation of the issuer. In the former, a mortgage pass-through security is created, while in the latter case a mortgage-backed bond is originated.

MUTUAL FUND - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

MUTUAL FUND STATISTICAL SERVICES - Companies that track and rate mutual funds, e.g., IBC/Donohue, Lipper Analytical Services, and Morningstar.

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD) - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

NEGOTIABLE CERTIFICATES OF DEPOSIT - Large denomination (\$100,000 or more) interest bearing time deposits, paying the holder a fixed amount of interest at maturity. Issues can be sold to a new owner before maturity.

NET ASSET VALUE - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.
$$\frac{[(\text{Total assets}) - (\text{Liabilities})]}{(\text{Number of shares outstanding})}$$

NO LOAD FUND - A mutual fund which does not levy a sales charge on the purchase of its shares.

NOMINAL YIELD - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

OFFER - The indicated price at which a seller is willing to sell a security or commodity. When buying a security an offer is obtained.

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 nominal or face value of a debt security; that is, the value at maturity.

PORTFOLIO – Collection of securities held by an investor.

POSITIVE YIELD CURVE - A chart formation that illustrates short-term securities having lower yields than long-term securities.

PREMIUM - The amount by which a bond sells above its par value.

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

PRIME RATE - The interest rate a bank charges on loans to its most credit worthy customers. Frequently cited as a standard for general interest rate levels in the economy.

PRINCIPAL - An invested amount on which interest is charged or earned.

PRUDENT PERSON RULE – An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody 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.

QUALIFIED PUBLIC DEPOSITORY - A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated, for the benefit of the commission, eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RANGE NOTE - An investment whose coupon payment varies (e.g. either 7% or 3%) and is dependent on whether the current benchmark (e.g. 30 year Treasury) falls within a pre-determined range (e.g. between 6.75% and 7.25%).

RATE OF RETURN - The amount of income received from an investment, expressed as a percentage. A market rate of return is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

REGISTERED SECURITY - A security that has the name of the owner written on its face. A registered security cannot be negotiated except by the endorsement of the owner.

REINVESTMENT RISK - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

REPURCHASE AGREEMENT (REPO) - The Repo is a contractual transaction between an investor and an issuing financial institution (not a secured loan). The investor exchanges cash for temporary ownership of specific securities, with an agreement between the parties that on a future date, the financial institution will repurchase the securities at a prearranged price. An "Open Repo" does not have a specified repurchase date and the repurchase price is established by a formula computation.

REPRICING - The revaluation of the market value of securities.

REVERSE REPO's - The opposite of the transaction undertaken through a regular repurchase agreement. In a "reverse" the City initially owns securities and the bank or dealer temporarily exchanges cash for this collateral. This is, in effect, temporarily borrowing cash at a high interest rate. Most typically, a Repo is initiated by the lender of funds. Reverses are used by dealers to borrow

securities they have shorted. Such investments are not authorized in the City of Vallejo's Investment Policy.

RULE 2a-7 OF THE INVESTMENT COMPANY ACT - Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13- month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar (\$1.00).

SAFEKEEPING - A service to customers rendered by banks for a fee whereby all securities and valuables of all types and descriptions are held in the bank's vaults for protection, or in the case of book entry securities, are held and recorded in the customer's name and are inaccessible to anyone else.

SALLIE MAES - Pooling of student loans guaranteed by the Student Loan Marketing Association (SLMA) to increase the availability of education loans. The SLMA purchases the loans after buying them on the secondary market from lenders. SLMA stock is publicly traded.

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

SECURITIES - Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments.

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

SERIAL BOND - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

SETTLEMENT DATES - The day on which payment is due for a securities purchase. For stocks and mutual funds bought through an investment dealer, settlement is normally five business days after the trade date. Bonds and options normally settle one business day after the trade date, mutual fund shares purchased directly by mail or wire settle on the day payment is received.

SHORT-TERM INVESTMENTS - Short-term investments are generally defined as those instruments maturing in one year or less.

SINKING FUND - Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

SPREAD - (a) Difference between the best buying price and the best selling price for any given security. (b) Difference between yields on or prices of two securities of differing quality or differing maturities. (c) In underwriting, difference between price realized by the issuer and price paid by the investor.

STRIPS - Separation of the principal and interest cash flows due from any interest-bearing securities into different financial instruments. Each coupon payment is separated from the underlying investment to create a separate security. Each individual cash flow is sold at a discount. The amount of the discount and the time until the cash flow is paid determine the investor's return.

STRIPPED TREASURIES - U.S. Treasury debt obligations in which coupons are removed by brokerage houses, creating zero-coupon bonds.

STRUCTURED NOTES – A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate

notes that have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

Notes issued by government Sponsored Enterprises (GSE) such as FHLB, FNMA, and Corporations which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TERM BOND - Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

TOTAL RETURN - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends and Interest received) + (Capital gains) = Total Return

TRIPARTITE CUSTODIAN AGREEMENT - An agreement that occurs when a third party or custodian becomes a direct participant in a repurchase transaction. The custodian ensures that the exchange occurs simultaneously and that appropriate safeguards are in place to protect the investor's interest in the underlying collateral.

THIRD-PARTY SAFEKEEPING - A safekeeping arrangement whereby the investor has full control over the securities being held and the dealer or bank investment department has no access to the securities being held.

TIME DEPOSIT - Interest-bearing deposit at a savings institution that has a specific maturity.

TREASURY BILLS - Treasury bills are short-term debt obligations of the U.S. Government. They offer maximum safety of principal since they are backed by the full faith and credit of the United States Government. Treasury bills, commonly called "T-Bills," account for the bulk of government financing, and are the major vehicle used by the Federal Reserve System in the money market to implement national monetary policy. T-Bills are sold in three, six, nine, and twelve-month bills. Because treasury bills are considered "risk-free," these instruments generally yield the lowest returns in the major money market instruments.

TREASURY NOTES AND BONDS - While T-Bills are sold at a discount rate that establishes the yield to maturity, all other marketable treasury obligations are coupon issued. These include Treasury Notes with maturities from one to ten years and Treasury Bonds with maturities of 10-30 years. The instruments are typically held by banks and savings and loan associations. Since Bills, Notes and Bonds are general obligations of the U.S. Government, and since the Federal Government has the lowest credit risk of all participants in the money market, its obligations generally offer a lower yield to the investor than do other securities of comparable maturities.

UNDERLYING SECURITIES - Securities transferred in accordance with a repurchase agreement.

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.

VARIABLE RATE - An interest rate which is adjusted periodically, usually based on a standard market rate outside the control of the bank or savings institution, such as that prevailing on a Treasury bill or the prime interest rate. These rates often have a specified floor and/or ceiling, called a cap or a collar, which limit the adjustment. Also called adjustable rate or floating rate.

WEIGHTED AVERAGE MATURITY - The sum of the amount of each outstanding investment multiplied by the number of days to maturity, divided by the total amount of outstanding investment.

WHEN-ISSUED TRADES - Typically, there is a lag between the time a new bond is announced and sold and the time it is actually issued. During this interval, the security trades "wi," "when, as, and if issued."

Wi - When, as, and if issued. See When-issued trades.

YIELD - The rate at which an investment pays out interest or dividend income, expressed in percentage terms and calculated by dividing the amount paid by the price of the security and annualizing the result.

YIELD BASIS - Stated in terms of yield as opposed to price. As yield increases for a traded issue, price decreases and vice versa. Charts prepared on a yield basis appear exactly opposite of those prepared on a price basis.

YIELD CURVE - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

YIELD SPREAD - The variation between yields on different types of debt securities; generally a function of supply and demand, credit quality and expected interest rate fluctuations. Treasury bonds, for example, because they are so safe, will normally yield less than corporate bonds. Yields may also differ on similar securities with different maturities. Long-term debt, for example, carries more risk of market changes and issuer defaults than short-term debt and thus usually yields more.

YIELD-TO-CALL (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date. It is the percentage rate of a bond or note, if an investor were to buy and hold the security until the call date. This yield is valid only if the security is called prior to maturity. Generally bonds are callable over several years and normally are called at a slight premium. The calculation of yield to call is based on the coupon rate, length of time to the call and the market price.

YIELD-TO-MATURITY (YTM) - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return. The calculation for YTM is based on the coupon rate, length of time to maturity and market price. It assumes that coupon interest paid over the life of the bond will be reinvested at the same rate.

ZERO-COUPON BONDS - Securities that do not pay interest but are instead sold at a deep discount from face value. They rise in price as the maturity date nears and are redeemed at face value upon maturity.

Note: additions are shown in double underline; deletions are shown with strikethrough.



**CITY OF VALLEJO, CALIFORNIA AND
REDEVELOPMENT AGENCY OF THE CITY OF VALLEJO**

**STATEMENT OF
INVESTMENT POLICY**

**Considered Adopted by the City Council and Redevelopment Agency of the City of Vallejo
On January 25, 2011~~February 23, 2010~~**

TABLE OF CONTENTS

1.0	POLICY.....	3
2.0	SCOPE.....	3
3.0	INVESTMENT INCOME AND EXPENSE ALLOCATIONS.....	4
4.0	PRUDENCE.....	4
5.0	INVESTMENT OBJECTIVES.....	5
6.0	PERFORMANCE STANDARDS.....	7
7.0	DIVERSIFICATION.....	7
8.0	REPORTING.....	7
9.0	SAFEKEEPING AND CUSTODY.....	8
10.0	AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS.....	9
11.0	COLLATERALIZATION.....	9
12.0	DELEGATION OF AUTHORITY.....	9
13.0	ETHICS AND CONFLICT OF INTEREST.....	10
14.0	INTERNAL CONTROL.....	10
15.0	POLICY REVISION AND ADOPTION.....	10
16.0	PROHIBITED TRANSACTIONS.....	10
17.0	MAXIMUM MATURITY LIMIT.....	11
18.0	PORTFOLIO MANAGEMENT.....	12
19.0	USE OF EXTERNAL PROFESSIONAL INVESTMENT MANAGERS.....	12
20.0	INDEMNIFICATION OF CITY INVESTMENT OFFICIALS.....	12
21.0	ALLOCATION OF ANY INVESTMENT GAIN OR LOSS.....	13
22.0	POLICY EXCEPTIONS.....	13
	SCHEDULE OF AUTHORIZED INVESTMENT INSTRUMENTS.....	14
	SUMMARY OF AUTHORIZED SECURITIES AND CRITERIA INCLUDING DIVERSIFICATION CRITERIA.....	18
	GLOSSARY OF CASH MANAGEMENT TERMS.....	20

CITY OF VALLEJO AND REDEVELOPMENT AGENCY OF THE CITY OF VALLEJO INVESTMENT POLICY

1.0 POLICY

It is the policy of the City of Vallejo and the Redevelopment Agency of the City of Vallejo (hereinafter collectively "City") to invest public funds of the City in a prudent manner which will preserve principal, maintain liquidity and achieve a reasonable rate of return. Sufficient liquidity will insure that the City is able to meet daily cash flow requirements, while conforming to all state and local statutes governing the investment of said public funds.

2.0 SCOPE

Pursuant to California Government Code Section 53600 et. seq., the City Council as the legislative body of the City has primary responsibility for investment of money in the City Treasury not required for the immediate needs of the City. In accordance with the Charter of the City, the City Council has assigned the responsibility of investing the unexpended cash of the City Treasury to the City Manager. Furthermore, the City Manager has delegated his or her responsibility for investing the unexpended cash of the City Treasury and daily management of the investment portfolio to the City Finance Director/ who serves as the City Treasurer. The City Finance Director/Treasurer is authorized to invest or reinvest the City's funds, to sell or exchange securities so purchased, and to deposit securities for safekeeping. This Investment Policy applies equally to both the City of Vallejo and the Redevelopment Agency of the City of Vallejo.

Therefore, as authorized under California Government Code Section 53607, the City Council hereby delegates its authority to invest or reinvest the funds of the City, and to buy, sell or exchange securities so purchased, to the City Finance Director/Treasurer who shall assume full responsibility for all such transactions until such time as this delegation of authority may expire or be revoked by the City Council.

A. This investment policy shall apply to all financial assets and investment activities of the City of Vallejo and the Vallejo Redevelopment Agency including the following fund types:

1. General Fund
2. Special Revenue Funds
3. Debt Service Funds
4. Capital Project Funds
5. Enterprise Funds
6. Internal Service Funds
7. Trust & Agency Funds

B. This policy does not cover funds held by the Public Employees Retirement System nor shall it apply to investments held by the administrators of the City's IRS Code Section 457 Deferred Compensation program.

- C. Except for cash in certain restricted and special funds, the City will consolidate cash balances from all funds to maximize investment options.
- D. The proceeds of City bond issues, notes or similar financings including, but not limited to reserve funds, project funds, debt service funds and capital trust funds derived from such financings, as well as funds set aside to defease City or RDA debt in conjunction with an advance refunding agreement, shall be invested pursuant to their respective bond or trust indentures or the State of California Government Code 53600 et. seq., as applicable and not necessarily in compliance with this policy.
- E. This Investment Policy is now amended and adopted as of February 24, 2009, and will serve as the City of Vallejo and Redevelopment Agency Investment Policy. The Investment Policy will be reviewed annually and recommendation for revision will be made to the Council when necessary.

3.0 INVESTMENT INCOME AND EXPENSE ALLOCATIONS

Investment income will be allocated to the various funds based on their respective participation based on the cash balance in each fund as a percentage of the entire pooled portfolio, or other such method as directed by the City Finance Director/Treasurer, and in accordance with generally accepted accounting principles.

The costs of managing the investment portfolio, including but not limited to: investment management fees; accounting for the investment activity; custody of the assets and oversight control expenses are charged to the individual funds on an annual basis, based upon actual expenses incurred, or using other such methods as directed by the City Finance Director/Treasurer.

4.0 PRUDENCE

The City will manage the investment portfolio under the Prudent Investor Standard, which as authorized under California Government Code Section 53600.3 states that:

“Except as provided in subdivision (a) of Section 27000.3, 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.”

In determining whether an investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than consideration as to the prudence of a single investment and, whether the investment decision was consistent with the City's Investment Policy and written investment procedures.

The City recognizes that in a diversified portfolio selected losses may occur when selected securities are sold to meet cash flow needs or to improve the overall portfolio performance and must be considered within the context of the overall portfolio's investment return.

This standard of prudence shall be applied in the context of managing the City and RDA's investment portfolios.

5.0 INVESTMENT OBJECTIVES

The objective of this policy is to provide guidance to invest City funds in accordance with California Government Code Section 53600 et. seq., using sound treasury management principles with the following objectives, in order of priority:

- A. **Safety:** Safety of invested funds is the first and primary objective of the City's investment program. The highest priority must be accorded to the preservation and protection of principal.
- B. **Liquidity:** Maintenance of sufficient liquidity to meet all cash flow requirements that might be reasonably anticipated for at least six (6) months.
- C. **Return:** The City's investment portfolio shall be designed with the objective of attaining the best return, throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow requirements of the portfolio. Return will however be a secondary consideration subordinate to the higher priorities accorded to the safety and liquidity of principal.

Investments shall be selected in a manner that will attempt to ensure the safety of the City's principal. This will be accomplished through a program of investment instrument selection, diversification, maturity limitations, and quality constraints. Investment transactions shall seek to keep principal losses at a minimum, whether they are from individual security defaults/downgrades or general erosion of market value due to rising interest rates.

A. SAFETY

To protect the value of the principal and interest of the invested funds, the City will invest only in securities with acceptable credit quality as outlined in the California Government Code Section 53600 et. Seq. which include, but are not limited to, those backed by the U.S. Government or its agencies; those which have insurance on principal backed by FDIC, or those which have been legally defeased with U.S. Government collateral.

Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. This statement refers to the overall portfolio as opposed to individual investments. The objective will be to minimize credit risk and market risk.

It is recognized that within a well-diversified portfolio, at any particular point in time, that security valuations are impacted by changes in interest rates and economic conditions. Accordingly, securities may at times be worth less than the original purchase price based on market fluctuations. It is further understood, that in the event of the need for a forced liquidation of investments to meet unplanned or unanticipated cash flow demands, a potential loss of investment principal might occur.

The City recognizes that investment risk can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to minimize and control these risks.

a. Credit Risk - Credit Risk is the risk of loss due to the failure, degradation, or decreased likelihood that the security issuer or backer will fulfill its obligations with respect to timely principal and interest payment. Credit risk will be mitigated by:

- Limiting investments to the acceptable credit quality as outlined in the California Government Code Section 53600 et. Seq.; and
- Pre-qualifying the financial institutions, broker/dealers and intermediaries with which the City will do business; and
- Diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the City's cash flow.

b. Market Risk - Market risk is the risk that the market value of securities in the portfolio will fall due to market influence such as changes in general interest rates. Market risk may be minimized by:

- Structuring the investment portfolio to limit the average maturity of the City's portfolio to a maximum of three years and the maximum legal final maturity of any one security in the portfolio to five years, and by structuring the portfolio with an adequate mix of highly liquid securities and maturities to meet major cash outflow requirements.

B. LIQUIDITY

Maturity dates of investments will be timed to assure that funds are available for payment obligations that may be reasonably anticipated. Liquidity refers to the ability to sell investments at any given moment while minimizing the chance of losing some portion of principal. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of liquid securities with active secondary or resale markets.

Furthermore, the City shall maintain short term investments which offer same day liquidity for short-term funds.

C. RETURN ON INVESTMENTS

The City of Vallejo's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio. Return on investments is subordinate to the requirements of safety and liquidity. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

6.0 PERFORMANCE STANDARDS

In order to assist in the evaluation of the portfolios' performance, the City will employ a relevant performance benchmark for the portfolio consistent with the Investment Policy mandated maturity, quality and concentration constraints. Useful comparative benchmarks of the City's portfolio performance will be the quarter-to-date LAIF apportionment rate, and the two-year U.S. Treasury Note yield. This maturity range is an appropriate benchmark based on the objectives of the City and the investment constraints set forth herein. Since return on investment is not the most important objective of the portfolio, the benchmark will be used solely as a reference tool. The reporting of a benchmark does not imply that the City Treasurer will add additional investment risk to the portfolio in order to attain or exceed the benchmark. Whenever possible, and consistent with risk limitations as defined herein and prudent investment principles, the Treasurer shall seek to augment returns above the risk free rate of return.

7.0 DIVERSIFICATION

The City will diversify its investments to reduce credit risk or market risk losses to the portfolio as a whole, while still attaining a market-average rate of return. Diversification requires not just an array of instrument types, but also an array of maturities and issuers. The following represents the quality and concentration limits to which the investment portfolio must conform:

- a. No more than 5% of the portfolio is to be invested in any single issue/issuer at the time of purchase (except U.S. Treasury and Agency securities and the Local Agency Investment Fund).
- b. No more than 50% of the portfolio will be invested in any one asset class (with the exception of U.S. Treasury securities, and authorized pools).
- c. No more than 5% of any total outstanding issue may be purchased.

8.0 REPORTING

Government Code Section 53646 previously mandated that annual investment policies and quarterly investment reports be rendered to the legislative body. AB 2853 amended Government Code Section 53646 to remove these requirements; now, the rendering of these documents is permissive rather than mandated.

In accordance with California Government Code Section 53646, the Treasurer may submit an investment report to the City Council on a quarterly basis within 45 days of the end of the

quarter, which provides a review of investments and summarizes total investment return as described in items A through E found below within this section.

The report shall include the following information:

- A. Type of investment, issuer, date of maturity, par value and dollar amount invested in all securities, investments and money held by the City at the end of the reporting period; and
- B. A listing of individual securities held at the end of the reporting period by authorized investment category and percentage of portfolio represented by each investment category; and
- C. Average life and final maturity of all investments listed, and coupon, discount or earnings rate; and
- D. Par Value, Fair Value and Cost Value; and
- E. For all securities held by the City or under management by an outside party that is not a local agency pool or the State of California Local Agency Investment Fund, the current fair value as of the date of the report; and
- F. Statement that the portfolio complies with the Investment Policy or the manner in which the portfolio is not in compliance; and
- G. Statement that the City has the ability to meet its pooled expenditure requirements (cash flow) for the next six months or provide an explanation as to why sufficient money shall or may not be available.

If the City places all of its investments in the Local Agency Investment Fund, Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association (or any combination of these three), the Finance Director can simply submit, on at least a quarterly basis, the most recent statements from these institutions to meet the requirements of items A - D above, with a supplemental report addressing items E - H above, per California Government Code Section 53646(b)-(e).

9.0 SAFEKEEPING AND CUSTODY

All security transactions of the City and RDA, including collateral on repurchase agreements, will be executed by delivery-versus-payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. A third party custodian, as designated by the Treasurer and as evidenced by safekeeping receipts, will hold securities of the City and RDA.

10.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

If deemed necessary by the Finance Director/Treasurer, the Treasurer's office will maintain a list of financial institutions authorized to provide investment services, including approved security broker/dealers.

- A. The City and Redevelopment Agency shall transact business only with banks, savings and loans, and with investment securities dealers as defined in Government Code Section 53601.5:

53601.5 – Designated entities from whom a local agency may purchase authorized investments:

“The purchase by a local agency of any investment authorized pursuant to Section 53601 or 53601.1, not 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 from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a federal or state association (as defined by Section 5102 of the Financial Code) or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank.”

- B. Before accepting funds or engaging in investment transactions with the City, the supervising officer at each depository and recognized securities broker/dealer shall submit a certification that the officer has reviewed the investment policies and objectives and agrees to disclose potential conflicts or risks to public funds that might arise out of business transactions between the firm/depository and the City of Vallejo.

11.0 COLLATERALIZATION

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level for any amount exceeding FDIC coverage shall be in accordance with California Government Code Section 53652 and/or 53651 (m)(1).

The City chooses to limit acceptable collateral to the following: Cash, U.S. Treasury Bills, Notes and Bonds, and Federal Agency issues.

Collateral will always be held in the City's name by an independent third party with whom the City of Vallejo has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City.

The right of collateral substitution is reserved by the City.

12.0 DELEGATION OF AUTHORITY

In accordance with State law (SB 109), the City Council designates the Finance Director/Treasurer and/or those person(s), city employees, outside professional investment managers or fund managers assigned or designated by the Finance Director/Treasurer, to

perform the needed investment transactions in accordance with this Policy. At times of absence of the Finance Director/Treasurer, the Assistant Finance Director, or other City Finance Director/Treasurer designee shall perform those functions of the investment of City or RDA Funds. In the absence of the Finance Director/Treasurer, the Assistant Finance Director, and other City Finance Director/Treasurer designees, the City Manager shall assume this responsibility. The investment authority granted to the investing officers is effective until rescinded by the City Council or until termination of the person's employment by the City. No person may engage in an investment transaction except as provided for under the terms of this policy. Although the Finance Director/Treasurer may delegate these duties to another official in the Department of Finance, the Finance Director shall be responsible for all transactions undertaken and will establish a system of controls to regulate the activities of subordinate officials. Section 53607 of the State of California Government Code limits the authorization of the legislative body to delegate investment authority to a one-year period, renewable annually.

13.0 ETHICS AND CONFLICT OF INTEREST

In accordance with California Government Code Sections 1090 et seq. and 87100 et seq., officers and employees of the City will refrain from any activity that could conflict with the proper execution of the investment program or which could impair their ability to make impartial investment decisions for the City or RDA. All investment personnel shall comply with the reporting requirements of the Political Reform Act, to include the annual filing of Statements of Economic interest. No investments will be made with or through any family or blood-related relative or any firm that employs any family or blood-related relative of any City Elected Official, Appointed Official, or City employee.

14.0 INTERNAL CONTROL

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

15.0 POLICY REVISION AND ADOPTION

This Investment Policy shall be reviewed and adopted at least annually by resolution of the City Council of Vallejo. Furthermore, it can be revised whenever necessary by the City Council or Finance Director with City Council approval, and any modifications made thereto must be approved by the City Council, as required by law.

16.0 PROHIBITED TRANSACTIONS

Certain investment practices and instruments may be inconsistent with the safety of invested funds, or prohibited by the State of California Government Code Section 53601.6 and are therefore prohibited transactions. Prohibited investments include securities not listed in Attachment A below, as well as but not limited to:

A. Investments Prohibited by State of California Government Code Section 53601.6:

1. Mortgage Derived Interest-Only Strips.
2. Any security that could result in zero interest accrual if held to maturity.
3. "Complex" derivative structures such as range notes or inverse floaters.
4. Auction-rate preferred securities.

B. Additional Investments Prohibited by the City of Vallejo:

1. No direct investment in financial agreements whose returns are linked to or derived from the performance of some underlying assets such as stocks, bonds, currencies or commodities products ("Derivatives"). Only allowed as part of the City's investments in Government Investment Pools and sweep accounts. This may include dual index notes, leveraged or de-leveraged floating rate notes, or any other complex variable rate or structured note, and any other financial derivative.
2. Leveraged investing, such as in margin accounts or any form of borrowing against or otherwise obligating city investments for the purpose of investment.
3. Options and future contracts.
4. Taking short positions; that is, selling securities that the City does not own.
5. Equity Securities (Common or Preferred Stocks).

Purchasing these types of instruments does not coincide with the City's Investment Policy objectives and would require a thorough review and monitoring of the underlying security. Although some of these transactions are legal under California Government Code, they do not meet the objectives contained in this Investment Policy.

Prohibited investments already held in the portfolio at the time of adoption of this policy may continue to be held until maturity at the discretion of the Finance Director/Treasurer.

17.0 MAXIMUM MATURITY LIMIT

To the extent possible, the City of Vallejo will attempt to match its investments with anticipated cash flow requirements. In compliance with State of California Government Code Section 53601, the City will not directly invest in any securities with a legal final maturity of more than five years from the date of purchase unless specifically approved by the City Council.

Furthermore, in order to maintain liquidity, the weighted average time to maturity of the City's investment portfolio shall not exceed three years. The Treasurer shall adjust average portfolio maturity to market conditions and specific investment goals/return objectives, as needed.

18.0 PORTFOLIO MANAGEMENT

Following the primary objective of preservation of capital, the investment portfolio may be actively managed to take advantage of market opportunities. In doing so, negotiable securities may be sold prior to their maturity to provide liquid funds as needed for cash flow purposes, to enhance portfolio returns, or to restructure maturities to increase yield and/or decrease risk. In addition, fluctuations in market rates or changes in credit quality may produce situations where securities may be sold at a loss in order to mitigate further erosion of principal or to reinvest proceeds of sale in securities that will out-perform the original investment. In practice, however, it is primarily a hold to maturity portfolio.

19.0 USE OF EXTERNAL PROFESSIONAL INVESTMENT MANAGERS

The City may employ the services of professional investment managers to assist in the management of the City's investment portfolio. Such managers may be granted the discretion to purchase and sell investment securities in accordance with this Investment Policy. In addition, such managers may review cash flow requirements, formulate investment strategies, and execute security purchases, sales and deliveries. External investment managers must be well established and exceptionally reputable. Members of the staffs of such companies who will have primary responsibility for managing the City's investments must have a working familiarity with the special requirements and constraints of investing municipal funds in general and this City's funds in particular. Such managers shall only be retained by written agreement with the City, and approved by the City Council. They must contractually agree to conform to the City's Investment Policy and all provisions of governing law and collateralization and other requirements contained herein.

Investment Managers shall exercise reasonable care in compliance with this Investment Policy and their Investment Management Agreements. If an Investment Manager causes a loss of funds to the City where the Manager is held to be liable for the loss of funds, compensation due to the City from the Investment Manager for such loss of funds is defined in each investment management agreement.

No more than 40 percent of the City's total investment portfolio may be placed in any one investment management account. In order to implement this requirement, the City's portfolio assets will be reallocated annually among its investment managers based on June 30 year-end values.

20.0 INDEMNIFICATION OF CITY INVESTMENT OFFICIALS

The City Finance Director/Treasurer and any other City of Vallejo employee designated or assigned to perform the investment transactions and/or manage the City's investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, will not be held personally liable for any individual investment losses or total portfolio losses and shall be relieved of personal responsibility and liability for any individual security's credit risk or market price changes. Such indemnity shall extend to judgments, fines, attorney fees, and any other amounts paid in settlement of any such claim, suit, or proceeding, including any appeal thereof.

21.0 ALLOCATION OF ANY INVESTMENT GAIN OR LOSS

Any gain or loss realized on any investments will be distributed on a pro rata basis to all non-restricted funds which at the time of the investment gain or loss were part of the City's portfolio, or using other such methods as directed by the City Finance Director/Treasurer, and in accordance with generally accepted accounting principles.

22.0 POLICY EXCEPTIONS

Occasionally, exceptions to some of the requirements specified in this Investment Policy may occur for pooled investments because of events subsequent to the purchase of investment instruments, e.g., the rating of a corporate note held in the portfolio is downgraded below an "A" rating, or total assets in the portfolio decline causing the percentage invested in corporate notes to rise above 30%.

State law is silent as to how exceptions should be corrected. Exceptions may be temporary or more lasting; they may be self-correcting or require specific action. If specific action is required, the City Finance Director/Treasurer should determine the course of action that would correct exceptions to move the portfolio into compliance with State and City requirements. Decisions to correct exceptions should not expose the assets of the portfolio to undue risk, and should not impair the meeting of financial obligations as they fall due. Evaluation of divestiture of securities will be determined on a case-by-case basis. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

23. USE OF STATE GUIDELINES

State of California Government Code Sections 16429.1, 53600, 53601, 53631.5, 53635, and 53646 regulate investment practices. It is the policy of the City of Vallejo to use the State's provisions for local government investments as a guide in the developing and implementing the City's investment policies and practices with the exception of those investments listed as Prohibited Transactions in Section 16 above.

24. LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment types or percentage allocations will be incorporated into the City of Vallejo Statement of Investment Policy and supersede any and all previous applicable language. If the City is holding an investment that is subsequently prohibited by a legislative change, the City may hold that investment until the maturity date, if it is deemed prudent by the Finance Director/Treasurer.

ATTACHMENT A

SCHEDULE OF AUTHORIZED INVESTMENT INSTRUMENTS

Allowable Investment Instruments

The City Finance Director/Treasurer is authorized to invest in any of the investment instruments allowed by Sections 53601, 53635 and 16429.1 of the California Government Code with the exception of those investments listed as Prohibited Transactions in Section 16 above. Exclusion of the instruments in Section 16 (B) is consistent with the City's and RDA's overall objective of achieving reasonable yields on public funds while minimizing risk and capital losses. Although the potential exists for greater interest yields with these instruments, it is believed that the potential level of risk exceeds their benefits except in very limited circumstances. Accordingly, City Council approval is required on a case-by-case basis for any investments listed in Prohibited Transactions Section 16 (B).

Term

Reserve funds from the proceeds of debt issues of the City or RDA may be invested by the City Finance Director/ Treasurer in government agency securities with terms exceeding five (5) years if the maturity of such investments is made to coincide as nearly as practicable with the life of the debt issue.

In all other cases, City Council approval to make investments with terms in excess of five (5) years is required on a case-by-case basis.

The City's and RDA's funds may be invested in any of the following instruments, which are not prohibited by law (California Government Code Section 53601.6):

- A. **LOCAL AGENCY INVESTMENT FUND (LAIF).** As authorized in Government Code Section 16429.1, local agencies may invest in the Local Agency Investment Fund (LAIF), a pooled investment money market fund established by the State of California, and overseen by the State Treasurer, which allows local agencies to pool their investment resources. Principal may be withdrawn on a one-day notice. Interest earned is paid quarterly. The fees charged are limited to one-quarter of one percent of the earnings of the fund. Current policies of LAIF set minimum and maximum amounts of monies that may be invested as well as maximum numbers of transactions that are allowed per month. Currently, there is a limitation of \$50 million per agency subject to a maximum of 15 total transactions per month. The LAIF is in trust in the custody of the State Treasurer. The City's right to withdraw its deposited monies from LAIF is not contingent upon the State's ability to adopt a State Budget by July 1st of each new fiscal year.
- B. **U.S. TREASURY BILLS.** Commonly referred to as T-Bills, these are short-term marketable securities sold as obligations of the U.S. Government. They are offered in three-month, six-month, and one-year maturities. T-Bills do not accrue interest but are sold at a discount to pay face value at maturity.
- C. **U.S. TREASURY NOTES.** These are marketable, interest-bearing securities sold as obligations of the U.S. Government with original maturities of one to ten years at

issuance. Interest is paid semiannually. Purchases of these assets are limited to a remaining maturity of 5 years or less.

- D. **U.S. TREASURY BONDS.** These are the same as U.S. Treasury Notes except they have original maturities of ten years or longer at issuance. Purchases of these assets are limited to a remaining maturity of 5 years or less.
- E. **U.S. GOVERNMENT AGENCY ISSUES AND GOVERNMENT SPONSORED ENTERPRISES (GSE's).** This includes obligations, participations, or other instruments of, or issued by, a federal government agency or a United States government-sponsored enterprise. Purchase of U.S. Government Agency securities may not exceed 50% of the City's Portfolio.

These securities fall into three categories: 1) Issues which are backed by the full faith and credit of the United States, 2) Issues which are conditionally backed by the full faith and credit of the United States and 3) Issues which are not backed by the full faith and credit of the United States.

These Issues include, but are not limited to:

1. Issues, which are unconditionally backed by the full faith and credit of the United States, including: Small Business Administration (SBA) and General Services Administration (GSA).
 2. Issues which are not backed by the full faith and credit of the United States including but are not limited to: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Farm Credit System, Banks for Cooperation (Co-ops), Federal Lands Banks (FLB), Federal Intermediate Credit Banks (FICB), Tennessee Valley Authority (TVA), Student Loan Marketing Association (SLMA) and the Federal Deposit Insurance Corporation (FDIC).
- F. **BANKER'S ACCEPTANCE.** Otherwise known as bills of exchange or time drafts, are negotiable instruments with a maturity of six months or less drawn on and accepted by a commercial bank. These instruments are usually created to finance the import or export of goods, or the shipment of goods within the United States.
- G. **CERTIFICATE OF DEPOSIT (CDS).** As authorized in Government Code Section 53601.7 (7), local agencies may invest in Certificates of Deposit. These instruments must comply with Government Code Sections 16500 or 16600. This is a receipt for funds deposited in a Bank or Savings and Loan Association for a specified period at a specified rate of interest. The first \$250,000 of a CD is guaranteed by the FDIC. CD's with a face value in excess of \$250,000 can be collateralized by Treasury Department Securities, which must be at least 110% of the face value of the CD's in excess of the first \$250,000, or by first mortgage loans, which must be at least 150% of the face value of the CD balance in excess of the first \$250,000.

All institutions must: (1) have a minimum of \$100 million in assets; (2) have a demonstrated history of positive earnings; and, (3) must carry a minimum 3.5% equity ratio and hold that ratio for at least one year prior to the City's investment. All

institutions must be located within the State of California. For collateralized or negotiable certificates of deposit, the institution must have a minimum \$1 billion in assets, in addition to meeting the above criteria.

- H. **NEGOTIABLE CERTIFICATE OF DEPOSIT.** Allowable certificates of deposits must be issued by a nationally or state-chartered bank or a state or federal association or by a state-licensed branch of a foreign bank. The maturity period for this investment vehicle may not exceed five years unless approved by the Council.
- I. **COMMERCIAL PAPER.** As authorized in Government Code Section 53601(g), 25% of the City's portfolio may be invested in "prime" quality commercial paper of the highest ranking or of the highest letter and numerical rating as provided for by Moody's or Standard and Poor's, with maturities not to exceed 270 days. These notes are secured promissory notes of industrial corporations, utilities and bank holding companies. State law limits a city to investments in US corporations having assets in excess of five hundred million dollars with an "A" or higher rating.
- J. **REPURCHASE AGREEMENTS.** As authorized in Government Code Section 53601(i), repurchase agreements are agreements between the local agency and seller for the purchase of government securities to be resold at a specific date and for a specific amount. Repurchase agreements are generally used for short term investments for the City's daily automatic sweep account and will generally not exceed 30 days. The legal limitation on the maturity period for a repurchase agreement is for one year with the required market value underlying the agreement at 102% of the funds borrowed with the value adjusted quarterly.
- K. **BONDS OF THE STATE OF CALIFORNIA OR LOCAL AGENCIES.** Bonds of the State of California and any local government in the State of California, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency. In no event shall this classification of investment exceed 10% of the value of the portfolio.
- L. **MUTUAL FUNDS.** Mutual Funds are referred to in California Government Code, Section 53601(k), as "shares of beneficial interest issued by diversified management companies." The following mutual funds and money market funds are authorized investments for funds subject to the following provisions:
 - 1. Shares of mutual funds with portfolios consisting only of United States government bonds or United States government agencies with average maturities less than four years.
 - 2. Shares of money market funds with portfolios consisting of only bonds of states and local governments or other issuers authorized by State law for investment by local governments, which bonds have at the time of investment one of the two highest credit ratings of a nationally recognized rating agency.
 - 3. Shares of money market funds with portfolios consisting of securities otherwise authorized by State law for investment by local governments.

M. **LOCAL GOVERNMENT INVESTMENT POOLS (LGIP).** Established by the State of California to enable Finance Directors to place funds in a pool for investments. In no event shall this classification of investment exceed the maximum limit allowed by the pool.

N. **CORPORATE NOTES.** As authorized in Government Code Sections 53601(j), local agencies may invest in corporate notes issued by corporations organized and operating in the United States that have an "A" or higher rating for the issuer's debt as provided by at least two of nationally recognized rating services and having a maximum remaining maturity period of five years or less in an amount not to exceed 30% of the agency's portfolio. Furthermore, the maximum principal amount in any one company will not exceed 5% of the City's portfolio.

Issuers must possess an acceptable long-term senior debt rating by one of the nationally recognized rating services, i.e. Moody's, Standard and Poors, or Fitch or Duff & Phelps, as detailed below:

1. For maturities of two years or less, a minimum rating of "A" or better.
2. For maturities of two to four years, a minimum rating of "AA" or better.
3. For maturities of four to five years, a minimum rating of "AAA".

O. **ASSET BACKED SECURITIES.** As authorized in Government Code Section 53601(n), local agencies may invest in any equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable-backed bond with a maximum remaining maturity of five years.

Securities eligible for investment under this subdivision shall be rated "AAA" by a nationally recognized rating service. Purchases of securities authorized by this subdivision may not exceed 20% of the agency's portfolio.

P. **MORTGAGE-BACKED SECURITIES.** As authorized in Government Code Section 53601(n), local agencies may invest in any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, with a maximum remaining maturity of five years.

Securities eligible for investment under this subdivision shall be rated "AAA" by a nationally recognized rating service. Purchases of securities authorized by this subdivision may not exceed 20% of the agency's portfolio.

It should be noted that while the Government Code specifies the maximum percentage of the portfolio that may be held in each type of investment at any one time, fluctuations in the portfolio balance will prevent strict adherence to such restrictions. Therefore, the constraints listed in this policy are to be applied at the time the investment is made and not necessarily to subsequent events which may change the percentage.

SUMMARY OF AUTHORIZED SECURITIES AND CRITERIA INCLUDING DIVERSIFICATION CRITERIA

The City’s investment portfolio, in aggregate, will be diversified to limit market and credit risk by observing the following City Policy Legal limitations:

Permitted Investments	State Code Legal Limit (% or \$)	City Policy Legal Limit (% or \$)	City Maximum Maturity Constraints	City Policy Other Constraints
U.S. Government Treasury Bills	Unlimited	Unlimited	5 years	None
U.S. Government Treasury Notes	Unlimited	Unlimited	5 years	None
U.S. Government Treasury Bonds	Unlimited	Unlimited	5 years	None
U.S. Government Agencies (e.g., GNMA, FNMA)	Unlimited	50%	5 years	None
Repurchase Agreements	Unlimited	20%	N.A.	Collateralized by securities with a market value of at least 102% of the loan amount.
Bankers Acceptances	40%	5%	180 days	No more than \$1,000,000 invested in any one commercial bank
Commercial Paper	25%	25%	270 days	U.S. Corporations with assets in excess of \$500,000,000; “A” debt rating; maximum of \$1,000,000 from an issuing corporation
Corporate Medium Term Notes	30%	30%	5 years	U.S. Corporations; minimum “A” debt rating; maximum of 5% of portfolio per issuing company
Certificates of Deposit	Unlimited	10%	5 years	Must be collateralized to 110% of the CD value by other eligible securities
Negotiable Certificates of Deposit	30%	5%	5 years	State and Federally chartered banks and savings institutions, “AA” rating by one agency
LAIF State Pool	\$50,000,000	\$50,000,000	On Demand	Limited to 15 transactions per month, per account, per State Policy
State of California or Local Agency Bonds	Unlimited	10%	5 years	None
Mutual Funds	20%	20%	4 years	Funds invested as defined in Section 53601 (a) to (l); maximum of 10% in any one fund
Asset-backed Securities	20%	20%	5 years	Minimum “AAA” Debt rating
Mortgage-backed Securities	20%	20%	5 years	Minimum “AAA” Debt rating
Local Government Investment Pools	Unlimited	Unlimited	On Demand	None

1) Limits on percent of portfolio do not apply to investments made by LAIF or other Government Investment Pools.

2) U.S. Treasury Bonds are currently only available for 10 years or more, which currently prohibits the use of newly issued bonds as an investment tool. However, existing bonds could be purchased if remaining term to maturity is less than 5 years.

MASTER REPURCHASE AGREEMENT

If repurchase agreements are legal or authorized, a Master Repurchase Agreement must be signed with the bank or dealer.

ATTACHMENT B

GLOSSARY OF CASH MANAGEMENT TERMS

ACCRETION OF DISCOUNT - Periodic straight-line increases in the book or carrying value of a security so the amount of the purchase price discount below face value is completely eliminated by the time the bond matures or by the call date, if applicable.

ACCRUED INTEREST - Interest earned but not yet received. The interest accumulated on a bond since issue date or the last coupon payment. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

AGENCIES - A debt security issued by a federal or federally sponsored agency.

In the government securities industry, investors frequently refer to all debt instruments issued by U.S. government agencies, departments, and related instrumentalities as *agency* securities. Only those securities backed by the full faith and credit of the U. S. Government are true agency securities. Only securities issued by the Government National Mortgage Association (Ginnie Mae or GNMA) are widely used by public investors as true agency securities backed by the full faith and credit of the U.S. Government.

Generally, the underlying security associated with a U.S. agency is considered to be as risk-free as direct Treasury securities. The key difference in risk with these instruments is their liquidity and marketability, which is diminished as a result of smaller, irregular, and less familiar issues.

U.S. Government Instrumentalities, also known as government sponsored enterprises (GSEs), are financial intermediaries established by the federal government to fund loans to certain groups of borrowers, such as homeowners, farmers, and students. In short, GSEs are privately owned corporations with a public purpose. The most common instrumentalities are:

- Federal Farm Credit System Banks,
- Federal Home Loan Banks (FHLB),
- Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC),
- Federal National Mortgage Association (Fannie Mae or FNMA),
- Tennessee Valley Authority (TVA),
- Federal Deposit Insurance Corporation (FDIC).

GSEs sell securities on a regularly scheduled basis through selling groups, which are chosen groups of dealers that the GSE uses to "bring the paper to the streets." Short-term securities are regularly issued as discount notes with maturities ranging from overnight to 360 days. GSEs also issue securities with fixed interest rates, ranging in maturity from three months to 30 years.

AMORTIZATION OF PREMIUM - Periodic straight-line decreases in the book or carrying value of a security so the premium paid for a bond above its face value or call price is completely eliminated.

ASK – The price at which securities are offered for sale.

ASSET BACKED SECURITIES (ABS) – Asset Backed Securities are pass-through instruments collateralized by installment loans, leases, revolving lines of credit or other consumer finance receivables. Securitizations are structured to separate the credit of the ABS issuer from the assets being securitized.

AVERAGE MATURITY - A weighted average of the expiration dates for a portfolio of debt securities. An income fund's volatility can be managed by shortening or lengthening the average maturity of its portfolio.

BANK WIRE - A virtually instantaneous electronic transfer of funds between two financial institutions.

BANKERS ACCEPTANCES (BAs) - Bankers Acceptances generally are created based on a letter of credit issued in a foreign trade transaction. They are used to finance the shipment of commodities between countries as well as the shipment of some specific goods within the United States. BAs are short-term, non-interest bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value. These notes trade at a rate equal to or slightly higher than Certificates of Deposit (CDs), depending on market supply and demand.

Bankers Acceptances are sold in amounts that vary from \$100,000 to \$5,000,000, or more, with maturities ranging from 30 - 270 days. They offer liquidity to the investor as it is possible to sell BAs prior to maturity at the current market price.

BASIS POINT - A measure of an interest rate, i.e., 1/100 of 1 percent, or .0001.

BID - The indicated price at which a buyer is willing to purchase a security or commodity. When selling a security a bid is obtained.

BOND - A long-term debt security, or IOU, issued by a government or corporation that generally pays a stated rate of interest and returns the face value on the maturity date.

BOOK ENTRY SECURITIES - U.S. government and federal agency securities that do not exist in definitive (paper) form; they exist only in computerized files maintained by the Federal Reserve Bank.

BOOK VALUE - The amount at which an asset is carried on the books of the owner. The book value of an asset does not necessarily have a significant relationship to market value.

BROKER – A broker brings buyers and sellers together for a commission.

CALLABLE BOND - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions. Bonds are generally called when interest rates fall so that the bond issuer can save money by floating new bonds at the lower rate. The first call date is the date which a specific call price will be offered by the issuer, usually a premium price to par, as an incentive to the bondholder to redeem the bond.

CALL PRICE - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

CALL RISK - The risk to a bondholder that a bond may be redeemed prior to maturity.

CASH SALE/PURCHASE - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

CERTIFICATES OF DEPOSIT - Certificates of Deposit, familiarly known as CDs, are certificates issued against funds deposited in a bank for a definite period of time and earning a specified rate of return. Certificates of Deposit bear rates of interest in line with money market rates current at the time of issuance.

COLLATERALIZATION - Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

COMMERCIAL PAPER - Commercial paper is an unsecured promissory note issued by a corporation for a specific amount and maturing on a specific day that cannot be farther into the future than 270 days. Commercial Paper is typically rated by credit agencies that attempt to evaluate the liquidity, cash flow, profitability, and backup credit availability of the entity that is issuing the paper.

COMPETITIVE BID PROCESS - A process by which three or more institutions are contacted via the telephone to obtain interest rates for specific securities.

CONVEXITY - A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

COUPON RATE - The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

CREDIT QUALITY - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

CREDIT RISK - The risk that another party to an investment transaction will not fulfill its obligations. Credit risk can be associated with the issuer of a security, a financial institution holding the entity's deposit, or a third party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one investment type or with any one party.

CUSIP NUMBER - A nine-digit number established by the Committee on Uniform Securities Identification Procedures that is used to identify publicly traded securities. Each publicly traded security receives a unique CUSIP number when the security is issued.

CURRENT YIELD - A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

CUSTODIAN - An independent third party (usually bank or trust company) that holds securities in safekeeping as an agent for the city.

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

DEFEASE - To discharge the lien of an ordinance, resolution, or indenture relating to a bond issue, and in the process, render inoperative restrictions under which the issuer has been obliged to operate. Comment: Ordinarily an issuer may defease an indenture requirement by depositing with a trustee an amount sufficient to fully pay all amounts under a bond contract as they become due.

DELIVERY - The providing of a security in an acceptable form to the City or to an agent acting on behalf of the City and independent of the seller. Acceptable forms can be physical securities or the

transfer of book entry securities. The important distinction is that the transfer accomplishes absolute ownership control by the City.

DELIVERY VS PAYMENT - There are two methods of delivery of securities: Delivery vs. payment and delivery vs. receipt (also called free). Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

DEPOSITORY BANK - A local bank used as the point of deposit for cash receipts.

DEPOSITORY INSURANCE - Insurance on deposits with financial institutions. For purposes of this policy statement, depository insurance includes: a) Federal depository insurance funds, such as those maintained by the Federal Deposit Insurance Corporation (FDIC).

DERIVATIVE SECURITY - Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

DISCOUNT - 1. (n.) selling below par; e.g., a \$1,000 bond selling for \$900. 2. (v.) anticipating the effects of news on a security's value; e.g., "The market had already discounted the effect of the labor strike by bidding the company's stock down."

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 available funds among a variety of securities and institutions so as to minimize market risk.

DOLLAR-WEIGHTED AVERAGE MATURITY - The sum of the amount of each outstanding investment multiplied by the number of days to maturity, divided by the total amount of outstanding investment.

EFFECTIVE RATE - The yield you would receive on a debt security over a period of time taking into account any compounding effect.

FACE VALUE - The value of a bond stated on the bond certificate; thus, the redemption value at maturity. Most bonds have a face value, or par, of \$1,000.

FAIR VALUE - The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FDIC Insured Notes - Notes issued by corporations under the Federal Deposit Insurance Corporation's (FDIC) Temporary Liquidity Guarantee Program (TLGP). These notes are backed by the full faith and credit of the United States Government.

FEDERAL AGENCY SECURITIES - Several government-sponsored agencies, in recent years, have issued short and long-term notes. Such notes typically are issued through dealers, mostly investment banking houses. These Federal government-sponsored agencies were established by the U.S. Congress to undertake various types of financing without tapping the public treasury. In order to do so, the agencies have been given the power to borrow money by issuing securities, generally under the authority of an act of Congress. These securities are highly acceptable and marketable for several reasons, mainly because they are exempt from state, municipal and local income taxes.

Furthermore, agency securities must offer a higher yield than direct Treasury debt of the same maturity to find investors, partly because these securities are not direct obligations of the Treasury.

The main agency borrowing institutions are the Federal National Mortgage Association (FNMA), the Federal Home Loan Bank System (FHLB), and the Federal Farm Credit System (FFCS).

FLOATING-RATE NOTES - The term floating-rate notes includes different types of securities with a similar feature that the interest rate or coupon rate is adjusted periodically to a benchmark or base rate. A simple example of a floating-rate instrument is a Series EE savings bond where the semiannual interest rate is determined in May and November based on 85 percent of the average market return of the five-year Treasury note for the preceding six months. In theory, floating-rate notes are securities with coupons based on a short-term rate index.

FNMA - FEDERAL NATIONAL MORTGAGE ASSOCIATION - issues notes tailored to the maturity needs of the investor. Maturities range from 30 days up to 10 years. These notes are made attractive by their denominations from \$5,000 to \$1 million.

FHLB - FEDERAL HOME LOAN BANK SYSTEM - consists of twelve Federal Home Loan Banks, issues, in addition to long-term bonds, coupon notes with maturities of up to one year. Their attractiveness stems from their investment denominations of \$10,000 to \$1 million.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) - A Federal institution that insures bank deposits.

FEDERAL FUNDS (Fed Funds) - Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

FEDERAL FUNDS RATE - The rate of interest at which Fed Funds are traded between banks. Fed Funds are excess reserves held by banks that desire to invest or lend them to banks needing reserves. The particular rate is heavily influenced through the open market operations of the Federal Reserve Board. Also referred to as the "Fed Funds rate."

FEDERAL HOME LOAN BANKS (FHLB) - The institutions that regulate and lend to savings and loan associations. These are Government sponsored wholesale banks which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLB's 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 which has regulated credit in the economy since its inception in 1913. Includes the Federal Reserve Bank, 12 district banks and the member banks of the Federal Reserve, and is governed by the Federal Board.

FLEXIBLE REPURCHASE AGREEMENTS (Flex Repos) - Similar to a term repurchase agreement, a flex repo is a contractual transfer of U.S. government securities during the investment period, whereby the Seller agrees to repurchase the collateral securities from the Buyer on the Buyer's demand, subject to provisions of the agreement. The Seller is generally a financial institution such as a securities dealer or a bank. As buyers, most issuers require over-collateralization, marking-to-market of collateral and delivery-vs.-payment of collateral.

GINNIE MAES (GNMAs) - Mortgage securities issued and guaranteed, as to timely interest and principal payments, by the Government National Mortgage Association, an agency within the Department of Housing and Urban Development (HUD).

GOVERNMENT SECURITY - Any debt obligation issued by the U.S. government, its agencies or instrumentalities. Certain securities, such as Treasury bonds and Ginnie Maes, are backed by the government as to both principal and interest payments. Other securities, such as those issued by the Federal Home Loan Mortgage Corporation, or Freddie Mac, are backed by the issuing agency.

GOVERNMENT-SPONSORED ENTERPRISES (GSE's) - Payment of principal and interest on securities issued by these corporations is not guaranteed explicitly by the U.S. government, however, most investors consider these securities to carry an implicit U.S. government guarantee. The debt is fully guaranteed by the issuing corporations. GSE's include: Farm Credit System, Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and the Tennessee Valley Authority.

HAIRCUT - This term describes the way brokers and clients protect themselves from market risk in doing repos. An entity wanting to finance the purchase of \$100 million in Treasury bonds may borrow just \$98 million of the money. The two percent difference between the amount of securities purchased and the amount of money borrowed is the haircut. Similarly, an entity looking to borrow \$100 million may need to provide, as collateral, Treasury securities with a market price equal to \$102 million.

INTERNAL CONTROLS - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

1. **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

2. **Separation of transaction authority from accounting and record keeping** - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

INVERSE FLOATER - A bond or note that does not earn a fixed rate of interest. Rather, the interest rate that is earned is tied to a specific interest-rate index identified in the bond/note structure. The interest rate earned by the bond/note will move in the opposite direction of the index, e.g., if market interest rates as measured by the selected index rises, the interest rate earned by the bond/note will decline. An inverse floater increases the market rate risk and modified duration of the investment.

INVERTED YIELD CURVE - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

INVESTMENT COMPANY ACT OF 1940- Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

INVESTMENT POLICY - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

INVESTMENT-GRADE OBLIGATIONS - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

LIQUIDATION - Conversion into cash.

LIQUIDITY - Refers to the ease and speed with which an asset can be converted into cash without a substantial loss in 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.

LOSS - The excess of the cost or book value of an asset over selling price.

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

LONG-TERM INVESTMENTS - Investments considered long-term are generally defined as those instruments maturing in one year or longer.

MARK-TO-MARKET - The practice of valuing a security or portfolio according to its market value, rather than its cost or book value. An adjustment in the valuation of a securities portfolio to reflect the current market values of the respective securities in the portfolio.

MARKETABILITY - Ability to sell large blocks of money market instruments quickly and at competitive prices.

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

MARKET RISK - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value. The risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline.

MASTER REPURCHASE AGREEMENT - An agreement between the investor and the dealer or financial institute. This agreement defines the nature of the transactions, identifies the relationship between the parties, establishes normal practices regarding ownership and custody of the collateral securities during the term of the investment, provides for remedies in the event of a default by either party and otherwise clarifies issues of ownership.

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

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

MORTGAGE-BACKED SECURITIES - Mortgage-backed securities have several unique characteristics, beginning with the payment of interest on a monthly basis. Mortgage Backed Securities also differ from standard Treasury investments in that the cash flow pattern is uncertain due to the risk of prepayments or the unscheduled payment of principal. Moreover, a change in the future assumption for prepayments will also affect the rate of return on the investment of a mortgage-backed security. Mortgage-backed securities are created when mortgage pools are collateralized into interest-bearing securities. This securitization process can be accomplished via either a sale of assets or as a debt obligation of the issuer. In the former, a mortgage pass-through security is created, while in the latter case a mortgage-backed bond is originated.

MUTUAL FUND - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

MUTUAL FUND STATISTICAL SERVICES - Companies that track and rate mutual funds, e.g., IBC/Donoghue, Lipper Analytical Services, and Morningstar.

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD) - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

NEGOTIABLE CERTIFICATES OF DEPOSIT - Large denomination (\$100,000 or more) interest bearing time deposits, paying the holder a fixed amount of interest at maturity. Issues can be sold to a new owner before maturity.

NET ASSET VALUE - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. $[(\text{Total assets}) - (\text{Liabilities})]/(\text{Number of shares outstanding})$

NO LOAD FUND - A mutual fund which does not levy a sales charge on the purchase of its shares.

NOMINAL YIELD - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

OFFER - The indicated price at which a seller is willing to sell a security or commodity. When buying a security an offer is obtained.

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 nominal or face value of a debt security; that is, the value at maturity.

PORTFOLIO – Collection of securities held by an investor.

POSITIVE YIELD CURVE - A chart formation that illustrates short-term securities having lower yields than long-term securities.

PREMIUM - The amount by which a bond sells above its par value.

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

PRIME RATE - The interest rate a bank charges on loans to its most credit worthy customers. Frequently cited as a standard for general interest rate levels in the economy.

PRINCIPAL - An invested amount on which interest is charged or earned.

PRUDENT PERSON RULE – An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody 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.

QUALIFIED PUBLIC DEPOSITORY - A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated, for the benefit of the commission, eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RANGE NOTE - An investment whose coupon payment varies (e.g. either 7% or 3%) and is dependent on whether the current benchmark (e.g. 30 year Treasury) falls within a pre-determined range (e.g. between 6.75% and 7.25%).

RATE OF RETURN - The amount of income received from an investment, expressed as a percentage. A market rate of return is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

REGISTERED SECURITY - A security that has the name of the owner written on its face. A registered security cannot be negotiated except by the endorsement of the owner.

REINVESTMENT RISK - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

REPURCHASE AGREEMENT (REPO) - The Repo is a contractual transaction between an investor and an issuing financial institution (not a secured loan). The investor exchanges cash for temporary ownership of specific securities, with an agreement between the parties that on a future date, the financial institution will repurchase the securities at a prearranged price. An "Open Repo" does not have a specified repurchase date and the repurchase price is established by a formula computation.

REPRICING - The revaluation of the market value of securities.

REVERSE REPO's - The opposite of the transaction undertaken through a regular repurchase agreement. In a "reverse" the City initially owns securities and the bank or dealer temporarily exchanges cash for this collateral. This is, in effect, temporarily borrowing cash at a high interest rate. Most typically, a Repo is initiated by the lender of funds. Reverses are used by dealers to borrow

securities they have shorted. Such investments are not authorized in the City of Vallejo's Investment Policy.

RULE 2a-7 OF THE INVESTMENT COMPANY ACT - Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar (\$1.00).

SAFEKEEPING - A service to customers rendered by banks for a fee whereby all securities and valuables of all types and descriptions are held in the bank's vaults for protection, or in the case of book entry securities, are held and recorded in the customer's name and are inaccessible to anyone else.

SALLIE MAES - Pooling of student loans guaranteed by the Student Loan Marketing Association (SLMA) to increase the availability of education loans. The SLMA purchases the loans after buying them on the secondary market from lenders. SLMA stock is publicly traded.

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

SECURITIES - Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments.

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

SERIAL BOND - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

SETTLEMENT DATES - The day on which payment is due for a securities purchase. For stocks and mutual funds bought through an investment dealer, settlement is normally five business days after the trade date. Bonds and options normally settle one business day after the trade date, mutual fund shares purchased directly by mail or wire settle on the day payment is received.

SHORT-TERM INVESTMENTS - Short-term investments are generally defined as those instruments maturing in one year or less.

SINKING FUND - Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

SPREAD - (a) Difference between the best buying price and the best selling price for any given security. (b) Difference between yields on or prices of two securities of differing quality or differing maturities. (c) In underwriting, difference between price realized by the issuer and price paid by the investor.

STRIPS - Separation of the principal and interest cash flows due from any interest-bearing securities into different financial instruments. Each coupon payment is separated from the underlying investment to create a separate security. Each individual cash flow is sold at a discount. The amount of the discount and the time until the cash flow is paid determine the investor's return.

STRIPPED TREASURIES - U.S. Treasury debt obligations in which coupons are removed by brokerage houses, creating zero-coupon bonds.

STRUCTURED NOTES – A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate

notes that have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

Notes issued by government Sponsored Enterprises (GSE) such as FHLB, FNMA, and Corporations which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TERM BOND - Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

TOTAL RETURN - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends and Interest received) + (Capital gains) = Total Return

TRIPARTITE CUSTODIAN AGREEMENT - An agreement that occurs when a third party or custodian becomes a direct participant in a repurchase transaction. The custodian ensures that the exchange occurs simultaneously and that appropriate safeguards are in place to protect the investor's interest in the underlying collateral.

THIRD-PARTY SAFEKEEPING - A safekeeping arrangement whereby the investor has full control over the securities being held and the dealer or bank investment department has no access to the securities being held.

TIME DEPOSIT - Interest-bearing deposit at a savings institution that has a specific maturity.

TREASURY BILLS - Treasury bills are short-term debt obligations of the U.S. Government. They offer maximum safety of principal since they are backed by the full faith and credit of the United States Government. Treasury bills, commonly called "T-Bills," account for the bulk of government financing, and are the major vehicle used by the Federal Reserve System in the money market to implement national monetary policy. T-Bills are sold in three, six, nine, and twelve-month bills. Because treasury bills are considered "risk-free," these instruments generally yield the lowest returns in the major money market instruments.

TREASURY NOTES AND BONDS - While T-Bills are sold at a discount rate that establishes the yield to maturity, all other marketable treasury obligations are coupon issued. These include Treasury Notes with maturities from one to ten years and Treasury Bonds with maturities of 10-30 years. The instruments are typically held by banks and savings and loan associations. Since Bills, Notes and Bonds are general obligations of the U.S. Government, and since the Federal Government has the lowest credit risk of all participants in the money market, its obligations generally offer a lower yield to the investor than do other securities of comparable maturities.

UNDERLYING SECURITIES - Securities transferred in accordance with a repurchase agreement.

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.

VARIABLE RATE - An interest rate which is adjusted periodically, usually based on a standard market rate outside the control of the bank or savings institution, such as that prevailing on a Treasury bill or the prime interest rate. These rates often have a specified floor and/or ceiling, called a cap or a collar, which limit the adjustment. Also called adjustable rate or floating rate.

WEIGHTED AVERAGE MATURITY - The sum of the amount of each outstanding investment multiplied by the number of days to maturity, divided by the total amount of outstanding investment.

WHEN-ISSUED TRADES - Typically, there is a lag between the time a new bond is announced and sold and the time it is actually issued. During this interval, the security trades "wi," "when, as, and if issued."

Wi - When, as, and if issued. See When-issued trades.

YIELD - The rate at which an investment pays out interest or dividend income, expressed in percentage terms and calculated by dividing the amount paid by the price of the security and annualizing the result.

YIELD BASIS - Stated in terms of yield as opposed to price. As yield increases for a traded issue, price decreases and vice versa. Charts prepared on a yield basis appear exactly opposite of those prepared on a price basis.

YIELD CURVE - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

YIELD SPREAD - The variation between yields on different types of debt securities; generally a function of supply and demand, credit quality and expected interest rate fluctuations. Treasury bonds, for example, because they are so safe, will normally yield less than corporate bonds. Yields may also differ on similar securities with different maturities. Long-term debt, for example, carries more risk of market changes and issuer defaults than short-term debt and thus usually yields more.

YIELD-TO-CALL (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date. It is the percentage rate of a bond or note, if an investor were to buy and hold the security until the call date. This yield is valid only if the security is called prior to maturity. Generally bonds are callable over several years and normally are called at a slight premium. The calculation of yield to call is based on the coupon rate, length of time to the call and the market price.

YIELD-TO-MATURITY (YTM) - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return. The calculation for YTM is based on the coupon rate, length of time to maturity and market price. It assumes that coupon interest paid over the life of the bond will be reinvested at the same rate.

ZERO-COUPON BONDS - Securities that do not pay interest but are instead sold at a deep discount from face value. They rise in price as the maturity date nears and are redeemed at face value upon maturity.



CITY OF VALLEJO

ADM B – COUNCIL
ADM A - RDA

Agenda Item No.

COUNCIL COMMUNICATION
REDEVELOPMENT AGENCY COMMUNICATION

Date: January 25, 2011

TO: Mayor and Members of the City Council
Chairman and Members of the Redevelopment Agency

FROM: Craig Whittom, Assistant City Manager/Community Development *W*
Annette Taylor, Senior Community Development Analyst

SUBJECT: Adoption of a Joint Resolution of the City Council of the City of Vallejo and the Vallejo Redevelopment Agency authorizing the City Manager/Executive Director to execute the First Amendment to the Amended and Restated Memorandum of Understanding between the County of Solano, the Vallejo Redevelopment Agency, and the City of Vallejo.

BACKGROUND & DISCUSSION

On February 9, 2010, the Redevelopment Agency adopted Resolution 10-003 N.C. and the City Council adopted Resolution 10-035 N.C. authorizing the Executive Director/City Manager or his designee to execute the Amended and Restated Memorandum of Understanding (MOU) between the County of Solano, the City of Vallejo Redevelopment Agency, and the City of Vallejo. The amendments to the MOU added the Redevelopment Agency as a party to the MOU, restated the development of the Project Vision, and adopted an expedited entitlement process and proposed Project schedule for the implementation of the Project Vision.

Although the parties had achieved consensus on the majority of issues in the MOU, two issues remained outstanding. These were the indemnity obligations imposed on the Agency and the designation of two 'mixed use' parcels as private purpose areas for revenue sharing agreement purposes. The City Council authorized the City Manager or his designee to negotiate and resolve any outstanding issues.

After the Amended and Restated MOU was approved by the City Council/RDA and the Solano County Board of Supervisors, staff began work on the entitlement process. The Solano 360 Committee met on August 8, 2010 to continue work on the proposed project. The meeting was opened to the public and public comment was given.

On August 10, 2010, the Solano County Board of Supervisors voted to suspend further action on the private components of the Solano 360 Project Vision and directed County staff to revise the time line, budget and contracts needed to proceed with just the Fair of the Future Zone. City staff was notified that the County would proceed with the Fair consistent with the Project Vision and explore interim uses for the private areas consistent with Fair operations until the time is right to proceed with the private development.

Representatives from the County and City have met since the Board of Supervisors' decision and have determined that proceeding with the private areas of Project at this time is in both jurisdictions best interest. Staff is proposing that the Redevelopment Agency and City Council

approve the First Amendment to the Amended and Restated Memorandum of Understanding. The amendment:

- Articulates the partnership between the agencies, specifying that the City and the County will be co-applicants in the planning entitlements.
- Articulates the shared commitment to implement the Project Vision in an expeditious manner
- Clarifies the respective roles of the partnership as it relates to the private development areas

FISCAL IMPACT

There is no fiscal impact caused by this action.

RECOMMENDATION

Consideration of a resolution approving the First Amendment to the Amended and Restated Memorandum of Understanding.

ENVIRONMENTAL REVIEW

An environmental review is not required for this action. An EIR will be prepared prior to or concurrently with the entitlement process for the Project.

DOCUMENTS ATTACHED

- Attachment A - Joint Resolution of the City Council and the Vallejo Redevelopment Agency authorizing the City Manager/ Executive Director to execute the First Amendment to the Amended and Restated Memorandum of Understanding between the County of Solano, the Vallejo Redevelopment Agency, and the City of Vallejo
- Attachment B - First Amendment to the Amended and Restated Memorandum of Understanding between the County of Solano, the City of Vallejo Redevelopment Agency, and the City of Vallejo
- Attachment C - Amended and Restated Memorandum of Understanding between the City of Vallejo, the Vallejo Redevelopment Agency and the County of Solano

CONTACT: Annette Taylor, Senior Community Development Analyst
649-3510, annette@ci.vallejo.ca.us

Craig Whittom, Assistant City Manager/Community
648-4579, cwhittom@ci.vallejo.ca.us

CITY COUNCIL RESOLUTION _____ N.C.
VALLEJO REDEVELOPMENT AGENCY RESOLUTION _____ N.C.

A JOINT RESOLUTION OF THE CITY COUNCIL OF THE CITY OF VALLEJO
AND THE VALLEJO REDEVELOPMENT AGENCY AUTHORIZING THE CITY
MANAGER/EXECUTIVE DIRECTOR TO EXECUTE THE FIRST AMENDMENT
TO THE AMENDED AND RESTATED MEMORANDUM OF UNDERSTANDING
BETWEEN THE COUNTY OF SOLANO, THE VALLEJO REDEVELOPMENT
AGENCY, AND THE CITY OF VALLEJO

WHEREAS, on March 10, 2009, the Vallejo City Council approved the execution of the new Memorandum of Understanding (2009 MOU) between the County of Solano and the City of Vallejo; and

WHEREAS, on June 9, 2009, the Vallejo City Council approved the Solano 360 Visioning Report pertaining to the redevelopment of the Solano County Fairgrounds; and

WHEREAS, the Fairgrounds is located within the Flosden Redevelopment Area; and

WHEREAS, on February 9, 2010, the Vallejo City Council and the Redevelopment Agency of the City of Vallejo approved the execution of the Amended and Restated MOU which articulated the role of the Vallejo Redevelopment Agency and clarified certain roles and responsibilities among all the parties; and

WHEREAS, it was noted that additional agreements may be required between the City of Vallejo and County of Solano as the development of the Fairgrounds progressed, and

WHEREAS, the County of Solano and City of Vallejo and Redevelopment Agency of the City of Vallejo desire the amend the Amended and Restated MOU to articulate the partnership between the agencies and the shared commitment to implement the Project Vision in an expeditious manner and further clarify the respective roles as such relates to the private development areas;

NOW, THEREFORE BE IT RESOLVED that the Vallejo City Council hereby authorizes the City Manager (or his designee) and the Vallejo Redevelopment Agency hereby authorizes the Executive director (or his designee) to execute the First Amendment to the Amended and Restated Memorandum of Understanding between the County of Solano, the City of Vallejo Redevelopment Agency and the City of Vallejo .

BE IT FURTHER RESOLVED that the City Manager/Executive Director is authorized to execute further documents or amendments to the MOU as necessary to further the goals of the Amended and Rested MOU consistent with the City Manager/Executive Director's approval authority as set forth in the Vallejo Municipal Code, City of Vallejo Charter and any applicable ordinance or resolution.

**FIRST AMENDMENT TO AMENDED AND RESTATED MEMORANDUM OF
UNDERSTANDING
BETWEEN THE CITY OF VALLEJO, THE VALLEJO REDEVELOPMENT AGENCY
and THE COUNTY OF SOLANO**

This First Amendment to the Amended and Restated Memorandum of Understanding (“MOU”) between the County of Solano, a political subdivision of the State of California (the “County”), the Vallejo Redevelopment Agency, “Agency” and the City of Vallejo, a municipal corporation (the “City”), collectively the ‘Parties’, is entered into on this _____ day of _____, 2011.

1. Recitals

- A. On March 10, 2009 the parties entered into a Memorandum of Understanding (“2009 MOU”) establishing the respective roles of the County and the City with regards to their cooperative effort to develop a Project Vision for the redevelopment of the County Fairgrounds.
- B. On February 9, 2010, the parties amended and restated the 2009 MOU (“Restated MOU”) to add the Vallejo Redevelopment Agency as a party to the MOU and adopt an Expedited Entitlement Process and proposed Project Schedule for the implementation of the Project Vision that was the subject of the 2009 MOU.
- C. The parties now desire to amend the Restated MOU to clearly articulate the partnership between the member agencies and the shared commitment to implement the Project Vision in an expeditious manner and further clarify the respective roles as such relates to the private development areas.

2. Agreement

A. Entitlement Process

Exhibit A is deleted in its entirety and replaced with the Expedited Entitlement Process attached to and incorporated into this First Amendment as Revised Exhibit A.

B. Financial Contribution and Future Revenue Participation

Subsection a. of Section 7 is amended as follows:

- a. The County and City agree to jointly file an application for the approval of a Specific Plan, a General Plan Amendment, and a Zoning Amendment for the Project, which will contain sufficient specificity to grant the County and City vested rights to proceed on entitlements for the Private Development aspects of the project. The City will take the lead on processing these necessary entitlements, unless otherwise agreed to by the parties. The County agrees to reimburse the City for the cost of a project planner in

exchange for an expedited process as pertains to the processing and permitting of the non-fair elements of the Project. County will pay City actual costs in an amount not to exceed \$10,000 per month for planning and related services, legal, and other City review resources necessary for Project approval plus previously paid planning processing fees in the amount of \$13,102 for a total amount not to exceed \$193,102.

3. Effectiveness of Contract.

Except as set forth in this First Amendment, all other terms and conditions specified in the Amended and Restated MOU remain in full force and effect.

The parties have entered into this First Amendment to the Amended and Restated MOU as of the date first written above.

COUNTY OF SOLANO

CITY OF VALLEJO;
VALLEJO REDEVELOPMENT AGENCY

By _____
Michael D. Johnson
County Administrator

By _____
Phil Batchelor
City Manager for City of Vallejo
Interim Executive Director for RDA

APPROVED AS TO FORM

By _____
County Counsel

By _____
Frederick G. Soley
City Attorney; Agency Counsel

Revised Exhibit A - Expedited Entitlement Process

The parties agree to commit the necessary resources to implement the expedited processing of the entitlements for the Project, in accordance with the timeline, attached as Revised Exhibit A-1, as follows:

Expedited Entitlement Process - ANTICIPATED MAJOR TASKS AND RESPONSIBILITIES				
Tasks	JOINT COUNTY-CITY TASKS	COUNTY TASKS	CITY TASKS	Time to Complete
Provide Overall Management	X			80 weeks
Revise schedule for Solano360 meetings	X			2 weeks
Develop interim Parking uses with input from affected parties		X		8 weeks
Prepare Specific plan - Circulation - Infrastructure/utilities - Design standards - Implementation (phasing, financial/fiscal analyses)	X			32 weeks
Engage in public information process - Perform community outreach - Conduct public workshops	X			76 weeks
Prepare environmental review of specific plan - Project Description - NOP, Comments - Admin Draft, Alternatives, Comments - Draft/Final EIR's, Hearings	X			76 weeks
Negotiate long-term shared parking agreement	X			4 weeks
Develop joint infrastructure plans and agreements	X			16 weeks
Prepare Financial Analysis & Feasibility - Financing Concepts - Peer Review, if needed	X			8 weeks
Negotiate cost sharing for site improvements	X			8 weeks
Negotiate Revenue Sharing Plan	X			8 weeks
Prepare City General Plan Amendment			X	28 weeks
Prepare City rezoning			X	28 weeks
Prepare Redevelopment area plan amendment			X	28 weeks

**AMENDED AND RESTATED MEMORANDUM OF UNDERSTANDING
BETWEEN THE CITY OF VALLEJO, THE VALLEJO REDEVELOPMENT AGENCY
and THE COUNTY OF SOLANO**

This Amended and Restated Memorandum of Understanding ("MOU") between the County of Solano, a political subdivision of the State of California (the "County"), the Vallejo Redevelopment Agency, "Agency" and the City of Vallejo, a municipal corporation (the "City"), collectively the 'Parties', is entered into on this 10th day of February, 2010, and amends and restates the March 10, 2009 MOU described in recital 5 below. Upon execution of this Amended and Restated MOU, the March 10, 2009 MOU will have no further force or effect.

Recitals

1. On July 11, 2003, the County, City, and the Solano County Fair Association ("SCFA") entered into a Memorandum of Understanding (the "2003 MOU") acknowledging that the three entities share a common vision for the revitalization of the Solano County Fairgrounds ("Fairgrounds") and recognizing the need to reach agreement regarding the planning and permitting process for the redevelopment of the Fairgrounds project ("Project").
2. The 2003 MOU required the City to quitclaim certain of its reversionary interests (the "Reversionary Interest") in the deed restrictions identified in the deed to the County of Solano dated January 16, 1947, recorded in Book 387, Page 108 of the Official Records of the County of Solano ("Original Deed") unless the County either failed to execute a "Memorandum of Understanding" with a master developer by July 8, 2008 or the commercial development envisioned in the 2003 MOU had not been completed and placed into operation by July 8, 2010.
3. The County had entered into an "Exclusive Negotiating Agreement" with a selected master developer but was unable to execute a "Memorandum of Understanding" by July 8, 2008 that was both financially feasible and capable of meeting the stated goals of the County and interested stakeholders.
4. The County is still committed to the Project and has since engaged a consultant to assist with the visioning process for the Fairgrounds Property and to work closely with the County, City, Agency and SCFA to cultivate the highest and best use of the Fairgrounds Property.
5. In recognition of the County, and City's continued commitment for the revitalization of the Fairgrounds, on March 10, 2009, the parties terminated the 2003 MOU and executed a new MOU which clarifies additional responsibilities specific to the County and City on this Project.
6. The Parties now desire to amend and restate the March 10, 2009 MOU ("2009 MOU") to articulate the role of the Vallejo Redevelopment Agency and to clarify certain roles and responsibilities among all the parties.

Agreement

The Parties agree as follows:

1. Term. The term of this MOU shall be five (5) years from the date of its execution or superseded by a revised MOU or Revenue Sharing Agreement, whichever occurs first.

2. Role of Redevelopment Agency. The Agency is added as a party to this MOU due to the fact that development of the Project may entail redevelopment financing either through the Flosden Acres Urban Renewal Plan or, if the Project site is detached from the Flosden Acres Urban Renewal Plan, any successor redevelopment plan adopted by the Agency that includes the Project site. It is expressly understood and agreed to by all the parties that (a) the Agency shall not look to the Project or any future property tax increment revenues generated from the Project to satisfy any existing obligations and/or indebtedness of the Agency, and, (b) unless otherwise agreed by the Agency, the parties shall not look to any property tax increment revenues generated from other portions of the Flosden Acres Urban Renewal Plan area, or any other redevelopment project areas within the City of Vallejo, to support the parties' redevelopment goals for the Fairgrounds property. During the term of this MOU, Agency shall not incur any new or additional obligation or indebtedness secured by property tax increment revenues anticipated to be generated from the Project, except as may otherwise be agreed to by the County. The parties acknowledge and agree that Agency shall not be prohibited from using future property tax increment revenues generated from the Project to make payments that the State of California may mandate in future, including, for example, any future Educational Revenue Augmentation Fund (ERAF) or Supplemental Educational Revenue Augmentation Fund (SERAF) payments provided such payments are no greater than the pro rata share of the Agency's total obligation mandated by the State. During the term of this MOU, Agency further agrees to indemnify and hold harmless the County and its elected officials, officers and employees from and against any third party claims that may be asserted against County challenging the legality or validity of Agency's reservation and commitment of future property tax increment revenues anticipated to be generated from the Project as set forth in this paragraph 2. The foregoing indemnity shall not apply to third party claims to the extent arising from the negligence or willful misconduct of County or its elected officials, officers and employees.

3. Reversionary Interest.
 - A. The County executed and recorded a quit claim deed transferring back to the City the Reversionary Interest (i.e., all interests described in the Quitclaim Deed (Document No) dated July 9, 2003 and further described as follows:

"Any and all reversionary interest, rights of reentry and/or powers of termination identified in the deed to the County of Solano dated January 16, 1947, recorded in Book 387, Page 108 of the Official Records of the County of Solano subject to the Memorandum of Understanding entered into by and between the County of Solano, City of Vallejo, and the Solano County Fair Association on July 11, 2003.")
 - B. Upon certification of the EIR, the City's approval of a General Plan Amendment and applicable zoning changes, and the expiration of all appeal periods, the City

shall quitclaim all Reversionary Interests related to the Project to County. In the event that no building permit is issued for any portion of the Project within 15 years of the date of recordation of the Quit Claim Deed, the County shall grant deed to the City the Reversionary Interest previously conveyed. This clause shall survive the termination of this Amended and Restated MOU.

C. County shall defend, indemnify and hold City and Agency harmless in any claim, complaint or cause of action brought by any person or entity regarding the transferability or enforceability of the Reversionary Interest.

4. Development of Project Vision. The Parties agree that the Solano 360 Vision Report, adopted by the Board of Supervisors and the City Council on June 9, 2009 constitutes the Project Vision that was the subject of the 2009 MOU. The Project Vision includes, but is not limited to, office, retail, entertainment, mixed-use, residential and other related uses that support operationally and financially the renovation of the Fairgrounds. Implementation of the Project Vision is the subject of this Amended and Restated MOU.
5. Oversight Committees. The parties agree to establish regular meetings of the respective Fairground Ad Hoc Committees during the implementation of the Project Vision and as needed through the entitlement phase of the Project. This oversight committee, which has been named the Solano 360 Committee, is comprised of two members from the Board of Supervisors and the Mayor and two members from the City Council, who are also members of the Agency and who will represent both the City and Agency, and will continue to provide policy direction throughout the Project and to report back to their respective governing bodies. All such meetings of the Solano 360 Committee will be held in accordance with the Brown Act.
6. Entitlement Process. The parties agree to work cooperatively to prepare an entitlement processing plan that outlines the relationship and allocates responsibility with respect to processing all required permits, approvals and entitlements for the Project based on the following:
 - a. The County will serve as the lead agency for the required environmental review for the Project pursuant the California Environmental Quality Act ("CEQA"). The City of Vallejo and the Vallejo Redevelopment Agency will be responsible agencies under CEQA.
 - b. The Project Vision will serve as the basis to move forward with the completion of a specific plan and for the development of the Project Description for purposes of beginning the environmental review. The Project Description will be prepared by the environmental consultant hired by the County as Lead Agency in consultation with the City.
 - c. The area designated as the "Fair of the Future" Zone ("FoFZ") and Public Entertainment Zone ("PEZ"), excluding those areas in the PEZ to be developed as private mixed-use in the Project Vision unless the County takes the lead in the development in the PEZ on behalf of SCFA for a public purpose use, or as may be determined upon during the

environmental review, is designated as "public purposes" and those areas outside of the FoFZ and PEZ are designated as "private purposes." The parties acknowledge that the specific areas will be further refined during the specific plan entitlement process.

- d. All areas developed for "private purposes" will follow the expedited city planning/zoning process defined in Exhibit A to this MOU.
- e. All areas developed solely for "public purposes" will be exempt from the City's Planning/Building process except that within 90 days of completion of County's CEQA process including the adoption of any CEQA determination or document pursuant to subdivision (a) the County will present the project to the City of Vallejo's Planning Commission and/or City Council to seek a finding of consistency with the City of Vallejo's General Plan pursuant to Gov. Code section 65402.
- f. Any needed redevelopment plan amendment or other redevelopment action required to implement the project will be presented to the Agency for a finding of consistency with the redevelopment plan or any other necessary action and findings.

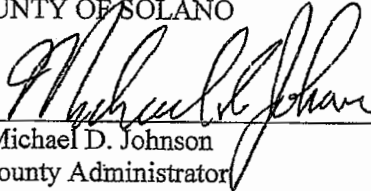
7. Financial Contribution and Future Revenue Participation. In anticipation of the cost associated with the Project, the parties agree as follows:

- a. Following the execution of this MOU the County will file an application for City entitlement processing, which shall include a Specific Plan adoption, a General Plan Amendment and Zoning change, as described in Exhibit A. The County will reimburse the City for the cost of a project planner in exchange for an expedited process as pertains to the processing and permitting of the non-fair elements of the Project. County will pay City actual costs in an amount not to exceed \$10,000 per month for planning, permit processing, legal, and other City review resources necessary for Project approval. County and City will establish a cap on planning, permit processing and other City fees as a component of a future agreement.
- b. The parties agree that each Party will be reimbursed any previously approved non-reimbursed direct costs and expenses incurred with respect to the planning, entitlement and development of the Project once the Project begins to generate revenue and prior to any distribution of proceeds as set forth in subsection (c) below. Reimbursement will include compensating each party any non-reimbursed direct Project costs ("Direct Costs") plus a return on those Direct Costs in the amount of twelve percent (12%) per annum. In order to be reimbursed as a Direct Cost, City or Agency must have received approval from the County. Indirect costs for staff time shall be considered for reimbursement without interest to the extent those costs were not reimbursed from other sources. Project revenues will be used to reimburse all party's Direct and Indirect Costs on an equitable basis in proportion to each party's contribution of Direct and Indirect Costs for the Project.


- c. Any revenue generated from the private purposes of the Project, as listed in Exhibit B, will be equitably distributed to the parties and memorialized through the execution of a Revenue Sharing Agreement.

The parties have entered into this Amended and Restated MOU on the date first written above.

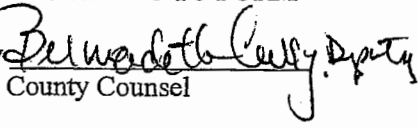
COUNTY OF SOLANO

By 
Michael D. Johnson
County Administrator

CITY OF VALLEJO;
VALLEJO REDEVELOPMENT AGENCY

By 
Robert F.D. Adams
Interim City Manager for City of Vallejo
Interim Executive Director for RDA

APPROVED AS TO FORM

By 
Bernadette Gentry, Deputy
County Counsel

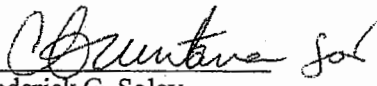
By 
Frederick G. Soley
City Attorney; Agency Counsel

Exhibit A - Expedited Entitlement Process

Recognizing the need for adaptation as the Project proceeds, the following represents the expedited processing of the entitlements for the Project, in accordance with the timeline, attached as Exhibit A-1:

1. County hires consultant to draft Specific Plan
 - a. Preliminary Contents include:
 - i. Introduction
 1. Implements the Vision Report
 2. Ownership and Development Program
 - ii. Land Use
 1. Definition of Uses
 - a. Refine public vs. private purposes?
 2. Program for Each Area
 - iii. Urban Design Guidelines
 1. Architectural Design Guidelines and Standards
 2. Site Furnishings
 3. Landscaping
 4. Signage
 - iv. Transportation
 1. Roadway Configurations
 2. Bicycle and Pedestrians
 3. Transit
 - v. Utilities
 1. Water
 2. Sanitary Sewer
 3. Storm Drainage
 4. Electrical/Gas
 - vi. Other Services
 1. Public Safety
 - vii. Implementation
 1. Phasing
 2. Revised Economic Feasibility/Fiscal Impact Analysis
 3. Financing
 4. Site Development
2. City hires dedicated Contract Planner
3. County engages EIR consultant and prepares Initial Study
4. County makes application for approval of Specific Plan, General Plan Amendment/Zoning Changes and prepares Notice of Preparation ("NOP") of EIR
5. Parties establish regularly scheduled project meetings between County, COV and project planning team.

Exhibit B Potential Revenue Sources

The parties acknowledge that the Project is not feasible without revenue participation from all parties. To that end, the following revenues were identified as part of the financial modeling of the Project Vision as potentially available to assist in the Project financing and the parties agree to negotiate in good faith as to the specific amounts that will be applied towards the implementation of the Project.

1. New Tax Increment
2. Transient Occupancy Taxes (hotels)
3. Sales tax
4. Ground Leases
 - a. Traditional ground lease rates
 - b. Participatory structure
5. Parking Revenue
6. Reinvestment of existing Pass-through Agreements

