



## Council Agenda Report

**From:** Ryan Cornell, Finance Manager

**Subject:** Fiscal and Debt Policy

**Date:** May 1, 2018

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### Facts

1. The City's Fiscal Policy was originally adopted by City Council on March 19, 2002.
2. On December 6, 2016, City Council approved a change to the Fiscal Policy increasing the General Fund Reserves to 20% of operating expenditures, excluding debt service and operating capital.
3. Senate Bill 1029, amended Government Code Section 8855 and imposes additional reporting requirements on government agencies that issue debt.
4. In compliance with Government Code Section 8855, the City is required to certify on each Report of Proposed Debt Issuance filed that it has adopted a comprehensive written debt management policy concerning the use of the debt and that the proposed debt issue complies with such policy. Furthermore, the City is required to submit a Report of Final Sale to the California Debt and Investment Advisory Commission (CDIAC) as well as annual debt reports to CDIAC.
5. The City currently has standalone fiscal policies including the Investment Policy and the Purchasing Policy and Procedures.
6. The 21<sup>st</sup> Street Reservoir Project is intended to be funded through an issuance of debt and will be required to follow the rules and regulations of Government Code Section 8855.

### Options

1. Do nothing (i.e., continue to be out of compliance with Government Code Section 8855)
2. Approve changes to the Fiscal Policy and the attached Debt Management Policy.
3. Approve a different change in the Fiscal and Debt Management Policy.

### Analysis and Conclusions

The Debt Objectives included in the City's current Fiscal Policy does not meet the minimum requirements to be in compliance with Government Code Section 8855, recently amended by Senate Bill 1029. In order to be in compliance, the City must establish a policy with the following minimum requirements:

1. The purposes for which debt proceeds may be used.
2. The types of debt that may be issued.
3. The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.
4. Policy goals related to the issuer's planning goals and objectives.
5. The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

It is intended that the Debt Management Policy be a standalone policy similar to the Investment and Purchasing Policy and Procedures. The proposed Debt Management Policy meets the requirements stated above as well as incorporates the original Debt Objectives in the current Fiscal Policy. For example, the Debt Management Policy continues to make it clear that debt will not be issued to fund current operations.

In addition to changes made in the Debt Objective sections of the Fiscal Policy, other areas were reviewed. Recommended changes have been made throughout the Fiscal Policy, including:

- Expanding the use of surplus fund balance to allow the prepayment of retirement and post-employment retiree benefits.
- Establishing clear and concise authority and responsibilities of the City Manager, Directors, staff, and City Council as well as allowing for additional flexibility in the timing of financial reporting and presentation to City Council.
- Establishing criteria for capital improvement projects and segregating capital and operating expenses, will enable the City to better analyze and establish consistent fiscal trends over a number of years. Capital projects can more effectively be analyzed based on the project budget, especially when expenditures occur over the course of multiple fiscal years.

### **Fiscal Impact**

By not adopting the debt policy, the City will not be able to secure debt in order to fund its capital infrastructure and improvement needs.

### **Recommendation**

Direct the City Manager to update the Fiscal Policy and establish a standalone Debt Management Policy.

### **Attachments**

1. Fiscal Policy (redlined) with attachments:
2. Investment Policy (no changes being proposed)
3. Purchasing Policy (no changes being proposed)
4. Purchasing and Payment Manual (no changes being proposed)
5. Debt Management Policy (new)

# CITY OF EL PASO DE ROBLES

## FISCAL POLICY

### I. GOAL STATEMENT

El Paso de Robles fiscal policy is established to assure that the City's finances are managed in a manner that will (1) provide for the delivery of quality services and products cost effectively, (2) provide for an acceptable level of services and products as the community grows, (3) ensure that the City is living within its means, and (4) provide reserves for unbudgeted needs that might arise from time to time.

### II. GENERAL OBJECTIVES

1. The City will maintain sound financial practices in accordance with State law, and direct its financial resources toward meeting the City's goals as identified and prioritized by the City Council.
2. The City will develop and maintain financial management programs to assure its long-term ability to pay the costs necessary to provide the services required by its citizens; i.e. two-year budget, four-year and ten-year financial plans.
3. The City will maintain accounting systems in conformance with generally accepted accounting principles as ~~promulgated publicized by the most current issue of National Council on Governmental Accounting Statement 1, the practices and methodologies~~ contained in the Municipal Finance Officers Association's publication "Governmental Accounting, Auditing, and Financial Reporting", and pronouncements issued by the Governmental Accounting Standards Board.
4. The City will maintain a financial records management information system capable of tracking revenues and expenditures by line item, by source, by fund, by department or any other format deemed necessary or desirable.
5. The City will establish and maintain an investment policy in accordance with State laws that stress financial safety and liquidity over yield (Attachment #1).
6. The City will establish and maintain a purchasing policy and procedures (Attachments #2 and #3).
- 6.7. The City will establish and maintain a debt management policy (Attachment #4).

### III. REVENUE OBJECTIVES

1. The City will strive to diversify and stabilize its revenue base, reducing dependency upon any single revenue source.

2. The City will implement the adopted economic development strategic plan and/or economic development element to the General Plan in order to increase and broaden its revenue base.
3. The City will maximize the availability of revenue proceeds through responsible collection and auditing of amounts owed the City.
4. The City will seek Federal and State grants and reimbursements for mandated costs whenever possible.
5. The City will investigate potential new revenue sources, particularly those that will not add to the tax burden of residents or local businesses.
6. General Fund revenues shall be pooled and allocated according to Council goals and established policy. Enterprise funds and other legally restricted sources shall be allocated according to their respective special purpose.
7. The City will establish and maintain a user fee policy (to be developed as attachment #45) that:
  - a. Imposes user fees when appropriate to capture the cost for the delivery of services and goods; and
  - b. Attempts to establish levels of cost recovery that support all costs including administrative overhead and depreciation; and
  - c. Determines the minimum frequency of user fee reviews.
8. The City will maintain and further develop methods to track major revenue sources and evaluate financial trends.
9. The City will prepare periodic financial reports of actual revenue received for review by the City Council.

#### IV. EXPENDITURE AND BUDGETING OBJECTIVES

1. Budgeted expenditures shall reflect the Council's goals.
2. The operating budget will be prepared in the context of a four-year financial plan wherein appropriations for two fiscal years are adopted (Two Year Budget).
3. In the context of the operating budget, operating expenditures and revenues shall be balanced over the term of the four-year financial plan.
4. A ten-year financial plan will be developed for the purpose of identifying future financial challenges. It shall be updated every two years, ~~concurrent with the development of an updated four-year financial plan; during the mid-cycle of the Biennial Budget Report.~~
5. The City will deliver services and goods in a cost effective manner, including utilizing the services of volunteers where it is economically and operationally viable.

6. Surplus fund balances (and working capital in enterprise funds) may be used to increase reserves, fund Capital Improvement Projects, fund capital outlay, pay towards the unfunded payroll liabilities including retirement and other post-employment benefits (OPEB) costs or can be carried forward to fund one-time special project/program expenses provided that the reserving requirements are met (refer to VI).
7. Operating expenditures, exclusive of debt service, within the General Fund or Enterprise Funds will not be directly supported by any debt financing, connection fees, development impact fees, or Enterprise Fund interest income.
8. Expenditures shall include funding of retirement systems, maintenance and replacement of capital and operating assets, and the components of the cost allocation plan.
9. The City will maintain and further develop methods to track expenditures and evaluate financial trends in order to identify potential problems.
10. The City will prepare periodic financial reports of expenditures for review by the City Council.
- ~~11. The Council may appoint an ad hoc committee, as needed, to:
 
  - a. ~~Review the proposed two year budget/four year financial plan and make findings and recommendations to the Council; and~~
  - b. ~~Review the cost allocation plan and make recommendations for any necessary adjustments to the Council; and~~
  - c. ~~Review all new fees and revenue enhancements and make recommendations to the Council.~~~~

## V. BUDGETARY CONTROLS OBJECTIVES

1. Once adopted, operating appropriations shall not be subsequently adjusted unless specifically authorized by resolution identifying the fund from which the appropriation is to be made, the amount of the appropriation and budgetary account number.
2. The City Manager may authorize the transfer of appropriations from one program expenditure line item to another within the same department and fund. Under no circumstances can an increase in appropriations occur without City Council authorization.
3. The City Manager may take necessary actions to keep expenditures from exceeding revenues, including but not limited to establishing a budget freeze, postponing hiring of approved positions, implement layoffs and/or reduced workweek.
4. The City Manager may review and approve all change orders in accordance with adopted purchasing procedures.

5. The City Manager may approve purchase orders for budgeted expenditures and un-budgeted purchase orders in accordance with adopted purchasing procedures.
6. Agenda staff reports having a budgetary impact ~~of \$10,000 or more~~ shall require the review of the Director of Administrative Services or their designee. ~~Review comments shall be provided to the City Manager.~~
7. For the purpose of budget control, ~~operating~~ capital outlay is defined as the purchase of equipment, or furnishings, vehicles, computer hardware and software, property, building, improvements, construction, etc. having a useful life of more than two years ~~or more~~ and a cost of \$5,000 or more. Capital outlay Property, plant, or an improvement costing \$25,000 or less which shall and is intended to be purchased and completed in one fiscal year is considered and shall be ~~also be~~ budgeted as operating capital. However, capital outlay that has been identified on a replacement schedule, such as vehicle and IT replacement, construction projects, capital outlay funded from a grant of more than \$25,000, and/or all other capital outlay that does not meet the definition of operating capital Property, plant or an improvement with an estimated cost of \$25,001 or more shall be considered a capital improvement and be budgeted ~~as such in the Capital Project Funds.~~
8. Professional service contracts for one-time projects where the cost exceed \$25,000 shall be tracked separately from routine operating expenditures.

~~Annually, a report estimating the year-end results shall be presented to the Council in October following the close of the fiscal year being reported. Said report shall compare revenue estimates with actual collections, appropriation budgets with actual expenditures and revenues to expenditures in major budgetary funds.~~

9. ~~Annually, This report shall be followed with a presentation of the Comprehensive Annual Financial Report shall be made to the City Council, before January 1st.~~
10. ~~Quarterly, but n~~ No less than S ~~semi-annually~~, there will be comprehensive review of the operations ~~to date~~ in comparison to the existing budget. Projections of revenues and expenditures through the end of the fiscal year will be prepared and reviewed by the City Manager, the Director of Administrative Services, and/or their designees, with a report and presentation shall be made submitted to the City Council, by their first meeting in March.

## VI. RESERVING OBJECTIVES

In order to address unanticipated emergency and contingency needs of the City, and secure the continued financial well-being of the City, various reserves shall be maintained as follows:

1. Reserve for Self Insurance - provides funding of a risk management program whereby the City obtains insurance contracts for catastrophic losses, but maintains relatively high deductible or retention limits on operating equipment and maintains

no insurance contracts on certain exposures. Minimum reserves shall be established by the JPA.

2. Reserve for Capital Asset Replacement - provides a sinking fund based on equipment depreciation for the replacement of capital and operating assets.
3. Reserve for Debt Service – provides funds in accordance with debt issuance documents; i.e. official statement and trustee agreement. Amount of reserve is established by bond covenants.
4. General Fund – unappropriated fund balance should be maintained at 20% of operating expenditures excluding debt service and operating capital.
5. Enterprise Funds – unappropriated working capital should be maintained at 15% as a reserve for contingencies; i.e. unanticipated fluctuations in revenue collections or operating expenditures.

## VII. CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program will be developed to protect the City's investment in capital infrastructure and facilities through timely and adequate maintenance and replacement of those assets.

1. The Capital Improvement Program should include all capital infrastructure and facilities required and/or anticipated during the General Plan build-out timeline. However, the Capital Improvement Program need only specifically identify those projects necessary to maintain an acceptable level of service delivery for the next four years including the project's cost and funding sources.
2. The Capital Improvement Program will be updated bi-annually in conjunction with the two-year operating budget.
3. The City will grant priority to funding projects that support economic development or will have a direct influence on achieving productivity/revenue gains for the City.
4. The Capital Improvement Program will reflect the various master plans and related studies identifying infrastructure needs of the City.
5. Various fees and charges identified by various plans; i.e. AB 1600 Plan (analysis of infrastructure needs of the City and the fees and charges necessary to meet said needs) shall be reviewed and modified as necessary every two years.
6. The City will prepare periodic financial reports of actual expenditures for review by the City Council.

## VIII. DEBT OBJECTIVES

- ~~1. The City will finance (borrow) only capital improvements or special nonrecurring expenditure projects that cannot be financed from current revenues and sources.~~
- ~~2. When capital projects are financed, the City will amortize the debt within a period not to exceed the expected useful life of the project.~~
- ~~3. The City will limit the debt ratio (debt guaranteed by the General Fund) to 10%. The debt ratio is calculated by dividing the total debt, interest and principal, by total operating, recurring revenues.~~
- ~~4. Whenever possible, the City will investigate the use of special assessment, revenue or other self-supporting bonds to limit the General Fund obligation for debt service payments.~~
- ~~5. The City will not use long-term debt for current operations.~~
- ~~6. The City will not use short-term borrowing to support routine operations. However, it may be used to meet temporary cash flow needs.~~
- ~~7. The City shall always fully disclose the financial condition of the City to rating agencies and shall annually distribute financial disclosure reports in accordance with bond covenants.~~
- ~~8. The City will strive to maintain or improve the City's bond rating.~~
- ~~9. The use of inter-fund loans to fund the cost of financing capital improvements is discouraged.~~
- ~~10.1. \_\_\_\_\_ If inter-fund loans are undertaken, formal promissory notes shall be established that carry an interest cost equal to the most current interest yield percentage paid by the Local Agency Investment Fund. The interest cost shall be re-calculated annually based upon the Local Agency Investment Fund rate for the quarterly period ending June 30<sup>th</sup> each fiscal year.~~

## **CITY OF EL PASO DE ROBLES INVESTMENT POLICY**

### **I. PURPOSE**

The City has a fiduciary responsibility to maximize the productive use of its assets entrusted to its care and to manage those public funds wisely and prudently.

The purpose of this policy is to provide broad guidelines and direction to the officer(s) of the City charged with the responsibility for the investment of the City's temporary idle funds under the prudent man rule (Civil Code Section 2261, et seq).

### **II. OBJECTIVE**

The Objective of the City's investment program shall be to maintain a level of investment of all temporary idle funds as near as 100% as possible with due consideration given to safety, liquidity, cash flow requirements and yield.

### **III. INVESTMENT GUIDELINES**

All City funds not required for immediate expenditure shall be fully invested or deposited to maximize investment returns. To maximize returns, the economy and market conditions should be monitored in order to assess the probable course of interest rates. The City shall utilize those eligible investments instruments as set forth in Government Code Sections 53601 and 53635 while following these guidelines:

1. All investments of the City shall have the City of Paso Robles as the registered owner or shall be kept in the custody of the City or the trust/custodial department of its designated third party, safekeeping institution. If securities are kept by a safekeeping institution, the City shall have access to buy and sell such securities independently of any broker.

While in safekeeping, the City shall have on file from its designated safekeeping institution, an executed contract for said safekeeping services which specifically requires the City's securities to be held separately from all other securities and funds on deposit with the trust/custodial department. The trust/custodial department shall be required to send the City a monthly statement of what is being kept including an estimate of the current market valuation.

2. Investments shall be diversified among institutions, types of instruments, and maturities in order to maximize safety and yield with market conditions; except that no investment shall be purchased with a final stated maturity of more than five (5) years from

the purchase date except as provided for in Section V-5. Long-term maturities shall not represent a significant percentage of the total portfolio and shall be specifically limited as per Section 3 under Allowable Investment Instruments. Security investments currently held by the City that met investment policy restrictions at the time of purchase shall be deemed in compliance.

3. Certificates of deposit in local financial institutions shall be encouraged; provided that the criteria for safety, and liquidity are equal to or greater than that of non-local financial institutions and the interest rate earned is within one quarter of one percent (0.25%) of the rate that may be earned from any other financial institution outside of Paso Robles.

4. Investments shall not knowingly be made in any financial institution that practices or supports directly or indirectly through its actions discrimination on the basis or race, religion, color, creed, natural or ethnic origin, age or sex or physical ability.

5. Investments shall be made only in securities for which market value information is generally available.

6. The City Treasurer shall report monthly to the City Manager and City Council the type of investment, financial institution, date of maturity, amount of investment, and rate of interest for all investments.

7. The City Treasurer shall report monthly, in addition to the information required in Section 6 above, whether or not any funds, investments or programs are managed under contract by outside parties. If such contracts exist, a description of the investments shall be included along with the market values of the funds, investments or programs under contract by said parties.

8. The City Treasurer shall also include in the monthly report a statement as to whether or not the City can meet its cash flow requirements during the next six (6) months.

9. Pursuant to Government Code, Section 53647, the Director of Administrative Services shall allocate interest earned to all appropriate funds. No fund with an ending monthly cash balance of less than \$10,000.00 will receive interest unless required otherwise by law. All interest not otherwise allocated shall remain in the General Fund.

10. Competitive bids/quotations are to be obtained and documented on all investments when practical.

11. A close working relationship should be maintained with well-established brokers/dealers and bankers whose proven technical knowledge and expertise is of assistance in making investment decisions. The City Treasurer shall maintain an approved list of brokers/dealers whose number shall not exceed five (5). List is attached herewith as Exhibit "A".

12. Selling securities prior to maturity is only acceptable when the sale clearly enhances the yield (value). If traded at a loss, the trade must enhance yield on a total return basis.

13. The current value of all investments shall be reported annually according to Governmental Accounting Standards Board, GASB No. 31.

14. Whenever practical, cash should be consolidated and invested on a pooled concept basis. Interest earnings shall be allocated monthly pursuant to paragraph 9 of this section.

15. The City Treasurer shall include notification of all trade transactions whether buy or sell, to the Director of Administrative Services or his/her designated staff person.

16. Investment purchase transactions, excluding State of California Local Agency Investment Fund transactions and the proceeds from bond sales, in any given month shall not exceed, in aggregate, twenty percent (20%) of the City's investment portfolio as reported for the prior month on a "book value" basis.

17. The City Treasurer shall annually submit the Investment Policy to the City Council for review and re-confirmation at a public meeting.

18. The City will review annually its investment portfolio. Said review will be conducted by an ad hoc committee comprised of the two local bank officials (one official being from the City's current banking institution), an official from the City's custodial services institution, a local investment broker and two ad hoc appointees from the City Council. The ad hoc committee will report its findings to the City Council.

19. Should an occasion arise that the elected City Treasurer is unable to perform the duties as prescribed by the municipal code relating to the investment of surplus City monies, a "Plan" shall be developed to address the ongoing investment needs of the City. The Plan is attached herewith as Exhibit "B".

#### **IV. Investment Criteria**

1. **Safety** - Investment Safety refers to attempts to reduce the potential for loss of principal and/or interest. The first level of loss control is found in state law that restricts the particular type of investment permissible for public agencies. The second level of loss control is reducing risk by investing in instruments that appear to be the most credit worthy. The third level of loss control is by investing in instruments that have maturities coinciding with cash needs thereby eliminating loss from forced sale. Safety is the primary duty and responsibility of the City Treasurer.

2. **Liquidity** - Liquidity refers to the ability to sell or otherwise make immediately accessible without risk of losing some portion of principal or interest on the

investment. Most investment instruments available to public agencies are highly liquid with the exception of Time Certificates issued by banks and savings and loan institutions that have fixed maturities.

3. **Yield** - Yield is the potential dollar earnings an investment can provide, sometimes described as the rate of return. Attempts should be made to obtain the highest yield possible by the City provided the criteria for safety and liquidity are met.

## **V. Allowable Investment Instruments**

1. Time Certificates of Deposit - TCD's shall be made only with banks and savings and loan institutions that are insured by the FDIC. Waiver of collateralization is permissible only on the first \$250,000. For collateralized TCDs, banks shall be required to certify semi-annually that the TCDs are fully collateralized in accordance with State law. The bank or savings and loan institution must be located in California. Purchases of negotiable certificates of deposit shall not exceed 30% of the City's invested funds. The City Treasurer may require additional selection criteria as deemed appropriate.

2. Local Agency Investment Fund (LAIF) - Managed by the Treasure of the State of California Treasurer's Office, investments are permitted up to the regulatory maximum for each account establish by the City and its relating entities. Transactions shall be in accordance with established criteria as set forth by the State Treasurer's Office.

3. Banker's Acceptances - Banker's Acceptance (BA's) are bills of exchange or time drafts which are drawn on and accepted by a commercial bank and are eligible for purchase by the Federal Reserve System. By its acceptance, the bank becomes primarily liable for the payment of the draft at its maturity. This bank liability makes the banker acceptance a readily marketable investment. The restrictions on use of banker's acceptances are as follows:

- (a) The City will only invest through the 15 largest banks in the United States;
- (b) Purchases of BA's may not exceed 180 days maturity;
- (c) Purchases of BA's may not exceed 40% of the City's surplus fund; and
- (d) Nor more than 30% of the City's surplus funds may be invested in BA's of any one commercial bank.

4. Treasury Bills and Notes - Those items having the full faith and credit of the federal government pledged for the payment of principal and interest and having maximum maturities of five years or less.

5. Federally Sponsored Credit Agency Securities - The City may invest in the debt securities of the following U.S. government sponsored corporate agencies without limit as to the amount invested except that only 15% may be invested in agencies with maturities between five and seven years. Otherwise maturities may not exceed five years.

- (a) Government National Mortgage Association
- (b) Federal National Mortgage Association

- (c) Federal Home Loan Mortgage Association
- (d) Federal Home Loan Bank

6. Repurchase Agreements - Repurchase agreements (Repos) represent agreements to sell idle funds for U.S. government securities that will be repurchased at a future date for a specific price. Investments in repos shall not exceed 90 days. Physical delivery of the securities backing the repos or a safe keeping documentation to a qualified safe keeping institution is required.

7. Commercial Paper - Commercial paper is essentially an unsecured promissory note of a corporation or financial institution with a fixed maturity date. Maturities vary from 1 to 270 days. The restrictions on use of commercial paper are as follows:

- (a) Maturity shall not exceed 180 days.
- (b) Amount invested at any given time shall not exceed 10% of the investment portfolio.
- (c) Only commercial paper from companies with a rating of A1/P1 shall be purchased.

8. Corporate Bonds - Unsecured promissory note of a corporation or financial institution with a fixed maturity date that is much longer than commercial paper (generally measured in years). Restrictions on use of corporate bonds are as follows:

- (a) Maturity shall not exceed 5 years.
- (b) Amount invested at any given time may not exceed 20% of the investment portfolio.
- (c) Only corporate bonds from companies with an A+ rating better shall be purchased.
- (d) Not more than \$1 million may be purchased from any single corporate entity.

## **VI. Investment Restrictions**

Idle funds of the City may not be invested in the following instruments:

1. Reverse repurchase agreements
2. Financial futures and options
3. Zero coupon bonds
4. Small Business Administration notes
5. Or any other investment instrument specifically restricted by State Code and/or regulation.

Date of Last Review:  
Committee 8/4/11  
Council 9/12/11

## **Exhibit “A”**

### **List of Approved Broker/Dealers**

Coastal Securities – Jim Patterson  
Gilford Securities – Jaime Hopkins  
Mutual Securities – Renee Molina  
Cantor Fitzgerald – Ben Finkelstein  
Piper Jaffray & Co. – Victor Ume-Ukeje

Exhibit "B"  
**Incapacity Plan**

1. All investment documentation shall be kept at the City Treasurer's Office at City Hall Annex.
2. All investment documentation shall be organized by type and then by investment date.
3. Maturing investments shall be deposited into the City's account with the Local Agency Investment Fund until the City Treasurer is capable of functioning efficiently (assumes that the City Treasurer's inability to perform is temporary).
4. Should the City Treasurer's inability to perform be long-term, the City should consider contracting management of its investment portfolio with a municipal investment management company.
5. A list of potential investment managers is provided as follows:

MBIA Asset Management – Gail Eichhoff  
Chandler Asset Management – Kay Chandler  
Piper Jaffary Inc. – Victor Ume-Ukeje  
Wedbush Morgan Securities – Don Collins

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## CITY OF EL PASO DE ROBLES

### PURCHASING POLICY

In order to assure that the fiscal resources of the City of Paso Robles are utilized in the most effective and efficient manner, all purchases shall adhere to established procedures (attached herewith as Exhibit "A") and shall conform with Chapter 6.04 of the City of Paso Robles Municipal Code and with the City's adopted Fiscal Policy.

In carrying out the Purchasing Policy of the City, special consideration shall be given in the following instances:

#### Local Vendor Preference

It shall also be the policy of the City to give local vendors preference given that quality, prior performance, availability of service and parts, delivery schedule and price are equal. In matters of price, the local vendor shall be given full credit for local sales taxes (1%), shipping/freight fees and any other fees or charges that might be applicable had the purchase been made from a non-local vendor.

#### Cooperative Purchasing

It shall also be the policy of the City to encourage and participate, whenever possible, in cooperative purchasing endeavors with other public agencies in order to receive the benefits of lower pricing due to the quantities of materials, supplies, equipment or services which would not otherwise be available to the City as a sole purchaser.

#### Limited Availability

Occasionally, the required materials, supplies, equipment or services are of a proprietary nature, or are otherwise of such specific design or construction, as to be of only one source. After receiving evidence that reasonable efforts have been made to find alternative vendors, the City's purchasing authority or his designee may waive the minimum requirement for quotes, bids or proposals.

#### Emergency Conditions

An emergency is defined as a breakdown in machinery or equipment resulting in the interruption of an essential service, or a distinct threat to public health, safety, or welfare. In such cases, the City's purchasing authority may waive formal purchasing requirements but reasonable efforts shall still be made to locate the lowest cost giving due consideration to quality, prior performance, availability of service and parts and delivery schedule.

#### Other Agency Procurement Contracts

Minimum purchasing requirements are waived when the City may participate in a purchase contract of another public agency wherein they undertook a competitive purchasing process that was similar to the City's own purchasing process. Their purchasing process must have occurred within the last twelve months in order to qualify the City for participation unless the purchasing contract was clearly multi-year in nature.

#### Internal Controls

An integral component of any policy that endeavors to maximize the use of limited fiscal resources is internal controls. Accordingly, purchasing procedures shall also contain provisions relating to access and use of City merchant cards, gasoline credit cards and travel & educational expenditures.

# **PURCHASING AND PAYMENT PROCEDURES MANUAL**



**CITY OF EL PASO DE ROBLES**

**As of December 17, 2009**

# City of El Paso de Robles

## PURCHASING AND PAYMENT PROCEDURES MANUAL

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## City of El Paso de Robles

### PURCHASING AND PAYMENT PROCEDURES MANUAL

In order to carry out the purchasing policy of the City, the purchase of supplies, services, equipment or public works projects shall adhere to the procedures as set forth in this manual.

This purchasing and payment procedures manual has been drafted to provide consistency with the adopted Fiscal Policy and Chapter 6.04 of the City's municipal code.

As per Chapter 6.04 of the City's municipal code, the City's purchasing authority is the City Manager or his/her designated representative. All references in this manual to the City's purchasing authority shall automatically include "his/her designated representative".

#### **Section 1.0 PURCHASES LESS THAN \$5,000**

Provided that there are adequate budget appropriations available and that no administrative restrictions have been imposed by the City's purchasing authority, an executive manager may purchase supplies and services up to \$5,000 without approval from the City's purchasing authority or issuance of a purchase order except as follows:

- a) All personal computers must be purchased through the City's Information Systems Manager. There must be a budget appropriation for both the computer and its annual replacement cost.
- b) All software regardless of cost must be approved by the City's Information Systems Manager prior to purchase."

Preference to local vendors shall be encouraged given that quality, service and price are similar.

#### **Section 2.0 PURCHASES GREATER THAN \$5,000 BUT LESS THAN \$10,000**

Provided that there are adequate budget appropriations available and that no administrative restrictions have been imposed by the City's purchasing authority, an executive manager may purchase supplies and services over \$5,000 subject to purchase order approval from the City's purchasing authority. The purchase order must be prepared and approved prior to the purchase commitment. The executive manager must endeavor to solicit three quotations. Quotations should be attached or noted on the face of the purchase order."

Preference to local vendors shall be encouraged given that quality, service and price are similar.

#### **Section 3.0 PURCHASES GREATER THAN \$10,000**

Provided that there are adequate budget appropriations available and that no administrative restrictions have been imposed by the City's purchasing authority, an executive manager may purchase supplies and services over \$10,000 subject to purchase order approval from the City's purchasing authority. The purchase order must be prepared and approved prior to the purchase commitment. The executive manager must solicit competitive bids prior to the preparation and issuance of a purchase order. Bid results should be attached or noted on the face of the purchase order."

Preference to local vendors shall be encouraged given that quality, service and price are similar.

#### **Section 4.0 PURCHASE ORDERS**

Purchase orders shall be issued for acquisitions of supplies, services (including professional), equipment and/or public works projects wherein the estimated total purchase is expected to exceed \$5,000.

Purchase orders should be issued for the estimated total amount even when individual, reoccurring acquisitions are less than \$5,000. Examples include the transport of sewer sludge wherein any individual transport is less than \$5,000 but the estimated total annual cost exceeds \$5,000. Another example might be the purchase of chlorine.

Subject to the requirements and limits set forth in this manual, the City's purchasing authority may approve a purchase order for up to \$20,000 without City Council concurrence. Any purchase orders greater than \$20,000 shall require City Council concurrence.

Purchase orders may have multiple budgetary account numbers and multiple budgetary account numbers may include multiple departments/divisions.

The issuance of purchase orders shall be made prior to any purchase commitment to the vendor pursuant to the following procedures:

1. The department and/or division shall complete the electronic purchase order form providing all of the required data in the spaces provided. Each purchase order issued shall be numbered sequentially with three components, X-XX-XXX, wherein the first component consists of the second digit of the fiscal year (i.e. "3" being fiscal year 2003 or that year ending June 30, 2003); the second component consists of two alpha digits representing the department / division (to be assigned by the Administrative Services Department); and the third component consists of three numerical digits representing the sequence number (to be assigned by the issuing department / division).

2. Upon completion of the purchase order, the purchase order shall be signed by the executive manager or his designated representative and shall be forwarded to the City's purchasing authority for signatory approval. Upon approval or denial, the City's purchasing authority shall return the purchase order to the initiating department / division. If approved, the purchase order shall be distributed as follows:

- a) Copy to Vendor
- b) Copy to Administrative Service (authorizing payment copy)
- c) Original to Issuing Department"

## **Section 5.0 QUOTATIONS AND BIDS (non-professional)**

Executive managers may exercise their own discretion with regard to vendor choice for purchases of less than \$5,000.

For purchases greater than \$5,000 but less than \$10,000, executive managers shall endeavor to solicit quotations from three vendors. The purchase order or an attachment to the purchase order should note the vendors contacted and the amount of their quote.

For purchases greater than \$10,000, the executive manager shall solicit competitive bids wherein a legal notice shall be published in the City's officially designated newspaper and the bid(s) shall be submitted directly to the City Clerk's office, who shall hold said bid(s) until the advertised date and time of opening. For purchases up to \$20,000, the bid shall be awarded by the City's purchasing authority. For purchases greater than \$20,000, the bid shall be awarded by the City Council. After the bid is awarded, a purchase order shall be issued in accordance with Section 4.0.

### **Local Vendor Preference**

The City endeavors to stimulate the local economy by using its purchasing power to support local businesses and promote the creation and retention of local jobs. To that end, the City may grant a preference to local vendors when comparing bids or quotations for the City's purchase of discretionary goods and services, subject to the guidelines set forth in this section.

The preference shall only apply to the City's procurement of materials, supplies, equipment, and services as set forth in this procedures manual. In addition, the preference shall not apply to procurement that is restricted by Federal or State laws or regulations that proscribe such a preference, or to public projects subject to the California Public Contracts Code.

The preference may be granted only if the City's Purchasing Agent determines that the local vendor is able to provide comparable goods or services as the next lowest bidder. In determining whether to grant the preference, the Purchasing Agent may take into account the criteria set forth in Section 6.04.370 of the City's Municipal Code.

The preference shall be five percent (5%) of the local vendor's bid or quotation, provided, however, that in no event shall the total preference exceed \$5,000 for any single purchase order or contract. This means that when comparing bids or quotations, a local vendor's bid or quotation will be deemed reduced by 5% (or \$5,000 if the 5% reduction equals or exceeds \$5,000). The 5% preference will be used solely to determine to whom the contract should be awarded and will not in any way alter the final contract amount.

A 'local vendor' must meet all of the following criteria:

1. The vendor owns, leases, rents or otherwise occupies a fixed office or other commercial building, or a portion thereof, having a street address within the City. A post office box shall not qualify as a local business address.

2. The vendor possesses a valid and verifiable business license issued by the City that reflects the vendor's local address.

3. The vendor's business is staffed during business hours by an employee, or employees, employed by the vendor and conducting the vendor's local business.

4. Where State sales tax will be paid for the purchase, the vendor must possess a valid resale license from the State Franchise Tax Board reflecting the vendor's business address within the City and evidencing that payment of the local share of the sales tax will revert to the City.

To qualify for the preference, a vendor must certify in writing, in its bid or quotation to the City, that it meets the criteria of a 'local vendor.' The City's Purchasing Authority, in consultation with the Director of Administrative Services, shall determine if a vendor qualifies as a 'local vendor.' Any vendor falsely claiming to qualify as a 'local vendor' shall be ineligible to transact any business with the City for a period of not more than 24 months as determined by the City's Purchasing Authority. The Purchasing Authority may also terminate all or part of any contract entered into with such a vendor. The decision of the Purchasing Authority may be appealed pursuant to the review process used for bid protests."

#### **Section 6.0 PROFESSIONAL SERVICES**

The procurement of professional services shall be based on qualifications. Such professional services shall include, but not be limited to those provided by: engineers, management services for construction projects, architects, geologists, hydrologists, land surveyors, landscape architects, rate consultants and assayers, real estate appraisers, licensed environmental assessors and ecologists, accountants and providers of financial services, actuaries, personnel and insurance consultants, psychologists, medical doctors, entertainers and performers, claims consultants, and attorneys at law. If the cost of the work to be performed is of an estimated value in excess of \$20,000, the purchasing authority shall obtain the approval of the City Council prior to issuing a purchase order pursuant to Section 4.0. If the cost of the work to be performed is not estimated to exceed \$20,000, the City's purchasing authority may issue a purchase order pursuant to Section 4.0 without City Council concurrence."

#### **Section 7.0 SOLE SOURCE VENDORS**

In the case of sole source vendors, quotation and bid requirements may be waived by the City's purchasing authority when in his/her judgment the City is best served by a particular vendor.

The executive manager shall submit a purchase order and a written explanation as to justification of sole sourcing to the City's purchasing authority for approval. If approved by the purchasing authority, a copy of the written explanation shall be attached to the copy of the purchase order that is forwarded to Administrative Services.

## **Section 8.0 PETTY CASH**

Executive managers shall be responsible for the management and accounting of petty cash funds according to the internal control procedures established by the Administrative Services Department. Petty cash funds may be used for any purpose including non-overnight travel and meetings or for residual final travel accounting amounts due an employee. Petty cash vouchers and petty cash reconciliation forms will be provided by the Administrative Services Department. A \$100 limit shall be established for each separate use of petty cash funds except that said limit may be waived by either the purchasing authority or the Director of Administrative Services.

In recognition that City employees cannot be expected nor required to use personal funds to make petty cash purchases on the behalf of the City, petty cash advances may be made. In the case of petty cash advances, the City employee receiving the advance will promptly upon making the purchase, return the receipt and any cash change to the petty cash fund and complete the petty cash voucher. Receipts are required for all petty cash expenditures. Travel per diems wherein receipts are not required is not an appropriate use of petty cash funds. However, amounts due employees less than \$100 as determined by completion of the final accounting section of an pre-authorized travel and meeting expense claim may be reimbursed from petty cash funds.

Requests for the replenishment of petty cash funds used shall be made to the Administrative Services Department on petty cash reconciliation/reimbursement request forms provided by Administrative Services. The request shall summarize the amount to be replenished by budgetary account number and have attached all expenditure receipts. The Administrative Services Department shall process said requests in accordance with the payment processing as established by the Administrative Services Department.

## **Section 9.0 WARRANT REQUESTS**

In recognition that needs arise for the issuance of a City warrant for purposes that may not be appropriate for the issuance of a purchase order,(i.e. deposit refunds, receipt overpayments, payroll related needs, etc.), the Administrative Services Department shall establish a warrant request procedure for issuing a warrant payment without a purchase order. Warrant requests shall be processed on a basis consistent with the payment processing schedule as established by the Administrative Services Department. Exceptions may be made by the Director of Administrative Services when the best interests of the City might be best served by the accelerated issuance of a warrant payment.

## **Section 10.0 TRAVEL, MEETINGS AND EDUCATION AUTHORIZATIONS**

It shall be the practice of the City to reimburse expenses incurred by officials, officers and employees of the City when expenses are incurred while on authorized travel, meetings and educational events for City business. The allowances and amounts advanced to persons traveling or meeting on official City business shall be established on the basis of specific guidelines set forth below. Administrative procedures are to be amended to conform with the guidelines of this policy.

Advances and/or reimbursements for authorized travel and meetings shall be made by the Administrative Services Department upon receipt of a properly completed and approved travel and meeting authorization form, unless waived in writing by the City's purchasing authority.

Travel and meeting authorization forms are available from the Administrative Services Department upon request.

Executive managers shall exercise reasonable effort to complete and submit authorized travel and meeting authorization forms to the Administrative Services Department for warrant issuance on a time line conducive to the payment processing schedule as established by the Administrative Services Department.

Requests for advances and/or reimbursements for City travel, meetings and education shall be in compliance with Administrative Policy A-2 adopted March 1, 1988 by the City Council and in accordance with the procedures and requirements noted below.

1. Travel, Meeting and Education Authorization/Expense Reconciliation

Travel on City business which exceeds a cost, actual or estimated, of \$200 or calls for an overnight stay requires the completion of the City's Travel and Meeting Authorization Form and approval by the employee's executive manager or his/her authorized designee. When a City vehicle is used, the cost of such use, using the current mileage rate, shall be included in determining the total cost. Travel which exceeds \$2,500 or provides for out of state travel must be submitted on the City's Travel and Meeting Authorization Form to the City Manager for approval prior to incurring any expenses.

Payment may be advanced to the traveler based upon estimated costs as detailed on the Travel and Meeting Authorization Form.

Within five (5) days of return, the Travel and Meeting Authorization Form shall be completed and submitted to Administrative Services wherein actual travel expenses, including amounts advanced, must be reconciled on the Travel and Meeting Authorization Form.

An executive manager may exercise his/her own discretion, regardless of length of stay, as to whether an employee receives a per diem per subsection #4 below or receives an 'advance' for itemized expenses per subsection #5 below. However, in all cases, amounts paid in advance for transportation, lodging and registration, etc. wherein overpayments occur and are refunded to the employee, the employee must turnover such amounts to the City.

2. Transportation

a. Commercial Carrier

Air travel for city officials and employees shall be authorized and reimbursed at the lowest possible fare class with a major air carrier. Air travel other than the lowest possible fare class will be authorized ONLY when scheduling does not permit use of the lowest possible fare class of flight, or when the flight is four (4) hours duration or more. All first class flights must be approved by the purchasing authority.

City officials and employees shall endeavor to book air travel so as to take advantage of discounts offered for purchasing flight tickets in advance of departure; i.e. 14 or 21 days, and take advantage of non-refundable ticket fares where practical. Transportation costs for commercial carrier shall be paid by the

City directly and separately whenever practical. Round trip tickets shall normally be purchased whenever commercial carriers are used. Travel expenses of a family member of an official or an employee are not eligible for payment by the City. Travel arrangements and payment of costs for family members are to be handled directly by the employee.

b. Personal Vehicles

Use of personal vehicles, when approved as a mode of travel to and from destinations, will be reimbursed at the established mileage rate.

When commercial carrier is used, a traveler will be reimbursed for personal vehicle mileage to and from the airport and the actual cost of airport parking regardless of airport location.

(1) Travel Within San Luis Obispo County

Employees receiving monthly auto allowances shall not, except under special circumstances as authorized by the City Manager, be eligible to use a City vehicle nor receive mileage reimbursement for use of personal vehicles when travel is within San Luis Obispo County.

(2) Travel Outside San Luis Obispo County

The use of personal vehicles on City authorized business outside San Luis Obispo County will be reimbursed at the authorized mileage rate for all city officials and employees. Payment of mileage will be based upon the most direct route from point of departure to point of destination. A City official or employee may leave from his/her home for a meeting, conference, seminar or training session. However, the mileage from home to the destination should not exceed the mileage from City Hall to the destination.

3. Lodging

Hotel accommodations should be arranged directly by the traveler. Receipts for lodging must be attached to the Travel and Meeting Authorization Form in order to obtain reimbursement. Hotel expenses for city officials and employees only will be reimbursed at the single occupancy rate.

Charges for room movies and other miscellaneous sundries are not eligible for City reimbursement including room service meals if a per diem has been provided.

4. Per Diem

Each person traveling on official City business, which includes an over-night stay, may (1) receive a per diem for meals, taxes, gratuities, and incidental expenses equal to the IRS allowance or up to \$75 per day provided that receipts are submitted to the City. If the amount shown on the receipts is less than \$75 the difference is considered taxable income; or (2) receive a per diem equal to the IRS regional allowance, in which case no receipts are

required and the full amount is non-taxable. Meals and food charged to a motel/hotel room via room service shall be counted on the final reconciliation of the Travel and Meeting Authorization Form towards the per diem. Per diem shall be paid for travel days just prior and just after the event. One-half of the daily rate shall be paid if the distance to the event is less than 225 miles except that if the event ends later than 3:00 p.m. a full day per diem may be paid. A full day per diem shall be paid if the one-way distance is greater than 225 miles. Expense reimbursement for amounts over the per diem amount must include receipts for all expenses.

5. Itemizing Expenses

If travel encompasses not more than a single day, the traveler shall itemize the expenses incurred for reimbursement. Upon return, supporting documents such as receipts or paid invoices must be submitted on the Travel and Meeting Authorization Form. In the case of overnight travel, the traveler may claim actual expenses rather than per diem. However, all receipts or paid invoices must be submitted with the Travel and Meeting Authorization Form in order to be reimbursed.

6. Registration Fee

Registration fees charged for any authorized convention, conference, seminar or meeting are reimbursable and should be paid in advance.

7. Taxi, Car Rental, Shuttle Service and Parking

Expenses incurred for car rental and limousine service will not be reimbursed unless authorization is received from the purchasing authority prior to the travel. Whenever possible, City officials and employees should utilize hotel courtesy buses or local shuttle services. Whenever possible, hotel accommodations should be within easy access to the functions for which the travel was authorized. Taxi service should be used only when no other convenient, less costly transportation is available. Expenses for parking shall be reimbursed in addition to any other allowances paid to the traveler.

8. City Merchant Cards

Merchant card receipts for all charges on the credit cards shall be attached to the final reconciled Travel and Meeting Authorization Form submitted to Administrative Services Department.

Gas credit cards issued to the City may only be used to purchase fuel and oil in City owned vehicles. Use of City gas credit cards in personal vehicles regardless of whether or not the use of the personal vehicle was for authorized City business is strictly prohibited.

9. Mileage Rate

The mileage rate for personal vehicle use shall be determined each January 1st by the Department of Administrative Services. The mileage rate shall be equal to the mileage rate allowance as set by the Internal Revenue Service for business use of a vehicle as confirmed by the Director of Administrative Services.

## 10. Miscellaneous Meetings

Miscellaneous meetings wherein food, beverages and related sundaries are provided either on site or at a dining establishment may be paid and/or reimbursed by City when required for City business. Payment and/or reimbursement may be made via; petty cash, merchant card, vendor charge account, purchase order, warrant request or Travel and Meeting Authorization Form. In all cases, the payment and/or reimbursement request shall be accompanied by a receipt or other documentation and in the case of the use of a merchant card, the customer copy of the merchant card charge slip. The receipt and/or payment request should clearly identify the purpose of the meeting, the general attendees (i.e. lunch with auditors) and the budgetary account number. A Travel and Meeting Authorization Form need only be utilized when the cost of an individual, miscellaneous meeting exceeds \$200.

## 11. Discretion

These proceduures not claim to have addressed all contingencies and conditions. Any necessary and reasonable expenses that may from time-to-time be justified due to circumstances or opportunities for the City will be honored upon approval by the purchasing authority in the form of reimbursements to the traveler and upon adequate documentation and justification.

### **Section 11.0 PAYMENT REQUIREMENTS**

The issuance of warrants for petty cash, warrant requests and travel and meeting authorizations shall be made by the Administrative Services Department upon receipt of the properly completed documentation and in accordance with the payment schedule as established by the Administrative Services Department.

For purchase orders, preparation of the vendor payment shall be initiated by the Administrative Services Department upon receipt of the signed “payment” copy of the purchase order. Partial payments are acceptable. Authorization for partial payment(s) may be initiated by the executive manager or his/her designated representative by submitting the invoice with the “Approved for Payment” stamp fully completed and the purchase order number clearly indicated on the invoice.

For purchase orders issued for materials and/or services to be provided over time, the Administrative Services Department shall initiate vendor payment solely upon receipt of the appropriate invoice(s) with the “Approved for Payment” stamp fully completed and the purchase order number clearly indicated on the invoice.

In order to expedite vendor payment processing, the following vendor statement/invoice delivery arrangements should be made:

*Single Department* - In those cases where an executive manager knows that his/her department is the only department doing business with a particular vendor, the executive manager should arrange to have statements and/or invoices mailed directly to his/her department. Upon receipt of statement/invoice (s), the executive manager or his/her designated representative shall reconcile the amounts due and authorize payment by utilizing the “Approved for Payment” stamp and forward the original documents to Administrative Services for payment. The amount due the vendor shall be summarized by budget account number.

*Multiple Departments* - In those cases where more than one department makes purchases from the same vendor, the statements should continue to be mailed directly to the Administrative Services Department; except that in those cases wherein the vendor sends invoices separately from their end-of-the-month statements, arrangements should be made to have invoices sent directly to the department involved for reconciliation and approval before forwarding to Administrative Services.

In all instances, vendor payments shall be processed in accordance with the payment schedule as established by the Administrative Services Department unless the City's purchasing authority or the Director of Administrative Services determines that the best interests of the City would be best served by accelerating the issuance of a particular vendor payment.

**The current payment schedule, as established by the Administrative Services Department, is that payment requests received by noon on Wednesday will have a warrant(check) issued no later than the second following Friday except as otherwise established by Administrative Services. DO NOT UNDER ANY CIRCUMSTANCES PROMISE OR OTHERWISE INDICATE TO A VENDOR THAT PAYMENT WILL BE RECEIVED ANY SOONER.**

APPROVED FOR PAYMENT	
Budget Acct. #	_____
Vendor #	_____
Amount to Pay	\$ _____
_____	_____
Date	Signature

## Section 12.0 MERCHANT CARDS

Purchases made by merchant card shall be made in conformance with the City's established Fiscal Policy, the purchasing rules and restrictions as identified in Section 1.0 through 9.0 and shall in no event exceed or circumvent the regulations set forth therein. A single purchase by credit card shall not exceed \$2,500 or the credit card account limit, whichever is *less*.

Purchases less than \$5.00 should not be made using the merchant card. These purchases should be made using petty cash.

Merchant card account limits will be between \$2,000 and \$10,000 per month. Account limits apply to the account, not the card. For example, an account may have a limit of \$5,000, with two cards issued. Therefore, the aggregate spending total of both cards must not exceed \$5,000 per month. Each Executive Manager will be informed of the limits placed on accounts issued to his/her department and or divisions. Requests to increase the merchant card account maximum limit is addressed below (Requests for Initial, Additional or Changes to Merchant Cards).

Purchases will be denied by the card issuer for any account that is delinquent or has exceeded its account limit.

Departments/divisions must track their monthly spending so that they do not exceed the merchant card account limit.

1. Business Use Only

The merchant card is to be used for City purchases ONLY. Employees should take whatever precautions are necessary to ensure that the card is not "accidentally" used for personal purchases.

Should the employee, in spite of precautions taken, accidentally use the card for a personal purchase, he/she shall within twenty-four hours remit, in cash or by check, the amount of the purchase, along with a copy of charge slip to the Administrative Services Department. A receipt will be issued by the Administrative Services Department and the revenue will be posted to the City's Customer Deposit Account. The receipt, along with the *original* charge slip shall be attached to the monthly statement, by the department/division. The account code assigned should be the Customer Deposit account code.

2. Conditions for Use

The total of a single purchase to be paid using the merchant card may be comprised of multiple items and cannot exceed the authorized single invoice limit. Purchases will be denied if the authorized single purchase limit is exceeded. Payments for purchases are not to be split in order to stay within the single purchase limit.

All materials, supplies and services purchased over the counter and paid for by using the card must be immediately available. No back-ordering is allowed.

All materials, supplies and services purchased by telephone order to be paid for by merchant card must be delivered by the merchant/vendor within the 30-day billing cycle. The order should not be placed without this assurance. (Please see "Telephone Purchase Procedures" below).

Merchant card use for employee travel must comply with established City travel policy.

3. Telephone Purchase Procedures

Telephone purchase procedure, as used in these instructions, means a procedure where an order is placed or a purchase is made by telephone. The supplies or services are provided by the merchant/vendor and payment is made using the merchant card.

When placing a telephone order to be paid using the merchant card, employee will:

- a. Confirm that the merchant/vendor agrees to charge the merchant card when shipment is made so that receipt of the supplies may be certified on the monthly Statement of Account.
- b. Instruct the merchant/vendor to fax or mail the charge slip to the card holder when the credit card is charged.

- c. A log should be used to record telephone merchant card orders (see Attachment 4). The documentation should be held until the monthly billing statement is received and then attached to the statement, along with the charge slips, when it is submitted for payment.

3. Internet Purchase Procedures

Internet purchase procedure, as used in these instructions, means a procedure where an order is placed or a purchase is made by internet website access.. The supplies or services are provided by the merchant/vendor and payment is made using the merchant card.

When placing an internet order to be paid using the merchant card, employee will:

- a. Confirm that the web site utilizes security protection software.
- b. Confirm that the merchant/vendor agrees to charge the merchant card when shipment is made so that receipt of the supplies may be certified on the monthly Statement of Account.
- c. Print out a hard copy of the order confirmation before exiting the site.

4. Documentation, Reconciliation and Payment Procedures

a. Documentation

Any time a purchase is made that will be paid using the merchant card, whether it is done over the counter or by telephone or by internet, a document must be retained as proof of purchase. The documents will later be used to verify the purchases shown on the merchant card monthly statement.

When a purchase is made over the counter, the employee is to obtain a customer copy of the charge slip, as well the separate invoice if any, which will become the accountable document (make sure all carbons are destroyed).

When making purchases by telephone, the employee is to immediately document the transaction on a log (Attachment 4) and attach the charge slip (and invoice, if any) when received from the vendor, along with any shipping documents associated with the order.

b. Missing Documentation

If for some reason the employee does not have documentation of the transaction to send with the statement, he/she must attach an explanation that includes a description of the item, date of purchase, merchant's/vendor's name and why there is not supporting documentation. If documentation is received after the statement has been sent for payment, the employee should send the documentation to the Administrative Services Department with a note referencing the date of the statement to which it should be attached.

5. Merchant Card Restrictions

The following list covers purchases for which merchant card use is **prohibited**:

- a. Gasoline and oil purchases. Gasoline and oil purchases for City vehicles only must be made using a **gas** credit card.
- b. Cash advances through bank tellers or automated teller machines.

6. Payment and Invoice Procedures

- a. Purchases made by employees will be paid by the accounts payable section of the Administrative Services Department once the employee certification and Executive Manager or his/her designee's verification has been completed, and account coding assigned for each transaction. Account codings shall be summarized by budget account.
- b. Original statements and charge slips should be sent to the Administrative Services Department. If the employee Department/Division wishes to retain a copy of the statement, a copy should be made before the original statement is sent to Administrative Services Department.
- c. The "Statement of Account" requires the Department/Division to review the statement and to note any errors on the bill. The Department/Division should attach to the statement receipts (sales drafts/charge slips) received at the time of purchase with the budget account number noted on each. Travel expense charges must include a copy of the final accounting of the travel authorization form, as well as receipts pertaining to travel purchases made by credit card. He/she stamps the statement with an "Approved for Payment" stamp (*to be issued by Administrative Services Department*), assigns account codes for each item, writes the grand total of the amount to be paid in the "amount" area provided by the "Approved for Payment" stamp, attached the summary by budget account and secures the signature of the Executive Manager or his/her designee certifying items purchased and received and forwards to the accounts payable section of the Administrative Services Department within five (5) working days after it is received. Non compliance may mean denial of future use. *Executive Managers must notify the Administrative Services Department, in writing, the names of designees authorized to sign approvals* (See Attachment 3).
- d. The Executive Manager will be responsible for receiving completed statements from all divisions, reviewing them, resolving any questions on the purchases, reconciling and signing the statements, and forwarding completed account statements with all attachments to the accounts payable section of the Administrative Services Department within five (5) working days after receipt of the statement in the mail. Account statements will all close on the last day of each month and will be mailed by the issuer shortly thereafter. Statements will be mailed directly to each department and will generally be received on about the same date each month.
- e. If an account has no purchase activity for a particular billing cycle and shows a "zero" balance, the statement should be sent to Administrative Services for filing in the merchant/vendor file. "*File Only -- Zero Balance*" should be clearly marked on the front of zero balance statements.

7. Approval

Approval of the transactions that employees have made using the merchant cards will not be totally defined in these procedures. Executive Managers, because of their knowledge of the job responsibilities of employees, are required to look at each employee's purchases, and at the merchant who made the sale in order to determine if these items were for Official Use and if they were items allowed to be purchased in accordance with the instructions provided. If, for any reason, the Executive Manager questions the purchases(s), it is his/her responsibility to resolve the issue with the employee. If he/she cannot be satisfied that the purchase was necessary and for Official Use, then the employee must provide a Credit Voucher proving item(s) have been returned for credit, or a personal check or cash for the full amount of that purchase. Resolution for improper use of the merchant card will be the responsibility of the Executive Manager to resolve, and disciplinary action for misuse will also be his/her responsibility to process.

8. Disputes

If items purchased with the merchant card are found defective or the repair of services faulty, the employee has the responsibility to return the item(s) to the merchant for replacement or to receive a credit on the purchase. If the merchant/vendor refuses to replace or correct the faulty item, then the purchase of this item will be considered to be in DISPUTE.

A disputed item must be noted on the statement of account. In addition, an "Employee Statement of Questioned Item" form (Attachment 1) must be completed by the employee with appropriate documentation attached, if necessary. The Executive Manager, or his/her designee, shall notify the merchant card issuer in accordance with the instructions on the "Employee Statement of Questioned Item" for adjustment. The form should be attached to the statement of account, with a copy retained by the Department for follow-up the following month to be sure the proper credit is received on the statement of account.

It is essential that the time frames and documentation requirements established by the merchant card issuer be followed to protect the employee's rights in dispute. Dispute policies and procedures issued by the merchant card issuer will be provided at the time merchant cards are issued to employees.

9. Requests for Initial, Additional or Changes to Merchant Cards

All requests for new accounts, additional cards or changes in account names or limits will be done by submitting "Request for Merchant Card" form (Attachment 2) to the Administrative Services Department. The form will be processed by the Administrative Services Department and the requesting Executive Manager will be notified when the request is processed. A minimum of thirty days should be allowed for processing requests.

10. Periodic Inventory of Merchant Cards

At least once annually, the Administrative Services Department will provide a list of credit cards issued to the Executive Manager. Executive Managers will conduct a physical inventory of credit cards, photocopying each card, and provide a report to the Administrative Services Department of the results of the inventory.

11. Lost or Stolen Merchant Cards

Should any employee lose or have a credit card stolen, it is the responsibility of the Executive Manager to immediately notify the merchant card issuer of the loss. The telephone number of the merchant card issuer will be provided when the merchant card is issued.

In addition to notifying the merchant card issuer, the Executive Manager must notify the Administrative Services Department of the lost or stolen credit card WITHIN ONE WORKDAY after discovery of the loss or theft of the card. The Executive Manager or his/her designee will be required to make a written report to the Administrative Services Department WITHIN FIVE (5) WORKDAYS that will include the complete information on the loss, the date the loss was discovered, the location where the loss occurred, if known, the purchases that the employee had made prior to the loss, and any other information that may be considered necessary.

12. Terminating Employee

The Executive Manager shall be responsible to collect merchant cards from terminating employees.

In the event the Executive Manager is not able to collect the merchant card when an employee leaves, the Executive Manager shall notify the Administrative Services Department immediately by telephone and follow-up with a memo to take action to insure the merchant card is voided. The Administrative Services Department will notify the merchant card issuer to void the merchant card to prevent any purchases after the employee leaves.

**Section 13.0 CONTRACT CHANGE ORDERS**

To establish a uniform procedure for documenting review and authorization of Change Orders for construction contracts these procedures shall apply to changes in the work that result in alterations, amendments or deviation from an awarded contract thereby modifying the scope of the contract, the cost, completion schedule, material and/or equipment furnished under the awarded contract.

A Change order is the written authorization that changes the awarded contract as noted above. The Change Order shall be for similar kinds of work as that awarded in the original contract and shall only arise in good faith from unforeseen items and/or events since the time of the bid award. Request for Change Order authorization to the City's purchasing authority shall be accompanied by a purchase order.

Change Order authorization limits are established as follows:

- Contracts < \$150,000 25% of contract or \$25,000 whichever is greater  
City Manager
- Contracts \$150,000 - \$500,000 25% of contract  
City Manager
- Contracts > \$500,000 10% of contract or \$125,000 whichever is greater  
City Manager

The limits noted are for Change Order amounts in the "aggregate". Change Orders for amounts in excess of these limits must be approved by the City Council as a regular agenda item.

In all cases where a change order would increase the cost of the project beyond the existing budget resources, the change order shall be presented to Council along with an appropriation resolution to the Council for their consideration and approval.

#### **Section 14.0 CONTRACTS WITH OTHER PUBLIC AGENCIES**

It may be beneficial to contract with other public agencies for goods and services. In such cases, the purchasing authority may waive normal bidding procedures if can be shown, via the quotation procedures contained in Section 4.0, that contracting directly with another public agency is equal to or less than the cost of a private sector competitively bid contract.

#### **Section 15.0 UNIFORM PUBLIC CONSTRUCTION COST ACCOUNTING**

The Council approved Resolution 02-107 on June 4, 2002 adopting Uniform Public Construction Cost Accounting. This provides the opportunity for the City to undertake public projects of \$25,000 or less by force account, negotiated contract or by purchase order.

For projects greater than \$25,000 but less than \$75,000, the City may undertake an “informal” bidding procedure as set forth by State regulations.

In all such cases wherein the City opts to utilize the Uniform Public Construction Cost Accounting method, State procedures governing this procedure shall supersede the City’s purchasing procedures as identified herein.

## **CITY OF EL PASO DE ROBLES DEBT MANAGEMENT POLICY**

### **I. INTRODUCTION**

The policies set forth in this Debt Management Policy (“Policy”) have been developed to provide clear and comprehensive guidelines for the issuance and financial management of the debt portfolio of the City of El Paso de Robles and its related entities (such as the El Paso de Robles Public Financing Authority and the Successor Agency to the Former Redevelopment Agency). This policy confirms the commitment of the City Council, management, staff, and other decision makers to adhere to sound financial management practices, including full and timely repayment of borrowings, achieving the lowest possible cost of capital within prudent risk parameters. This Policy is not intended to be so restrictive that it interferes with the City of El Paso de Robles’ legitimate efforts to prudently provide public services and facilities. The Policy is also intended to comply with Government Code Section 8855(i), effective January 1, 2017.

The guidelines established by this Policy will govern the issuance and management of all debt funded for long-term capital financing and cash flow needs. The City recognizes that changes in the capital markets and other unforeseen circumstances may require exception to this Policy, for which approval from the City Council will be necessary for implementation. The 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 City. Any approval of debt by the City Council that is not consistent with this Policy shall constitute a waiver of this Policy.

As used in this Policy, “City” shall mean the City of El Paso de Robles and/or its related entities, and “debt” shall be interpreted broadly to mean bonds, notes, certificates of participation, financing leases, or other financing obligations. The use of such terms in this 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 constitutional debt limitation where the substance and terms of the obligation falls within exceptions to the constitutional debt limitations.

This Policy shall apply to all debt issued or sold to third party lenders or investors as well as pertaining to City internal borrowing. The Policy does not pertain to employee benefit obligations.

### **II. OBJECTIVES OF DEBT ISSUANCE**

The purpose of the Policy is to provide a functional tool for debt management and capital planning, as well as to enhance the City’s ability to manage its debt obligations in a conservative and prudent manner. In following this policy, the City shall pursue the following objectives:

1. The City shall only issue debt for capital improvements or special non-recurring expenditure projects that cannot be financed from current revenues. The City will not use debt for current operations.
2. The City shall only issue debt if it is the most cost-effective funding means available, taking into consideration cash flow needs, fund reserves and other funding alternatives.
3. The City shall, when issuing debt, assess financial alternatives to include new and innovative financing approaches including categorical grants, revolving loans and/or other State and Federal aid, in order to minimize the contribution from the City.
4. The City shall take all practical precautions and proactive measures to avoid any financial decision that will negatively affect current credit ratings on existing or future debt issues.
5. The City shall endeavor to attain the best possible credit rating for each debt issuance in order to reduce interest costs while preserving financial flexibility and meeting capital funding requirements.

6. The City shall obtain the shortest debt period feasible taking into consideration the debt structure, debt type and amount. Debt period shall not exceed the expected useful life of the asset.
7. The City shall be mindful of its statutory debt limit in relation to assessed value growth and the tax burden needed to meet long-term capital requirements. The City shall consider the impact of new debt on overlapping debt of local, state and other governments that overlap with the City.

Prior to the issuance of debt to finance a project, the City will carefully consider the overall long-term affordability of the proposed debt issuance. The City shall not assume more debt without conducting an objective analysis of the City's ability to assume and support additional debt service payments. The City will consider its long-term revenue and expenditure trends, the impact on operational flexibility and the overall debt burden on taxpayers. The evaluation process shall include a review of generally accepted measures of affordability and will strive to achieve and/or maintain debt levels consistent with its current operating and capital needs. The City will limit the debt ratio (debt guaranteed by the General Fund) to 10%. The debt ratio is calculated by dividing the total debt, interest and principal, by total operating, recurring revenues.

### **III. ACCEPTABLE USE OF DEBT PROCEEDS**

The City will consider long-term financing for the acquisition, substantial refurbishment, replacement, or expansion of capital assets. Specifically, acceptable uses of debt includes:

1. Acquisition and/or improvement of land, right-of-way or long-term easements.
2. Acquisition of a capital asset with a useful life of three years or more.
3. Construction or reconstruction of a facility.
4. Preconstruction costs including but not limited to project planning design, engineering and other preconstruction efforts.
5. Project-associated furniture fixtures and equipment.
6. Capitalized interest, when applicable.
7. Original issue discount, underwriters' discount and other costs of issuance, when applicable.

### **IV. TYPES OF DEBT**

There are numerous types of financing structures and funding sources available, each with specific benefits, risks and costs. The City shall review all potential funding sources within the context of this Policy, and the overall portfolio to ensure that any financial product or structure is consistent with the City's objectives. Regardless of what financing structure is utilized, due diligence review must be performed for each transaction.

The following are types of debt the City can issue:

1. New Money Debt: New money debt is debt issued to finance the cost of capital improvement project or other large and extraordinary costs as approved by City Council.
2. Refunding Debt: Refunding debt is debt issued to refinance (refund) previously issued outstanding debt. The City may issue refunding debt to refinance the principal and of and interest on outstanding bonds or other debt to achieve debt service savings, restructure schedule debt service or convert from variable to fixed interest rate, change or modify the source(s) of payment and security for the refunded debt, or modify covenants otherwise binding upon the City. Refunding may be issued on either on a current or advance basis under federal tax law. See section VII for further detail.
3. Revenue Debt: Revenue debt is generally issued for enterprise funds that are financially self-sustaining without the use of general fund revenue sources and therefore rely on the revenues collected by the enterprise fund to repay the debt.
4. Land-Secured Debt: Examples of land-secured debt include 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. Land-secured debt is

payable from special taxes or assessments that the City will levy on the secured property tax roll.

5. General Obligation Bonds: General obligation (GO) bonds require a supermajority voter approval. Most GO bonds are backed by the issuer's ability to level ad valorem tax in amounts sufficient to meet debt service.
6. Lease Financing: Lease revenue bonds, certificates of participation (COPS) and lease-purchase transactions are examples of lease financings. Lease financings are typically used when the City pays for debt with its General Fund.
7. Bond and Grant Anticipation Notes: This type of debt is issued to finance a project in anticipation of other funding sources becoming available later.
8. Tax Increment Financing: Tax increment financing may be used to the extent available under California law.
9. Conduit Financing: The City may agree to provide conduit financing for specific public purposes, such as financings for affordable rental housing, qualified 501(c)(3) organization, other governmental agencies and/or joint power authorities. In a conduit financing, the debt is typically repaid with non-City revenues.
10. Inter-fund loans: The City may use available resources from another City fund to finance the cost of a capital project. A formal promissory note shall be established that carries an interest rate of not less than the current interest yield percentage paid by the Local Agency Investment Fund (LAIF).

Debt is typically issued under either a competitive or a negotiated sale, but also may be sold in a private placement. The City shall have the flexibility to determine which method of sale is appropriate for each debt issuance. Determination of the appropriate method of sale will rest collectively with the City Manager, Administrative Services Director, City Treasurer, and City Attorney. A number of market factors can affect the success of a debt offering; each should be carefully considered before selecting a method of sale. These factors include, but are not limited to:

1. Market perception of the City's credit quality,
2. Interest rate volatility,
3. Size of the proposed issue,
4. Complexity of the proposed issue, and
5. Competition with other issuers for investor interest (bond supply).

## **V. DEBT TERM**

The City Council recognizes that new debt obligations may affect the long-term affordability of all outstanding debt and any future planned debt, as well as budgetary impacts associated with the maintenance and operating costs of debt-financed facilities.

The debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future beneficiaries or users. Debt shall not be issued for a term that exceeds the useful life of the debt-financed asset.

The City desires level debt service payments over the term of the debt. However, the cost of capital, financial risk, current economic conditions, future financial flexibility, credit rating and available cash flow will be evaluated to determine the most appropriate method of debt amortization for each debt issue. Back loading of debt service (debt service payments are lower in the initial years of a debt term and higher toward the later years of a debt term) is not authorized in this Policy and can occur only by City Council waiver from this policy.

## **VI. DEBT MANAGEMENT**

The Administrative Services Director shall employ appropriate internal controls, including but not limited to:

1. Redundancy of review to ensure all approved contracts and expenditures are consistent with the terms of the bond sale and ballot language by following the City's established workflow procedures.
2. Monitor the use of debt proceeds and the use of debt-financed assets (e.g., facilities, furnishings, or equipment) throughout the term of the debt (and in some cases beyond the term of the debt) to ensure compliance with covenants and restrictions set forth in applicable City resolutions and Tax Certificates. The Administrative Services Director or designee shall report apparent deviations from the intended use in debt proceeds to the City Manager for further discussion and, if the City Manager, in consultation with legal counsel (which may be bond counsel, the City Attorney, or both), determines it to be appropriate, to the City Council.
3. Maintain records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of debt.
4. Consult with Bond Counsel and other professional expert advisers in the review of any contracts or arrangements involving use of debt-financed facilities to ensure compliance with all covenants and restrictions set forth in applicable City resolutions and Tax Certificates.
5. Maintain proper accounting records for any contracts or arrangements involving the use of debt-financed facilities as might be necessary or appropriate to document compliance with all covenants and restrictions set forth in applicable City resolutions and Tax Certificates.
6. Meet at least annually with personnel responsible for debt-financed assets to identify and discuss any existing or planned use of debt-financed assets to ensure that those uses are consistent with all covenants and restrictions set forth in applicable City resolutions and Tax Certificates.
7. Report feedback from rating agencies to City Council, when and if available, regarding the City's financial strengths, weaknesses, and areas of concern relating to the City's existing credit ratings.

**VII. REFUNDING GUIDELINES**

The Administrative Services Director shall monitor all outstanding debt obligations for potential refinancing opportunities, particularly in declining interest rate environment. The City will consider refinancing of outstanding debt to achieve annual savings or to shorten the period of the debt amortization.

The City will generally seek to achieve debt service savings that, on a net present value basis, are at least 3% of the debt being refinanced. The net present value assessment shall factor in all costs, including issuance, escrow, and foregone interest earnings on any contributed funds on hand. Any potential refinancing shall additionally consider whether an alternative refinancing opportunity with higher savings is reasonably expected in the future. Refunding which will produce a net present value of less than 3% will be considered on a cash-by-case basis. Notwithstanding the foregoing, a refunding by the Successor Agency to the former Redevelopment Agency of Paso Robles shall be based on the requirements stated in California Health and Safety Code Section 34177.5.

**VIII. ARBITRAGE REBATE**

The use and investment of tax-exempt debt proceeds must be monitored to ensure compliance with arbitrage restrictions. Existing regulation require that issuers calculate rebate liabilities related to tax-exempt debt issues, with rebates paid to the Federal Government every five years and otherwise required by applicable provisions of the Internal Revenue Code and regulations. The Administrative Services Director shall contract with a specialist to ensure that proceeds and investments are tracked in a manner that facilitates accurate, complete calculations and if necessary timely rebate payments.

**IX. RELATIONSHIP OF DEBT WITH OTHER CITY POLICIES**

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

The City will 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 City's public purposes.

The City 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.

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

**X. DEBT MANAGEMENT AND DISCLOSURE POLICY**

The Administrative Services Director shall review this Debt Management Policy at a minimum of every five years or as required by law and recommended any changes to the City Manager and City Council.