



## SPECIAL MEETING AGENDA

**Date:** 7/31/2018

**Time:** 9:00 a.m.

**City Hall – “Belle Haven” Conference Room, 2nd Fl  
701 Laurel St., Menlo Park, CA 94025**

**A. Call To Order**

**B. Roll Call**

**C. Public Comment**

Under “Public Comment,” the public may address the Committee on any subject not listed on the agenda. Each speaker may address the Committee 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 Committee cannot act on items not listed on the agenda and, therefore, the Committee cannot respond to non-agenda issues brought up under Public Comment other than to provide general information.

**D. Regular Business**

D1. Approve the May 30, 2018, Finance and Audit Committee special meeting minutes ([Attachment](#))

D2. Review the Finance and Audit Committee goals and milestones work plan ([Attachment](#))

D3. Review the City's investment policy ([Attachment](#))

D4. Review the City's debt policy ([Attachment](#))

D5. Modify the Finance and Audit Committee regular meeting calendar dates ([Attachment](#))

**E. Director's Report**

**F. Adjournment**

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

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

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## SPECIAL MEETING MINUTES - DRAFT

**Date:** 5/30/2018

**Time:** 11:00 p.m.

**City Hall – “Sharon Heights” Conference Room, 2nd Fl  
701 Laurel St., Menlo Park, CA 94025**

**A.** Mayor Ohtaki called the meeting to order at 11:10 a.m.

**B. Roll Call**

**Present:** Ohtaki, Shepherd, Tronson

**Absent:** Mueller, Royce

**Staff:** Nick Pegueros, Administrative Services Director  
Dan Jacobson, Finance and Budget Manager  
Brandon Cortez, Management Analyst I

**C. Public Comment**

- Lynne Bramlett recommended changes to the City's budget document.
- Pamela Jones sought clarification on the City's unassigned fund balance.

**D. Regular Business**

**D1.** Selection of a new Finance and Audit Committee Chair and Co-Chair

Committee member Ron Shepherd was nominated for Finance and Audit Committee Chair, and member Soody Tronson was nominated for Co-Chair.

**ACTION:** Motion and second (Ohtaki/Tronson) to approve Shepherd's nomination for Chair at the May 30, 2018, Finance and Audit Committee Special Meeting passed 2-0-2 (Shepherd abstains, Mueller and Royce absent).

**ACTION:** Motion and second (Shepherd/Ohtaki) to approve Tronson's nomination for Co-Chair at the May 30, 2018, Finance and Audit Committee Special Meeting passed 2-0-2 (Tronson abstains, Mueller and Royce absent).

**D2.** Approve the January 26, 2018, Finance and Audit Committee Special Meeting minutes.

**ACTION:** Motion and second (Tronson/Ohtaki) to approve minutes for the April, 20, 2018, Finance and Audit Committee Special Meeting, passed 3-0-2 (Mueller and Royce absent).

**D3.** 10-Year Forecast

Review of the methodology used to create the 10-Year Forecast model that is embedded in the budget document being presented to City Council. The Finance and Audit Committee would like to make it very clear that these results are just estimations based off historical knowledge and future assumptions, they are not to be taken as fact.

**ACTION:** Motion and second (Ohtaki/Shepherd) to approve the 10-Year Forecast model for the May 30, 2018, Finance and Audit Committee Special Meeting passed 3-0-2 (Mueller and Royce absent).

**E. Director's Report**

Administrative Services Director Nick Pegueros updated the committee on a number of topics:

- The budget document is moving along well, don't anticipate any numerical changes in the document before it goes to council for the June 5, 2018 meeting.
- The City has received its GFOA award for the CAFR ending June 30, 2017.
- Recruitment is underway for the three vacancies in finance, with one offer being extended, and two candidates going through reference checks.
- Long-time city employee John McGirr is retiring in November. City Council policy allows the ability to have a temporary over-hire to train and pass along institutional knowledge.

**F. Adjournment**

Chair Shepherd adjourned the meeting at 12:13 p.m.

# Finance and Audit Committee

Administrative Services Department  
701 Laurel St., Menlo Park, CA 94025  
tel 650-330-6640  
[menlopark.org/319/Finance-and-Audit-Committee](http://menlopark.org/319/Finance-and-Audit-Committee)



## WORK PLAN 2018-20

Mission Statement	
To facilitate an environment that focuses on accurate, efficient, and transparent financial reporting in an easy to understand format.	
Committee Members Listing and Term Expirations	
Ron Shepherd (Chair)	April 30, 2019
Soody Tronson (Vice Chair)	April 30, 2020
Roger Royse	April 30, 2020
Peter Ohtaki	Set by City Council
Ray Mueller	Set by City Council
Committee Priorities	
The City Council has identified the following priorities for the Committee:	
<ol style="list-style-type: none"><li>Annual review of the City's CAFR<ul style="list-style-type: none"><li>Activities:<ul style="list-style-type: none"><li>Committee review of the audited financial statements.</li><li>Meet with the auditor and recommend action by the City Council.</li></ul></li></ul></li><li>Annual Review of the City's investment policy<ul style="list-style-type: none"><li>Review changes to the City's investment policy and portfolio</li></ul></li></ol>	
Work Plan Worksheet	
Step 1 - Review purpose of Committee as defined by Menlo Park Council Policy CC-01-0004	
The Finance & Audit Committee is charged primarily to support delivery of timely, clear and comprehensive reporting of the City's fiscal status to the community at large. Specific focus areas include: <ul style="list-style-type: none"><li>Review the process for periodic financial reporting to the City Council and the public, as needed</li><li>Review financial audit and annual financial report with the City's external auditors</li></ul>	

- Review of the resolution of prior year audit findings
- Review of the auditor selection process and scope, as needed

### Step 2 - Develop or review a Mission Statement that reflects that purpose (*Who we are, what we do, who we do it for, and why we do it*)

To facilitate an environment that focuses on accurate, efficient, and transparent financial reporting in an easy to understand format.

### Step 3 - Discuss any priorities already established by Council

- Annual City audit and CAFR review
- Annual review of the City's investment policy

### Step 4 - Brainstorm goals, projects or priorities of the Committee

<u>Brainstorm goals, projects or priorities of the Committee</u>	<u>Benefit, if completed</u>	<u>Mandated?</u> <u>by State/local</u> <u>law or by</u> <u>Council</u> <u>direction</u>	<u>Policy</u> <u>change?</u> <u>At Council</u> <u>level</u>	<u>Resources needed for</u> <u>completion</u> <u>Staff or creation of</u> <u>subcommittees</u>	<u>Estimated</u> <u>Completion</u> <u>Time</u>	<u>Measurement Criteria</u> <u>How will we know how we are doing?</u>
Communications	Improve the communication and formatting of City financial information	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Staff time and Committee		
Reestablishment of a Finance Dashboard	Increased transparency with the public regarding the City's	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Staff time and Committee		
Audit Request for Proposal	Transparency in the selection of the City's independent auditor	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Staff time and Committee		
10-Year Forecast	Allow for more robust forecasting with the ability to account for new revenue streams and expenses	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Staff time and Committee		
Pension liabilities review	Ensure that the City is managing its unfunded liability in an appropriate manner	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Staff time and Committee		
Asset replacement fund study	To be financially prepared for replacement and improvements of major infrastructure	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Staff time and Committee		
Community Amenities Fund	Commit to providing new or improved community amenities with funds resulting from recent development activities	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Staff time and Committee		
Purchasing Ordinance and Policy revamp	Updated and streamlined policy to achieve greater organizational efficiency	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Staff time and Committee		

Annual Budget Document	Improve the formatting and presentation of the document to facilitate better understanding by the public	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Staff time and Committee		
		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"/>			
Sale of Assets		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Staff time and Committee		
Review of Utility User's Tax Cap		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Staff time and Committee		
Listing of parcels exempt from property taxes		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Staff time and Committee		
Library financing		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Staff time and Committee		
Developer Agreements		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Staff time and Committee		
		Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>			

**Step 5 - 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 6 - Once approved, use this plan as a tool to help guide you in your work as an advisory body.**

**Step 7 - 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.**

# **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 26<sup>th</sup> of September 2017. 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 Administrative Services Director of serves as the CFO. In the absence of the CFO, the Finance and Budget 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 Administrative Services 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 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 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:

<b>Type of Security</b>	<b>Maximum Percentage of the Total Portfolio</b>
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 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 licensed by the State of California as a broker/dealer as defined in Section 25004 of the California Corporations Code.

The City may engage the services of investment advisory firms to assist in the management of the portfolio and investment advisors may utilize their own list of approved Broker/Dealers. The list of approved firms shall be provided to the City on an annual basis or upon request.

In the event that an external investment advisory firm is not used in the process of recommending a particular transaction, 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, the CFO will then 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 SNL Financial 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 Administrative Services 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 non-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.



## STAFF REPORT

### Finance and Audit Committee

**Meeting Date:** 7/31/2018

**Staff Report Number:** 18-001-FA

**Regular Business:** Recommend City Council Adoption of a Debt Management Policy and Debt Disclosure Policy

### Recommendation

The recommendation is that the Finance and Audit Committee review and recommend City Council adoption of a Debt Management Policy and a Debt Disclosure Policy.

### Policy Issues

The City Council seeks recommendations from the Finance and Audit Committee to help inform their decisions on matters of debt financing.

### Background

The Administrative Services Department is in the process of reviewing existing policies and procedures to ensure compliance with various regulations. As part of the review, it was found that the City does not have a City Council adopted Debt Management Policy as required by Government Code Section 88559(i), effective January 1, 2017, or a Debt Disclosure Policy.

### Analysis

The attached policies have been drafted in compliance with guidance from the California Debt and Investment Advisory Commission (CDIAC) and Government Code Section 888559(i). The City's financial advisor, PFM, has reviewed the policy.

### Impact on City Resources

The policies mandate certain training and reporting requirements that are expected to have a nominal impact on staff capacity in the Administrative Services Department.

### Environmental Review

No environmental review is required for the Committee's discussion.

### Public Notice

Public Notification was achieved by posting the agenda, with the agenda items being listed, at least 24 hours prior to the special meeting.

**Attachments**

- A. Draft Debt Management Policy
- B. Draft Debt Disclosure Policy

Report prepared by:

Nick Pegueros, Administrative Services Director

## CITY COUNCIL POLICY

# DEBT MANAGEMENT POLICY

Policy No. XX-2018-XXXX

Effective September 12, 2018



### Purpose

This Debt Policy is intended to comply with Government Code Section 8855(i), effective on January 1, 2017, and shall govern all debt undertaken by the City of Menlo Park ("Issuer").

The Issuer hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the Issuer's sound financial position.
- Ensure the Issuer has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the Issuer's credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the Issuer.
- Ensure that the Issuer's debt is consistent with the Issuer's planning goals and objectives and capital improvement program or budget, as applicable

Authority for this Council policy is provided by City Council Resolution #XX, adopted on September 11, 2018. The Debt Policy may be amended by the City Council as it deems appropriate from time to time in the prudent management of the debt of the Issuer. Any approval of debt by the City Council that is not consistent with this Debt Policy shall constitute a waiver of this Debt Policy.

### Section I. Purposes for Which Debt May Be Issued

1. Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the Issuer.
  - 1.1. Long-term debt financings are appropriate when the following conditions exist:
    - When the project to be financed is necessary to provide basic services.
    - When the project to be financed will provide benefit to constituents over multiple years.
    - When total debt does not constitute an unreasonable burden to the Issuer and its taxpayers and ratepayers.
    - When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.
  - 1.2. Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.
  - 1.3. The Issuer may use long-term debt financings subject to the following conditions:
    - The project to be financed must be approved by the City Council.
    - The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%.
    - The Issuer estimates that sufficient revenues will be available to service the debt through its maturity.
    - The Issuer determines that the issuance of the debt will comply with the applicable state and federal law.
2. Short-term debt. Short-term debt may be issued to provide financing for the Issuer's operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the Issuer may undertake lease-purchase financing for equipment.
3. Financings on Behalf of Other Entities. The Issuer may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties in order to further the public purposes of Issuer. In such cases, the Issuer shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein.

## DEBT MANAGEMENT POLICY

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Effective September 12, 2018

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### Section II. Types of Debt

For purposes of this Debt Policy, "debt" shall be interpreted broadly to mean bonds, notes, certificates of participation, financing leases, or other financing obligations, but the use of such term in this Debt Policy shall be solely for convenience and shall not be interpreted to characterize any such obligation as an indebtedness or debt within the meaning of any statutory or constitutional debt limitation where the substance and terms of the obligation comport with exceptions thereto.

The following types of debt are allowable under this Debt Policy:

- general obligation bonds
- bond or grant anticipation notes
- lease revenue bonds, certificates of participation and lease-purchase transactions
- other revenue bonds and certificates of participation
- tax and revenue anticipation notes
- land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes
- tax increment financing to the extent permitted under state law
- conduit financings, such as financings for affordable rental housing and qualified 501(c)(3) organizations

The Issuer may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

Debt shall be issued as fixed rate debt unless the Issuer makes a specific determination as to why a variable rate issue would be beneficial to the Issuer in a specific circumstance.

### Section III. Relationship of Debt to Capital Improvement Program and Budget

The Issuer is committed to long-term capital planning. The Issuer intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the Issuer's capital budget and the capital improvement plan.

The Issuer shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. The Issuer shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The Issuer shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the Issuer's public purposes.

The Issuer shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

The Issuer shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

### Section IV. Policy Goals Related to Planning Goals and Objectives

The Issuer is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The Issuer intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the Issuer's annual operations budget.

It is a policy goal of the Issuer to protect taxpayers, ratepayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

## DEBT MANAGEMENT POLICY

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The Issuer will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

When refinancing debt, it shall be the policy goal of the Issuer to realize, whenever possible, and subject to any overriding non-financial policy considerations, (i) minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount, and (ii) present value debt service savings equal to or greater than 100% of any escrow fund negative arbitrage.

### Section V. Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Debt Policy, the Issuer shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

The Issuer will periodically review the requirements of and will remain in compliance with the following:

- any continuing disclosure undertakings under SEC Rule 15(c)(2)-12,
- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and
- the Issuer's investment policies as they relate to the investment of bond proceeds.

It is the policy of the Issuer to ensure that proceeds of debt are spent only on lawful and intended uses. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the Issuer will submit written requisitions for such proceeds. The Issuer will submit a requisition only after obtaining the signature of the Administrative Services Director. In those cases where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the Administrative Services Director shall retain records of all expenditures of proceeds through the final payment date for the debt.

## CITY COUNCIL POLICY

# DEBT MANAGEMENT POLICY

Policy No. XX-2018-XXXX

Effective September 12, 2018



### Purpose

This Disclosure Policy and Procedure (the "Disclosure Procedure") of the City of Menlo Park (the "City") are intended to ensure that the City is in compliance with all applicable federal and state securities laws.

Authority for this Council policy is provided by City Council Resolution #XX, adopted on September 11, 2018.

### Section I. Disclosure Coordinator

The chief financial officer of the City shall be the disclosure coordinator of the City (the "Disclosure Coordinator").

### Section II. Review and Approval of Official Statements

The Disclosure Coordinator of the City shall review any Official Statement prepared in connection with any debt issuance by the City in order to ensure there are no misstatements or omissions of material information in any sections that contain descriptions of information prepared by the City.

In connection with its review of the Official Statement, the Disclosure Coordinator shall consult with third parties, including outside professionals assisting the City, and all members of City staff, to the extent that the Disclosure Coordinator concludes they should be consulted so that the Official Statement will include all "material" information (as defined for purposes of federal securities law).

As part of the review process, the Disclosure Coordinator shall submit all Official Statements to the City Council for approval. The cover letter used by the Disclosure Coordinator to submit the Official Statements shall be in substantially the form of Exhibit A.

The approval of an Official Statement by the City Council shall be docketed as a new business matter and shall not be approved as a consent item. The City Council shall undertake such review as deemed necessary by the City Council, following consultation with the Disclosure Coordinator, to fulfill the City Council's responsibilities under applicable federal and state securities laws. In this regard, the Disclosure Coordinator shall consult with the City's disclosure counsel to the extent the Disclosure Coordinator considers appropriate.

### Section III. Continuing Disclosure Filings

Under the continuing disclosure undertakings that the City has entered into in connection with its debt offerings, the City is required each year to file annual reports with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system in accordance with such undertakings. Such annual reports are required to include certain updated financial and operating information, and the City's audited financial statements.

The City is also required under its continuing disclosure undertakings to file notices of certain events with EMMA.

The Disclosure Coordinator is responsible for establishing a system (which may involve the retention of one or more consultants) by which:

- i. the City will make the annual filings required by its continuing disclosure undertakings on a complete and timely basis, and
- ii. the City will file notices of enumerated events on a timely basis.

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### Section IV. Public Statements Regarding Financial Information

Whenever the City makes statements or releases information relating to its finances to the public that are reasonably expected to reach investors and the trading markets, the City is obligated to ensure that such statements and information are complete, true, and accurate in all material respects.

### Section V. Training

The Disclosure Coordinator shall ensure that the members of the City staff involved in the initial or continuing disclosure process and the City Council are properly trained to understand and perform their responsibilities.

The Disclosure Coordinator shall arrange for disclosure training sessions conducted by the City's disclosure counsel. Such training sessions shall include education on these Disclosure Procedures, the City's disclosure obligations under applicable federal and state securities laws and the disclosure responsibilities and potential liabilities of members of the City's staff and members of the City Council. Such training sessions may be conducted using a recorded presentation.

# CITY COUNCIL AND FINANCE AND AUDIT COMMITTEE MEETING SCHEDULE 2018



## JANUARY

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29*	30	31			

\*Goal setting

## FEBRUARY

S	M	T	W	T	F	S
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## MARCH

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## APRIL

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## MAY

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\*Commissioner training

## JUNE

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## JULY

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## AUGUST

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\*if needed

## SEPTEMBER

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30						

## OCTOBER

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## NOVEMBER

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## DECEMBER

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23	24	25	26	27	28	29
30	31					

City Council meetings

Finance and Audit Committee meetings

City Hall closed