



FINANCE & AUDIT COMMITTEE AGENDA

Regular Meeting
Thursday, July 17, 2014 at 2:00 PM
1st Floor Human Resources Conference Room #8
701 Laurel Ave, Menlo Park, CA 94025

**Les Denend will participate via teleconference
from the following location:**
Broadmoor Hotel, 1 Lake Avenue, Colorado Springs, CO 80906

CALL TO ORDER

ROLL CALL – Catherine Carlton, Anne Craib, Les Denend, Ray Mueller, and Laura J Phelps

A. PUBLIC COMMENT (Limited to 30 minutes)

Under “Public Comment,” the public may address the advisory body on any subject not listed on the agenda within the jurisdiction of the Commission. Each speaker may address the Commission once under Public Comment for a limit of three minutes. Please clearly state your name and address or political jurisdiction in which you live. The Commission cannot act on items not listed on the agenda and, therefore, the Commission cannot respond to non-agenda issues brought up under Public Comment other than to provide general information. The public may address the Commission regarding items listed on the agenda during the consideration of each item.

B. REGULAR BUSINESS

- B1.** Present and discuss Investment Policy ([Attachment](#))
- B2.** Present and discuss Reserve Policy ([Attachment](#))
- B3.** Present and discuss draft General Fund Financial Dashboard ([Attachment](#))
- B4.** Present and discuss committee’s 2-year workplan guidelines, City Council Goals and the 2010-11 Finance & Audit Committee’s workplan ([Attachment](#))
- B5.** Accept Finance/Audit Committee minutes for the meeting of May 29, 2014 ([Attachment](#))

E. ADJOURNMENT

(Over)

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At every Regular Meeting of the Commission, in addition to the Public Comment period where the public shall have the right to address the Commission on any matters of public interest not listed on the agenda, members of the public have the right to directly address the Commission on any item listed on the agenda at a time designated by the Chair, either before or during the Commission's consideration of the item.

At every Special Meeting of the Commission, members of the public have the right to directly address the Commission on any item listed on the agenda at a time designated by the Chair, either before or during consideration of the item.

Any writing that is distributed to a majority of the Commission by any person in connection with an agenda item is a public record (subject to any exemption under the Public Records Act) and is available for inspection at the Menlo Park Library, 800 Alma Street, Menlo Park, CA 94025 during regular business hours.

Persons with disabilities, who require auxiliary aids or services in attending or participating in Commission meetings, may call the City Clerk's Office at (650) 330-6620.

City of Menlo Park

Investment Policy

The City of Menlo Park (the “City”), incorporated in 1927, is located between San Francisco and Oakland on the North, and San Jose on the South. The City is governed by a City Council (the “Council”) of five members elected at-large.

The Council has adopted this Investment Policy (the “Policy”) in order to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the unexpended funds of the City. All such investments will be made in accordance with the Policy and with applicable sections of the California Government Code.

This Policy was endorsed and adopted by the City Council of the City of Menlo Park on the 19th of August, 2014. It replaces any previous investment policy or investment procedures of the City.

SCOPE

The provisions of this Policy shall apply to all financial assets of the City and the Community Development Agency of Menlo Park as accounted for in the City's Comprehensive Annual Financial Report, with the exception of bond proceeds, which shall be governed by the provisions of the related bond indentures or resolutions.

All cash shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective average balances relative to the total pooled balance in the investment portfolio. Investment income shall be distributed to the individual funds on a monthly basis.

OBJECTIVES

The City's funds shall be invested in accordance with all applicable municipal codes and resolutions, California statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

1. Preservation of capital and protection of investment principal.
2. Maintenance of sufficient liquidity to meet anticipated cash flows.
3. Attainment of a market value rate of return.
4. Diversification to avoid incurring unreasonable market risks.

DELEGATION OF AUTHORITY

The management responsibility for the City's investment program is delegated annually by the Council to the Chief Financial Officer (the "CFO") pursuant to California Government Code Section 53607. The City's Director of Finance serves as the CFO. In the absence of the CFO, the Financial Services Manager is authorized to conduct investment transactions. The CFO may delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized staff members. The CFO shall maintain a list of persons authorized to transact securities business for the City. No person may engage in an investment transaction except as expressly provided under the terms of this Policy.

The CFO shall develop written administrative procedures and internal controls, consistent with this Policy, for the operation of the City's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the City.

The City may engage the support services of outside investment advisors in regard to its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the City's financial resources.

PRUDENCE

The standard of prudence to be used for managing the City's investments shall be California Government Code Section 53600.3, the prudent investor standard which states, "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."

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally without risk and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the City.

The CFO and authorized investment personnel acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that the deviations from expectations are reported in a timely fashion to the Council and appropriate action is taken to control adverse developments.

ETHICS AND CONFLICTS OF INTEREST

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any business interests they have in financial institutions that conduct business with the City and they shall subordinate their personal investment transactions to those of the City. In addition, the City Manager, the Assistant City Manager and the Finance Director shall file a Statement of Economic Interests each year pursuant to California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

AUTHORIZED SECURITIES AND TRANSACTIONS

All investments and deposits of the City shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686, except that, pursuant to California Government Code Section 5903(e), proceeds of bonds and any moneys set aside or pledged to secure payment of the bonds may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of the bonds.

Any revisions or extensions of these code sections will be assumed to be part of this Policy immediately upon being enacted. However, in the event that amendments to these sections conflict with this Policy or past City investment practices, the City may delay adherence to the new requirements when it is deemed in the best interest of the City to do so. In such instances, after consultation with the City's attorney, the CFO will present a recommended course of action to the Council for approval.

The City has further restricted the eligible types of securities and transactions as follows:

1. United States Treasury bills, notes, bonds, or strips with a final maturity not exceeding five years from the date of trade settlement.
2. Federal Agency debentures, federal agency mortgage-backed securities, and mortgage-backed securities ~~issued by the Government National Mortgage Association (GNMA) with~~ a final maturity not exceeding five years from the date of trade settlement.
3. Federal Instrumentality (government sponsored enterprise) debentures, discount notes, callable securities, step-up securities, and mortgage-backed securities ~~issued by Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)~~ with a final maturity not exceeding five years from the date of trade settlement. Subordinated debt may not be purchased.

4. Medium-Term Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium-term notes shall have a final maturity not exceeding five years from the date of trade settlement and shall be rated at least "A" or the equivalent by a nationally recognized statistical ratings organization (NRSRO), at the time of purchase.
5. Negotiable Certificates of Deposit with a maturity not exceeding five years from the date of trade settlement, in state or nationally chartered banks or savings banks that are insured by the FDIC, subject to the limitations of California Government Code Section 53638. Certificates of Deposits may be purchased only from financial institutions that meet the credit criteria set forth in the section of this Investment Policy, "Selection of Banks and Savings Banks." Depending on their maturity, Negotiable Certificates of Deposit shall have a short-term rating of at least A-1+ or the equivalent by a NRSRO at the time of purchase.
6. Non-negotiable Certificates of Deposit and savings deposits with a maturity not exceeding five years from the date of trade settlement, in FDIC insured state or nationally chartered banks or savings banks that qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5. Deposits exceeding the FDIC insured amount shall be secured pursuant to California Government Code Section 53652.
7. Municipal and State Obligations:
 - A. Municipal bonds with a final maturity not exceeding five years from the date of trade settlement. Such bonds include registered treasury notes or bonds of any of the 50 United States and bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the states. Such obligations must be rated at least "A", or the equivalent, by a NRSRO at the time of purchase.
 - B. In addition, bonds, notes, warrants, or other evidences of indebtedness of any local agency in California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Such obligations must be rated at least "A", or the equivalent, by a NRSRO at the time of purchase.
8. Prime Commercial Paper with a maturity not exceeding 270 days from the date of trade settlement with the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph A. or sub-paragraph B. below:
 - A. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of \$500 million, and (3)

have debt other than commercial paper, if any, that is rated at least "A" or the equivalent or higher by a NRSRO.

B. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program-wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond, and (3) have commercial paper that is rated at least "A-1" or the equivalent or higher by a NRSRO.

9. Eligible Banker's Acceptances with a maturity not exceeding 180 days from the date of trade settlement, issued by a national bank with combined capital and surplus of at least \$250 million, whose deposits are insured by the FDIC, and whose senior long-term debt is rated at least "A" or the equivalent by a NRSRO at the time of purchase.
10. Repurchase Agreements with a final termination date not exceeding 30 days collateralized by the U.S. Treasury obligations, Federal Agency securities, or Federal Instrumentality securities listed in items #1 through #3 above, with the maturity of the collateral not exceeding five years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the City's approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the funds borrowed. Collateral shall be held in the City's custodian bank, as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.

Repurchase Agreements shall be entered into only with banks and with broker/dealers who are recognized as Primary Dealers with the Federal Reserve Bank of New York, or with firms that have a primary dealer within their holding company structure. Repurchase agreement counterparties shall execute a City approved Master Repurchase Agreement with the City. The CFO shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of the banks and broker/dealers who have executed same.

11. State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1.
12. Money Market Funds registered under the Investment Company Act of 1940 which (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) have a constant daily net asset value per share of \$1.00; (3) invest only in the securities and obligations authorized in this Policy and (4) have a rating of at least "AAA" or the equivalent by at least two NRSROs.

Securities that have been downgraded to a level that is below the minimum ratings described herein may be sold or held at the City's discretion. The portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

It is the intent of the City that the foregoing list of authorized securities and transactions be strictly interpreted. Any deviation from this list must be preapproved by resolution of the City Council.

INVESTMENT DIVERSIFICATION

The City shall diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Nevertheless, the asset allocation in the investment portfolio should be flexible depending upon the outlook for the economy, the securities markets, and the City's anticipated cash flow needs.

Securities shall not exceed the following maximum limits as a percentage of the total portfolio:

Type of Security	Maximum Percentage of the Total Portfolio
U.S. Treasury Obligations	100%
Federal Agency Securities†	100%†
Federal Instrumentality Securities†	100%†
Repurchase Agreements	100%
Local Government Investment Pools	100%
Aggregate amount of Certificates of Deposit, Negotiable and Non-Negotiable*	25%
Aggregate amount of Prime Commercial Paper*	25%
Aggregate amount of Money Market Funds*	20%
Aggregate amount of Municipal Bonds*	30%
Aggregate amount of Eligible Banker's Acceptances*	15%
Aggregate amount of Medium-Term Notes*	30%

† No more than 20% of the City's total portfolio shall be invested in GNMA, FNMA, or FHLMC mortgage-backed securities.

*No more than 5% of the City's total portfolio shall be invested in any one issuer/financial institution and/or its affiliates.

PORTFOLIO MATURITIES AND LIQUIDITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The City will not invest in securities maturing more than five years from the date of trade settlement unless the Council has, by resolution, granted authority to make such an investment at least three months prior to the date of

investment. The sole maturity distribution range shall be from zero to five years from the date of trade settlement.

SELECTION OF BROKER/DEALERS

The CFO shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the City to purchase securities only from those authorized firms. To be eligible, a firm must be recognized as a Primary Dealer by the Federal Reserve Bank of New York, or have a primary dealer within its holding company structure and must be licensed by the State of California as a broker/dealer as defined in Section 25004 of the California Corporations Code.

Each authorized broker/dealer shall be required to submit and annually update a City approved Broker/Dealer Information Request form which includes the firm's most recent financial statements. The CFO shall maintain a list of the broker/dealers that have been approved by the City, along with each firm's most recent broker/dealer Information Request form.

The City may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item 8 of the Authorized Securities and Transactions section of this Policy.

COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the City is offered a security for which there is no other readily available competitive offering, then the CFO will document quotations for comparable or alternative securities.

SELECTION OF BANKS AND SAVINGS BANKS

The CFO shall maintain a list of authorized banks and savings banks that are approved to provide banking services for the City. To be eligible to provide banking services, a financial institution shall qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5 and must be a member of the FDIC. The City shall utilize Thomson Reuters Bank Insight ratings to perform credit analyses on banks seeking authorization. The analysis shall include a composite rating and individual ratings of liquidity, asset quality, profitability and capital adequacy. Annually, the CFO shall review the most recent credit rating analysis reports performed for each approved bank. Banks that in the judgment of the CFO no longer offer adequate safety to the City shall be removed from the City's list of authorized banks. Banks failing to meet the criteria outlined above, or

in the judgment of the CFO no longer offer adequate safety to the City, will be removed from the list. The CFO shall maintain a file of the most recent credit rating analysis reports performed for each approved bank. Credit analysis shall be performed on a semi-annual basis.

SAFEKEEPING AND CUSTODY

The CFO shall select one or more financial institutions to provide safekeeping and custodial services for the City, in accordance with the provisions of Section 53608 of the California Government Code. Custodian banks will be selected on the basis of their ability to provide services for the City's account and the competitive pricing of their safekeeping related services. The CFO shall maintain a file of the credit rating analysis reports performed semi-annually for each approved financial institution. A Safekeeping Agreement approved by the City shall be executed with each custodian bank prior to utilizing that bank's safekeeping services.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. All securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities purchased by the City will be delivered by book entry and will be held in third-party safekeeping by a City approved custodian bank or its Depository Trust Company (DTC) participant account.

PORTFOLIO PERFORMANCE

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the City's investments shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's actual weighted average effective maturity. When comparing the performance of the City's portfolio, its rate of return will be computed net of all fees and expenses.

PORTFOLIO REVIEW AND REPORTING

Credit criteria and maximum percentages listed in this section refer to the credit of the issuing organization and/or maturity at the time the security is purchased. The City may, from time to time, be invested in a security whose rating is downgraded below the minimum ratings set forth in this Policy. In the event a rating drops below the minimum allowed rating category for that given investment type, the Finance Director shall notify the City Manager

and/or Designee and recommend a plan of action. Appropriate documentation of such a review, along with the recommended action and final decision shall be retained for audit.

Quarterly, the CFO shall submit to the Council a report of the investment earnings and performance results of the City's investment portfolio. The report shall include the following information:

1. Investment type, issuer, date of maturity, par value and dollar amount invested in all securities, and investments and monies held by the City;
2. A description of the funds, investments and programs;
3. A market value as of the date of the report (or the most recent valuation as to assets not valued monthly) and the source of the valuation;
4. A statement of compliance with this Investment Policy or an explanation for not-compliance; and
5. A statement of the ability to meet expenditure requirements for six months, as well as an explanation of why money will not be available if that is the case.

POLICY REVIEW

This Investment Policy shall be adopted by resolution of the City Council annually. It shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield and diversification and its relevance to current law and economic trends. Any amendments to the Policy shall be reviewed by the City's Finance/Audit Committee prior to being forwarded to the City Council for approval.

City of Menlo Park

City Council Policy

Department City Council	Page 1 of 4	Effective Date June 8, 2011
Subject Fund Balance for the General Fund	Approved by Motion of the Council on June 7, 2011	Procedure # CC-11-0002

Purpose:

A fund balance policy helps ensure that the City can:

- Quickly respond to unexpected situations such as natural disasters.
- Weather economic recessions and other cyclical revenue downturns while avoiding large variations in taxes and fees or variations in the type and quality of municipal services provided.
- Avoid the need for short-term borrowing to cover delays in revenue receipt.
- Pursue strategic and opportunistic projects or activities.

This policy establishes the amounts the City of Menlo Park will strive to maintain in its fund balance, how the fund balance will be funded, and the conditions under which fund balance may be spent.

Background:

The City of Menlo Park has always maintained a high level of General Fund reserves, which has contributed to good standings with credit rating agencies; provided financial flexibility in economic downturns; contributed a source of investment income for General Fund operations; and assured financial coverage in the event of future emergencies.

Policy:

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the City against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Finance Director to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The policy will be reviewed annual by the Council for revisions as appropriate.

Procedures:

Fund balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five separate components of fund balance, each of which identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts can be spent.

- Nonspendable fund balance (inherently nonspendable)
- Restricted fund balance (externally enforceable limitation on use)
- Committed fund balance (self-imposed limitations on use)
- Assigned fund balance (limitation resulting from intended use)
- Unassigned fund balance (residual net resources)

The first two components listed above are not addressed in this policy due to the nature of their restrictions. An example of nonspendable fund balance is inventory. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulations of other governments. This policy is focused on financial reporting of unrestricted fund balance, or the last three components listed above. These three components are further defined below.

City of Menlo Park

City Council Policy

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Subject Fund Balance for the General Fund	Approved by Motion of the Council on	Procedure # CC-11-0002

Committed Fund Balance –

The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting period; however the amount can be determined subsequently.

General Fund Emergency Contingency

The City of Menlo Park's General Fund balance committed for emergency contingencies is established at \$6,000,000. The City Council may wish to increase or decrease this amount, with the goal of providing an amount equivalent to 15-20 percent of the City's annual operating budget for the General Fund. This range should be sufficient to allow for a quick and decisive municipal response to events such as natural disasters, catastrophic accidents, or other declared emergency incidents. As defined in the resolution establishing this commitment, the specific uses are listed as the declaration of a state or federal state of emergency or a local emergency as defined in the Menlo Park Municipal Code Section 2.44.010. The City Council may, by the affirming vote of three members, change the amount of this commitment and/or the specific uses of these monies.

Economic Stabilization

The City of Menlo Park's General Fund balance committed for the purpose of stabilizing the delivery of City services during periods of severe operational budget deficits and to mitigate the effects of major economic uncertainties resulting from unforeseen change in revenues and/or expenditures is established at \$8,000,000. The City Council may wish to increase or decrease this amount, with the goal of providing an amount equivalent to 20-25 percent of the City's annual operating budget for the General Fund. This range serves as a sufficient cushion, safeguarding the City's fiscal health against fluctuations in revenues and costs due to economic volatility. City Council approval shall be required before expending any portion of this committed fund balance. Access to these funds will be reserved for economic emergency situations. Examples of such emergencies include, but are not limited to:

- An unplanned, major event such as a catastrophic disaster requiring expenditures which exceed the General Fund Emergency Contingency Reserve
- Budgeted revenue taken over by another entity
- Drop in projected/actual revenue of more than five percent of the General Fund's adopted revenue budget

Strategic Pension Funding Reserve

The City of Menlo Park participates in the California Public Employees Retirement System (CalPERS), which provides members with a defined-benefit pension based on years of service. CalPERS is funded by a combination of investment earnings on the CalPERS portfolio, contributions by employees, and contributions by employers (the City). Contribution rates for employers are variable and change annually based on a number of factors, including investment returns, benefits changes, and changes to actuarial assumptions. To mitigate the operational impact of employer

contribution rate volatility, as well as to set aside funding for strategic opportunities to reduce the City's pension liability, \$1 million of the General Fund's previously unassigned reserve was committed by Council action on January 14, 2014, to establishing the Strategic Pension Funding Reserve. Subsequent to January 14, 2014, 25% of the General Fund's final operating surplus, should there be one, will be added annually to the Strategic Pension Fund Reserve upon completion of the City's Comprehensive Annual Financial Report. City Council approval shall be required before expending any portion of this committed fund balance. Examples of the types of situations in which funds would be expended from the Strategic Pension Fund Reserve include, but are not limited to:

- To mitigate the impact of a significant year-over-year increase in employer contribution rates due to actions outside of the City's control, such as poor investment returns in the CalPERS portfolio and/or changes to actuarial assumptions.
- To take advantage of opportunities to make non-recurring payments to CalPERS that will reduce the City's pension liabilities, such as paying down or paying off a side fund or other unfunded liability.

Assigned Fund Balance –

Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the City Manager for the purpose of reporting these amounts in the annual financial statements. A few examples of assigned fund balance follow.

City of Menlo Park		City Council Policy
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Subject Fund Balance for the General Fund	Approved by Motion of the Council on	Procedure # CC-11-0002

- Encumbrances – materials and services on purchase order and contracts which are unperformed
- Reappropriations – appropriated by the Council for specific projects or programs that were not completed and not encumbered by year end
- GASB 31 Adjustment – unrealized investment gains that have been recorded in the financial statements in accordance with GASB 31
- Infrastructure Maintenance Projects – amounts to be transferred to the General CIP Fund for such projects in the subsequent fiscal year adopted budget
- Comprehensive Planning Projects – amounts needed to fully fund such projects as outlined in the 5-Year Capital Improvement Plan for the subsequent fiscal year

Unassigned Fund Balance –

These are residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four categories.

Amounts held in reserve:

The total goal range for the City's unrestricted fund balance (includes Commitments and Assignments of fund balance) is 43% to 55% of General Fund expenditures.

From time-to-time, the Council may find it prudent to set aside funds for an existing need, priority or investment in the community. Amounts in excess of the established target levels may be shown as additional commitments or assignments of the General Fund balance. Such assignments will be reviewed with each

fiscal year operating budget to determine if the funding is still necessary or can be released to the General Fund reserves.

Funding of General Fund balance targets:

Funding of General Fund balance targets will come generally from one-time revenues, one-time expenditure savings, excess fund balance (e.g., unused or reversed assignment or commitments), and revenues in excess of projected expenditures.

Conditions for use and replenishment of reserves:

Use of Reserves

It is the intent of the City to limit use of General Fund balances to address unanticipated, one-time needs or opportunities. Fund balances shall not be applied to recurring annual operating expenditures. Reserves will be used to the extent annual expenditures exceed revenues as reported in the City's annual audited financial statements (an operating deficit). Reserves may also be used to allow for an investment in the City's long-term assets as approved by the City Council.

Authority to Use Reserves

The City Manager may authorize use of reserves consistent with the purposes described above, including amounts authorized in the fiscal period's budget.

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Replenishment of Reserves

Reserves will be replenished to the extent annual revenues exceed expenditures as reported in the City's annual audited financial statements (an operating surplus). Revenues in excess of expenditures at the end of a fiscal year shall be used to first satisfy committed contingency requirements before appropriating for other uses.

Flow of funds:

Restricted fund balances will be expended before unrestricted fund balances when expenditures are incurred for purposes for which both are available. Unrestricted fund balances will be exhausted in the order of assigned, unassigned, and committed when expenditures are incurred for which any of these fund balances are available.



July 9, 2014

To: Finance and Audit Committee
From: Drew Corbett, Finance Director *Drew Corbett*
Subject: **General Fund Financial Indicator Dashboard**

On the agenda for the July 17th Finance and Audit Committee meeting is a discussion of a draft General Fund financial indicator dashboard. The intent is for the dashboard to be updated and published on a monthly basis, and then supplemented with a more detailed financial report to Council on a quarterly basis.

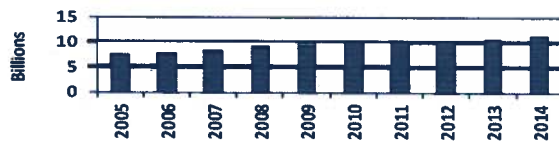
The document provided with this memo contains the proposed content for the indicator dashboard that we will discuss at the meeting. Please note that the content of this draft document is neither current nor accurate. The revenue and expenditure indicators and notes are to illustrate the intended presentation of the information but are not an indicator of the City's current financial position.

General Fund Financials Dashboard - Through MM/DD/YY

Revenues	Current Budget	Actual Through MM/DD	Analysis
Property Tax	\$14.7	\$9.2	
Sales Tax	\$6.1	\$4.4	
Transient Occupancy Tax	\$4.1	\$2.1	
Utility and Franchise Fees	\$2.9	\$1.5	
Charges for Services	\$7.6	\$5.7	
Licenses and Permits	\$6.6	\$5.0	
Interest and Rental Income	\$0.63	\$0.64	
Intergovernmental Revenue	\$0.84	\$0.63	
Fines and Forfeitures	\$1.1	\$0.8	
Operating Transfers In/ Other Revenue	\$1.2	\$1.1	
Total Revenue	\$45.9	\$31.0	

Focus On: Property Tax

Property Tax is the General Fund's largest revenue source, making up 32% of total revenue. The General Fund receives approximately 12% of the 1% secured tax assessment on secured property tax. Below is a chart showing the assessed value of real property over the last 10 years.



Fiscal Year Ended June 30,

Meeting or Exceeding Expectations	
Slightly Below Expectations	
At Risk	

All values in millions

Expenditures	Current Budget	Actual Through MM/DD	Analysis
Police	\$15.1	\$10.5	
Public Works	\$5.6	\$3.7	
Community Services	\$7.4	\$5.1	
Library	\$2.1	\$1.5	
Community Development	\$4.6	\$2.1	
City Attorney	\$0.4	\$0.3	
City Manager's Office	\$2.3	\$1.1	
Council	\$1.6	\$0.7	
Finance	\$1.6	\$1.0	
Human Resources	\$1.0	\$0.5	
Operating Transfers Out	\$2.6	\$1.9	
Total Expenditures	\$44.3	\$28.5	

Revenue and Expenditure Notes

Revenues: Sales Tax is trending below last fiscal year but is not a major concern at this time. Utility Users' Tax is down slightly in comparison to last fiscal year at this time due to lower than expected revenues in the telecommunications category. This will continue to be monitored and the projection adjusted in the future if warranted. Intergovernmental revenues are well below expectations due to the loss of a State grant. This loss will be offset by a corresponding reduction in expenditures.

Expenditures: Community Development and City Attorney expenditures are currently tracking to exceed budgeted amounts due to high activity in both areas. Based on year-to-date expenditures, staff will need to return to Council to amend the budgets for both of these departments. Expenditures for the Library and Community Services are slightly above expectations, but that is predominantly due to seasonality, and both departments are expected to remain within budget this fiscal year.



Commission Work Plan Guidelines

- Step 1** Review purpose of Commission as defined by Menlo Park Council Policy CC-01-0004.
- Step 2** Develop a mission statement that reflects that purpose.
- Step 3** Discuss and outline any priorities established by Council.
- Step 4** Brainstorm goals, projects, or priorities of the Commission and determine the following:
- A. Identify priorities, goals, projects, ideas, etc.
 - B. Determine benefit, if project or item is completed
 - C. Is it mandated by State or local law or by Council direction?
 - D. Would the task or item require a policy change at Council level?
 - E. Resources needed for completion? (Support staff, creation of subcommittees, etc.)
 - F. Completion time? (1-year, 2-year, or longer term?)
 - G. Measurement criteria? (How will you know you are on track? Is it effective?, etc.)
- Step 5** Prioritize projects from urgent to low priority.
- Step 6** Prepare final Work Plan for submission to Council for review and approval in the following order:
- Work Plan cover sheet, Listing of Members, Priority List, Work Plan Worksheet – Steps 1 through 8
- Step 7** Use your “approved” work plan throughout the term of the plan as a guide to focus in on the work at hand
- Step 8** Report out on work plan priorities to the City Council, which should include:
- A. List of “approved” priorities or goals
 - B. Status of each item, including any additional resources required in order to complete
 - C. If an item that was on the list is not finished, then indicate why it didn’t occur and list out any additional time and/or resources that will be needed in order to complete



Mission Statement

The mission of the Finance & Audit Committee is to facilitate public confidence through periodic financial reporting to Council and the public and enhance understanding of the City's financial reports.

**Finance & Audit Committee Cover
Sheet Work Plan for 2014-2015**



**Finance & Audit Committee
2014-2015**

Committee Members Listing

Catherine Carlton

Anne Craib

Les Denend

Ray Mueller

Laura J Phelps



Finance & Audit Committee Priority List

The **Finance & Audit Committee** has identified the following priorities to focus on during 2014-2015:

1.	
2.	
3.	
4.	
5.	



Commission Work Plan Guidelines Work Plan Worksheet

Step 1

Review purpose of Commission as defined by Menlo Park Council Policy 3-13-01	To support delivery of timely, clear and comprehensive reporting of the City's fiscal status to the community at large. Annually review status of financial audit and annual financial report with the City's external auditors; review resolution of prior year audit findings. Review of auditor selection process and scope, as needed. Also assist in annual review of the City's Investment Policy.
--	--

Step 2

Develop or review a Mission Statement that reflects that purpose <i>Who we are, what we do, who we do it for, and why we do it</i>	The mission of the Finance/Audit Committee is to facilitate public confidence through periodic financial reporting to Council and to enhance public understanding of the City's financial reports.
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Step 3

Discuss any priorities already established by Council	
---	--

Step 4

Brainstorm goals, projects or priorities of the Commission	Benefit, if completed	Mandated by State/local law or by Council direction?	Required policy change at Council level?	Resources needed for completion? Staff or creation of subcommittees?	Estimated Completion Time	Measurement criteria How will we know how we are doing?
		Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>			
		Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>			

Step 5

List identified Goals, Priorities and/or Tasks for the Commission	Prioritize Tasks by their significance			
	1 Urgent	2 1-year	3 2-year	4 Long Term

Step 6

Prepare final work plan for submission to the City Council for review, possible direction and approval and attach the Worksheets used to determine priorities, resources and time lines.

Step 7

Once approved, use this plan as a tool to help guide you in your work as an advisory body.

Step 8

Report out on status of items completed. Provide any information needed regarding additional resources needed or And to indicate items that will need additional time in order to complete.

Budget Message

Budget Principles and City Council Goals

The development of the proposed budget was guided by the City Council's adopted budget principles. These principles, which were first introduced for fiscal year 2013–14, were further refined by this City Council in January 2014:

1. Invest in baseline City services.
2. Invest in programs, services, and capital to promote long-term prosperity.
3. Look for opportunities to leverage existing resources and consolidate services within and across government agencies.
4. Move toward recovering the full cost of any fee-based service except where the City Council sees a clear public interest in providing a subsidy.
5. Seek operational efficiencies and revenue enhancement opportunities.
6. Invest in employee performance and/or production.
7. Maintain existing infrastructure and invest in proven technologies to support the organization.
8. Invest in the implementation of the City Council's adopted plans and strategies.
9. Evaluate one-time revenues for highest and best investment and/or use.
10. Align and adjust the work program with staff capacity.
11. Develop a budget format that is more useful for public consumption and internal control.

Using this guidance and benefitting from an economy that continues to improve and drive revenue increases, the fiscal year 2014–15 Proposed Budget accomplishes a number of things. First, service levels have been maintained, and in some cases slightly enhanced. Secondly, all of the City Council's priorities, which were established at its goal-setting meeting in January, have been recommended for funding in fiscal year 2014–15. These goals include:

- Continue to work on the General Plan Update.
- Enhance economic development efforts.
- Process and/or complete major development projects such as Facebook, Stanford, Greenheart, Bohannon.
- Explore modifying parking in the downtown.
- Evaluate the City's water policy, including sources, uses, and conservation.
- Enhance citywide public safety, including the Belle Haven neighborhood.
- Improve traffic flow on El Camino Real.
- Improve public communications.
- Strengthen internal administrative systems.
- Conduct more community events.
- Maintain positive employee-employer relations.
- Explore shared services with other agencies.
- Make gains in our climate action plan, reducing greenhouse gas emissions.

And finally, the fiscal year 2014–15 Proposed Budget incorporates either currently effective or assumed compensation increases, including increases to the City's pension contribution rates, for all represented and non-represented employees.

Personnel

Menlo Park is a service organization that relies on a professional and skilled workforce to provide the services



3/5/13

Commission Work Plan Guidelines

- Step 1** Review purpose of Commission as defined by Menlo Park Council Policy CC-01-0004.
- Step 2** Develop a mission statement that reflects that purpose.
- Step 3** Discuss and outline any priorities established by Council.
- Step 4** Brainstorm goals, projects, or priorities of the Commission and determine the following:
- A. Identify priorities, goals, projects, ideas, etc.
 - B. Determine benefit, if project or item is completed
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Mission Statement

The mission of the Finance & Audit Committee is to facilitate public confidence through periodic financial reporting to Council and the public and enhance understanding of the City's financial reports.

Finance & Audit Committee Cover Sheet
Work Plan for 2010-2011



**Finance & Audit Committee
2010-2011**

Committee Members Listing

Jeffrey Child

Richard Cline

Honor Huntington

Peter Ohtaki

Stuart Soffer



Finance & Audit Committee Priority List

The **Finance & Audit Committee** has identified the following priorities to focus on during 2010-2011:

1.	Develop three-year Financial Plans for all major funds including scenario analysis for iteration and review, in order to provide a tool for financial planning and decision making and to inform the future development of a Reserve Policy for the City.
2.	Continue existing work including the quarterly review of general fund financial reports and investment activity.
3.	
4.	
5.	



Commission Work Plan Guidelines Work Plan Worksheet

Step 1

Review purpose of Commission as defined by Menlo Park Council Policy 3-13-01	To support delivery of timely, clear and comprehensive reporting of the City's fiscal status to the community at large. Annually review status of financial audit and annual financial report with the City's external auditors; review resolution of prior year audit findings. Review of auditor selection process and scope, as needed. Also assist in annual review of the City's Investment Policy.
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Step 2

Develop or review a Mission Statement that reflects that purpose <i>Who we are, what we do, who we do it for, and why we do it</i>	The mission of the Finance/Audit Committee is to facilitate public confidence through periodic financial reporting to Council and to enhance public understanding of the City's financial reports.
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Step 3

Discuss any priorities already established by Council	Council Goal 1: A vibrant and resilient economy supporting a sustainable budget. Ensure transparent and timely reporting.
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Step 4

Brainstorm goals, projects or priorities of the Commission	Benefit, if completed	Mandated by State/local law or by Council direction?	Required policy change at Council level?	Resources needed for completion? Staff or creation of subcommittees?	Estimated Completion Time	Measurement criteria How will we know how we are doing?
Develop three-year Financial Plans for all major funds including scenario analysis for iteration and review, in order to provide a tool for financial planning and decision making and to inform the future development of a Reserve Policy for the City	Improved multi-year forecasting to help budget decisions and to help support other financial decisions.	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> This is a policy change for the Council from the existing 10-year projection that is prepared.	<ul style="list-style-type: none"> The Committee anticipates using historical financial information to help project future years. The breadth of staff time and Committee time will be determined as they work on the projections, which are anticipated to include both revenues and expenditures. 	14 months	<ul style="list-style-type: none"> Anticipated steps: Education on the purpose and financial flow of each fund and the interaction with other funds especially the General Fund. Using 2 or 3 "simple" funds establish the informational needs, and approach for projecting future years. Once a system is developed, apply to additional funds, eventually expanding to all funds. Report on status at each meeting.
		Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>			

Step 5

List identified Goals, Priorities and/or Tasks for the Commission	Prioritize Tasks by their significance			
	1 Urgent	2 1-year	3 2-year	4 Long Term
Develop three-year Financial Plans for all major funds including scenario analysis for iteration and review, in order to provide a tool for financial planning and decision making and to inform the future development of a Reserve Policy for the City.		X		
Continue existing work including the quarterly review of general fund financial reports and investment activity.		This goal is on-going		

Step 6

Prepare final work plan for submission to the City Council for review, possible direction and approval and attach the Worksheets used to determine priorities, resources and time lines.

Step 7

Once approved, use this plan as a tool to help guide you in your work as an advisory body.

Step 8

Report out on status of items completed. Provide any information needed regarding additional resources needed or And to indicate items that will need additional time in order to complete.



FINANCE/AUDIT COMMITTEE SPECIAL MEETING MINUTES

Thursday, May 29, 2014 2:00 pm
Administrative Conference Room, Second Floor
701 Laurel Street, Menlo Park, CA 94025

CALL TO ORDER S. Green called meeting to order at 2:10 PM

ROLL CALL- Catherine Carlton, Anne Craib, Les Denend, Laura J Phelps
Catherine Carlton left the meeting at 2:43

ABSENT- Ray Mueller

CITY STAFF- Drew Corbett, Stephen Green
ABSENT - Starla Jerome-Robinson

A. PUBLIC COMMENT - None

B. BUSINESS ITEMS

B1. Introduction of new Finance/Audit Committee Members

B2. Discussion of the Finance/Audit Committee roles and responsibilities ([Attachment](#))

B4. Selection of a Chair and Vice-Chair

NOTE: - This Item was taken out of order

ACTION: Committee member Phelps nominated Craib. There being no other nominations, by acclamation, Anne Craib is declared Chair through May 1, 2015.

There being no other nominations, by acclamation, Laura J Phelps is declared Vice Chair through May 1, 2015.

B5. Discuss and approve future meetings for calendar year 2014 ([Attachment](#))

NOTE: - This Item was taken out of order

ACTION: Committee agreed to meeting dates for the 2014 calendar year.

B3. Discussion of the City's financial position ([Attachment](#))

Staff answered committee members' questions regarding City's financial position

C. ADJOURNMENT - 3:45

Prepared By: Stephen Green, Financial Analyst