



CITY OF PACIFIC GROVE
300 Forest Avenue, Pacific Grove, California 93950

AGENDA REPORT

TO: Honorable Mayor and Members of the City Council

FROM: Patty Maitland, Finance Director

MEETING DATE: September 7, 2016

SUBJECT: Adopt a Resolution Amending Council Policies 000-2 *Meeting and Travel Expense Reimbursement* and 400-6 *Budget and Financial Management*

CEQA: Does not constitute a “Project” under California Environmental Quality Act (CEQA) Guidelines 15378

RECOMMENDATION

Adopt a Resolution Amending Council Policies 000-2 *Meeting and Travel Expense Reimbursement* and 400-6 *Budget and Financial Management*

DISCUSSION

On August 17, Council adopted a resolution [amending the City’s Credit Card policy](#). This item recommends an amendment to Council Policy 000-2, *Meeting and Travel Expense Reimbursement*, to comport with the Credit Card Policy, streamline travel reimbursement, and set forth as policy travel reimbursement best practices. Additionally, this item recommends an amendment to Council Policy 400-6, *Budget and Financial Management*, to provide for additional internal controls over budget expenditures throughout the fiscal year. Staff recommends the following revisions:

000-2 Meeting and Travel Expense Reimbursement

This amendment replaces the per meal reimbursement amount with a per diem payment and a pro-rated per diem payment for partial travel days. The amendment to the policy further clarifies specifically prohibited reimbursements. The new processes outlined in the amended policy streamlines processing while increasing accountability at the departmental level regarding verification of meeting and travel expenses.

400-6 Budget and Financial Management

It is customary to budget salary savings in operational budgets that anticipate position vacancies in a fiscal year. The amendment recommended to this policy is to specifically delineate between expenditures for Salaries and Benefits versus Services and Supplies. This delineation serves to ensure that budgetary expenditures authorized by the Council for Salaries and Benefits are not utilized for Services and Supplies or Capital costs without the express authorization of the City Manager.

FISCAL IMPACT

Amending Council Policies 000-2 *Meeting and Travel Expense Reimbursement* and 400-6 *Budget and Financial Management* increases the internal controls over the budget as adopted by the Council, and decreases the likelihood of operating budgets exceeding appropriation limits.

ATTACHMENTS

1. Draft amended Policy 000-2
2. Draft amended Policy 400-6
3. Resolution No. 16-_____

RESPECTFULLY SUBMITTED:



Patty Maitland
Finance Director

REVIEWED BY:



Ben Harvey
City Manager

City of Pacific Grove, California City Council Policy

Policy Governing	Policy No.	Effective Date	Page
Meeting and Travel Expense Reimbursement	000-2	January 2, 1986	1 of 3

BACKGROUND:

In the performance of City business, certain travel and attendance at meetings is required for the City Council, members of City boards, commissions, and committees, and City employees.

PURPOSE:

~~The purpose of this policy is to:~~

- ~~1. establish Council policy on travel and meetings;~~
- ~~2. provide reimbursement for travel and meetings for official and authorized City business; and~~
- ~~3. provide accountability for funds expended therefore.~~

This policy applies to all City of Pacific Grove Employees, Council Members and Committee/Commission Members (“Travelers”) and is intended to establish uniform procedures by which Travelers will report and be reimbursed for expenses incurred in connection with authorized travel on behalf of the City.

This policy allows for economical and efficient travel ~~in order~~ to derive the greatest benefit from the travel at the most effective cost. It does not allow Travelers to benefit financially as a result of the travel. Travelers are responsible for exercising good judgement in requesting, arranging and fulfilling a travel request to mitigate costs to the City.

POLICY:

1. Travel will be authorized when necessary and in the best interest of the City.
 2. Department Directors are responsible for making the determination that the travel is necessary and that the benefit for which the travel is requested cannot be achieved through other means that could eliminate the necessity for travel, while still accomplishing the benefit to the City.
- ~~4.3~~ Official meetings and travel expenses are authorized for reimbursement, to the extent of funds appropriated in the annual budget, to council members, members of City boards, commissions and committees, and City employees for the following activities:
- A. Attendance at conferences and meetings sponsored by organizations in which the City holds membership or affiliation.

- B. Attendance at training sessions, professional workshops, and seminars as required for maintaining proficiency or meeting standards established by the City or required by other authority (i.e., POST).
- C. Attendance at professional meetings related to City business and designed to provide information needed for the successful conduct of City operations.
- D. City business related travel as determined by the Council, the City Manager or a Department Manager.
- E. City sponsored meetings at which registration or meal fees are charged.

~~F. City hosted visitors performing services for the City.~~

~~G.~~ Community activities or special events at which City representation is desirable as determined by the City Council or as authorized in the annual budget appropriation.

4. The City will pay for the cost incurred by Travelers, subject to review, based upon available budgeted funds. Additional costs associated with companions are the responsibility of Travelers.

~~2-5~~ In consideration of numerous expenses incidental to serving as a Mayor or Council Member, the City Council shall receive a monthly salary as authorized by the City Charter and City ordinances. This salary is intended to reimburse to the extent possible Council Member incurred expenses for telephone and meeting expenses from travel and meetings in the Monterey County area. No further reimbursement for these expenses shall be made by the City without specific Council authorization. Council member may claim mile reimbursement for all travel on City business.

~~3-6~~ For travel and meetings outside of Monterey County, Council Members may be reimbursed for expenses as authorized by the City Council. Whenever possible, Council policy is that lump sum payments based on a reasonable estimate of expenses as determined by the City Manager be made. The lump sum may be expended by the Council Member as appropriate for the travel or meeting without further submission of expense claims. Spouses are encouraged to attend as appropriate, but no differential in travel allowance will be given.

7. All travel and meeting expenses will be included in the annual budget and approved by the City Council. All necessary travel and meetings not included in the budget will require prior Council approval. Once the budget is approved, travel and meetings included therein, will be considered as approved and no further Council action is necessary. Appropriations and controls will be made on a departmental basis. ~~The general policy of the Council is to authorize one major conference per year for the Council, Planning Commission and designated City staff.~~

8. During the fiscal year, reimbursement for travel and meetings is authorized only when there is an existing unobligated balance in the appropriate account(s).

9. When a Council Member, member of a board, commission, or committee, or City staff represents the City on a JPA or other board for which a stipend or allowance is paid, there shall be no City reimbursement for expenses. Stipends received by City employees in these situations will be paid to the City.

10. ~~Whenever a claim for specific reimbursement is made, the following guidelines shall apply:~~

~~A. Meals at actual cost up to the following limits:~~

Breakfast:	\$9.00
Lunch:	\$12.00
Dinner:	\$24.00

~~Meetings for which meals are included will be paid at the rate charged:~~

~~A City employee who is required to travel for City business or training is eligible to claim for meals as follows:~~

- ~~i. If business travel requires an overnight stay away from home, employees are eligible to receive a \$51.00 per diem.~~
- ~~ii. Total travel time (work time, plus the lunch period, plus round-trip travel time) must equal or exceed 12 hours.~~
- ~~iii. For the first and last calendar day of travel, the per diem is calculated at 75%, or, \$38.25.~~
- ~~iv. No receipts are required.~~
- ~~v. Snacks are a personal expense and are not reimbursable~~
- ~~vi. Claiming for alcoholic beverages is prohibited.~~
- ~~vii. An employee may not claim a per diem allowance or reimbursement for any meal which is provided, or otherwise available, with lodging or the function being attended.~~

B. Lodging expenses will be reimbursed or paid on the basis of standard, non deluxe accommodation for the attendee only. Other charges, such as additional guests, room service, and personal telephone calls or television are not reimbursable unless such charges are standard inclusions in the one person rate.

C. Transportation costs for air, train, or bus will be reimbursed or paid based upon the lowest fare available. City vehicles should be used whenever possible for transportation. City gasoline credit cards should be used for refueling city vehicles. The use of private vehicles is discouraged. Reimbursement for private automobile use will be at the rate currently accepted by the Internal Revenue Service for purposes of income tax deductions, not to exceed the lowest round trip air fare cost. When car pooling of private vehicles occurs, the vehicle owner only is to be reimbursed.

D. Registration and other fees and charges for the meeting or training will be reimbursed or paid at cost.

E. Incidental expenses such as parking tolls, ~~bus or limousine~~ transportation between ~~lodgings, airports, depots, and~~ meeting sites, ~~tips,~~ business telephone calls, and other business expenses will be reimbursed at cost.

F. The use of rental vehicles will be authorized and reimbursed only when other alternative transportation is not available at destination.

~~8. For meetings outside Monterey County, City vehicles should be used whenever possible.~~

PROCEDURE

1. All requests for travel and meetings should be submitted in the annual budget request. After review, the City Manager will recommend travel and meeting expenditures for the fiscal year.

2. Following Council approval of the annual budget, travel and meetings may be taken as authorized.

3. ~~For a travel advance or for reimbursement, a City Travel and Expense Form must be completed and submitted to the Administrative Services Director for review and payment. Claims for travel reimbursements will be submitted using a Request for Travel Reimbursement form and approved by the department head (or their designee) and sent to the Finance Director for approval and payment.~~

All Request for Travel Reimbursement forms must be filled out correctly or it will be returned to the employee for corrections which may delay the payment.

All claims must be turned in to the Finance Department within 15 days of the Travelers return.

Claims should include:

_____ Name and address of traveler

_____ Name of conference, training, seminar (ect.) and location of travel

_____ Dates of travel

_____ GL account number to which expenses are to be charged

_____ Expense identification such as registration, mileage, airfare, etc. and the amount of each expense.

Receipts for all expenses must be attached to the Request for Travel Reimbursement form. If receipts are missing a Lost Receipt form must be submitted with an explanation of the expense.

Adopted: January 2, 1986
Resolution No. 5681

Amended: March 15, 1989
Resolution No. 5971

Amended: February 7, 1990
Resolution No. 6056

Amended: November 4, 1998
Resolution No. 08-56

**City of Pacific Grove
Council Policy**

Subject	Policy Number	Effective Date	Page
Budget and Financial Management	400-6	October 1, 2014	Page 1 of 7

Purpose

This Budget and Financial Management policy is established to help ensure that the City’s financial resources are managed in a manner that fosters administrative transparency and confidence among the City Council, citizenry, and staff that the City’s resources shall be available to fund ongoing City services, consistent with local economic conditions and the City Council’s service priorities.

Budget Process

Budget management occurs year-round, with ongoing City Council direction and public input. In addition to formal updates on the budget and fiscal forecast, staff provides periodic updates on revenues and expenditures.

The City uses a five-year fiscal planning horizon, in which the annual budget is the first year of the forecast. The forecast is a tool that helps decision-makers identify important trends and understand long-term consequences of budget decisions. Importantly, the forecast is not a budget and does not represent a plan. It is a model based on cost and revenue assumptions that is updated continuously. Since the degree of revenue uncertainty increases with each successive year of the forecast (i.e., we can place much more confidence in projections for the first year of the forecast period than for the last, the forecast is a more viable framework for decision-making in the near-term, and only suggests relative financial health based on stated economic assumptions in the later years.

The annual budget process begins in January or February with City Council discussion of goals for the following year. At this meeting, staff presents an update of the current year budget and five-year fiscal forecast, as well as estimates of revenues for the following year and baseline expenditure assumptions. Baseline expenditures include existing staffing levels and other costs required to continue current service levels. At this meeting, the City Council provides direction to staff on the goals for the following budget year and five-year forecast, which include both goals for services and capital projects as well as the amount of additional funding or expenditure reduction required to achieve the goals.

Based on this direction, the City Manager distributes budget instructions and baseline staffing cost information to department managers for developing the budget. Subsequently, the City Manager and Finance Director work with program managers to develop the budget consistent with Council goals.

In February and March, the City Council reviews evolving revenue information and expenditure assumptions and determines the process for City Council consideration of the budget.

The City Manager finalizes the recommended budget and presents it to the City Council in May. After public input and discussion at this meeting, the City Council either directs modifications to the budget or introduces an ordinance adopting the budget. At the second reading of the ordinance at a subsequent regular City Council meeting, the budget is adopted and effective July 1st of the fiscal year.

Fiscal Forecast

- Staff shall maintain a five-year General Fund fiscal forecast to include revenues, expenditures, as well as the net results of operations and the beginning and ending fund balances for each year of the forecast.

Operating Budget

- The City Council shall adopt an annual operating budget, pursuant to Article 29 of the City Charter, prior to the start of the fiscal year.
- Revenue projections for a given year shall include a contingency reserve of 1%, either positive or negative, depending on the general direction of the economy. The need for such a contingency can be re-evaluated after January 1 of the budget year.
- Subject to exception for specific circumstances, the City Manager's recommended budget shall include an expenditure contingency in the General Fund equal to 1%, which may only be spent on projects required to advance City Council goals, expressed either explicitly or through the City Council's work plan.
- The operating budget shall include ongoing operating revenues sufficient to fund ongoing operating expenditures. Reserves may be used as a resource to fund operations, with City Council acknowledgement of such use and a plan for re-establishing operations within annual anticipated revenues.
- The budget shall provide for adequate maintenance and the orderly replacement of fixed assets and equipment.
- Each October, staff shall present a report to the City Council estimating the year-end results for the preceding fiscal year. This report shall compare unaudited actual figures with budgeted and the most recently estimated actual figures.
- Appropriations are approved at the fund level, and in the case of the General Fund, at the department or program level. All amendments to the budget at these levels may be approved only by the City Council.
- For budget purposes, programs and departments are defined as follows:
 - City Council
 - Legal Services
 - City Manager/Human Resources/City Clerk
 - Finance
 - Information Systems
 - Community and Economic Development
 - Police and Disaster Preparedness
 - Fire and Emergency Medical Services
 - Library
 - Museum
 - Recreation
 - Public Works

The City Manager shall have authority to transfer funds within a given fund and between department appropriations to ensure that programmatic budgets may adapt throughout the year to evolving circumstances. Departmental appropriations in the 5100 series of the chart of accounts (salary and benefits) that reflect salary and benefit savings, may not be used to offset expenditures in the 5200 series of account codes (services and supplies) or the 6000 series of account codes (capital expense) without the express, written approval of the City Manager. These changes shall have no negative effect on the given fund or the General Fund.

Capital Projects

The City shall adopt a five-year capital improvement and maintenance plan, with the first year of the plan to be appropriated as part of the operating budget. The purpose of the plan is to identify and prioritize capital project needs.

The budget shall also include capital expenditures; where possible, such capital expenditures will be funded with non-recurring revenues or grants.

At least the first two years of the plan shall be fully funded, with funding shortfalls and challenges clearly identified in remaining years.

A Capital Improvement is defined as property, plant, or improvements having a useful life of two or more years and a total amortized acquisition and maintenance cost of \$2,500 or more. All estimated construction, maintenance, and operating costs and potential funding sources for each proposed capital improvement shall be identified.

The City shall finance only those capital improvements consistent with the adopted capital improvement plan and City priorities. All capital improvement operating and maintenance costs shall be included in the fiscal forecast.

Basis of Accounting

Financial statements are prepared in accordance with General Accepted Accounting Principles and all relevant Pronouncements promulgated by the Governmental Accounting Standards Board (GASB). All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt, which is recognized when due. Financial resources usually are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts are not current liabilities of the debt service fund, as their settlement shall not require expenditure of existing fund assets.

All proprietary fund types and nonexpendable trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Basis of Budgeting

The basis of budgeting is the same as the basis of accounting.

Treasury and Cash Management

The City shall manage the treasury in compliance with California Government Code Section 53600 and City Council Policy 400-5, which requires quarterly Treasurer's Reports to the City Council, reconsideration of Policy 400-5 by the Council at least once every two years, and selection of investments based on considerations of safety, liquidity, and yield, in order of decreasing priority.

In circumstances where short-term borrowing (i.e., fewer than 12 months) is required to mitigate the effects of uneven revenue disbursements from the state and ensure expenditure cash-flow demands may be met, the following options shall be considered, with the ultimate course of action dependent on the least cost, greatest security for the City, and administrative efficiency:

- Tax and Revenue Anticipation Notes (TRAN)
- Treasury Loan from Monterey County
- Inter-fund loans
- Commercial line of credit.

Should inter-fund loans be selected as a cash-flow strategy, the following conditions shall apply:

- City Council approval required for all loans;
- Duration of less than 12 months with the loan and repayment occurring within the same fiscal year;
- Fixed loan term (i.e., specific number of months with repayment date);
- Borrowing fund must pay interest at level to result in no loss of interest revenue to the lending fund;
- Specific revenue pledged to repay the loan based on realistic expectations for receipt;
- Funds in the lending fund must not be needed for operations during the period of the loan; and
- Loans must not be made from grant funds or other funds enabled by State or Federal legislation.

The City Council shall receive real-time reports of warrants drawn on the City Treasury.

Reserves

Reserves are established to ensure that sufficient resources shall be maintained in specified funds in amounts sufficient to manage reasonable risks, meet unanticipated needs, capitalize on opportunities, and provide for reasonable contingencies. Further, reserve balances shall be categorized and prioritized in accordance with GASB Statement #54 (GASB 54).

- In the City of Pacific Grove, "operating reserve" is equivalent to portions of the accumulated fund balance that are classified as either committed, assigned, or unassigned, per GASB 54.

- The order in which spendable reserves may be used is prioritized as follows: restricted, committed, assigned, and then unassigned, per GASB 54. Council action is required to increase, decrease, eliminate or reclassify amounts reported in each category.
- Use of reserves must be authorized in advance by the City Council.
- If reserves are expended for their intended use, the City Council shall prioritize restoration of reserves to levels established by policy before allocating resources to fund new or improved services.
- *General Fund.* The City establishes a target reserve level of 10% of the General Fund annual operating budget, and shall maintain reserves of at least 10%, unless otherwise approved by the City Council for specific purposes. The 10% reflects the following components:
 - Emergency financial need (e.g., capital repair, natural disaster)
 - Economic contingency (to mitigate sudden service and staffing cuts in response to economic shocks and downturns)
 - Economic opportunity (to leverage public resources for public investment opportunities, e.g., downtown property)
 - One-time opportunities to invest in assets (e.g., an expanded Library), as an alternative to debt financing
- *Golf Fund.* The purpose of the Golf Fund is to enable operation of the golf course as an enterprise without operating subsidies from the General Fund, unless deliberately authorized. The City establishes a target reserve level of 25% of revenues of the Golf Fund, as of June 30th of two fiscal years prior, to be used for capital improvements, cash management, and emergency protection. Given the vulnerability of the golf business to recession, 20% of the 25% would be retained for use in mitigating the effects of unexpected revenue downturns, and 5% would be available retained for emergency repairs or other emergencies.
- *Sewer Fund.* The Sewer Fund shall maintain a reserve of at least \$500,000.
- *Workers Compensation Fund:* The Workers Compensation Fund shall maintain a balance of current assets equal to 67% of total liabilities, or higher, should actuarial analysis conclude an imminent risk to the City for unanticipated losses.
- *Liability Insurance Reserve:* The Liability Insurance Reserve shall maintain a balance of at least \$300,000 in current assets, which is equivalent to the maximum amount the City would be required to pay in the event of two catastrophic losses in a single year (City's Self-Insured Retention Limit is currently \$150,000 per claim).

Debt Management

- Long-term borrowing shall be restricted to the purpose of funding capital improvement projects and equipment. The use of long-term borrowing for ongoing operations shall be avoided.
- The term of the debt shall not exceed the expected useful life of the object of the financing.
- Debt obligations shall be prioritized in the budget process and payments shall be made in a timely and efficient manner.
- Refunding techniques shall be employed where appropriate, and with all due City Council approval, to allow for restructuring of outstanding debt to remove or change restrictive covenants, and/or to reduce annual debt service in an amount sufficient to justify the costs related to restructuring the debt.
- Total debt in any fund shall not exceed prudent levels.

Property Acquisition and Disposition

- Acquisition of real property shall be tied to a specific objective, with the source of adequate funds identified and considerations given for the long-term fiscal and policy impacts.
- Disposition of real property shall be considered for those properties without specific deed restrictions and that are unused, under-utilized, economically not viable, or that were acquired for an outdated plan or purpose.

Annual Audit

The City of Pacific Grove shall undertake an annual independent audit.

- The City's Comprehensive Annual Financial Report (CAFR) including accompanying schedules and notes shall be completed no later than December 31 of each contract year.
- All funds of the City shall be audited in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller of the United States.
- The form of the CAFR shall be compliant with the requirements of the Government Finance Officers Association (GFOA) Certificate Program and will include the independent auditor's opinion on the Government-Wide Financial Statements and Fund Financial Statements.
- A separate "management letter" shall be published that includes recommendations for improvements in internal control, accounting procedures and other significant observations.

Capital Policy

All assets, including land, buildings, machinery and equipment, with an original cost in excess of \$5,000 and a useful life of three years or more will be subject to capitalization.

- The capitalization threshold is applied to individual units of fixed assets. For example, ten chairs purchased via a single order, each costing \$600 will not qualify for capitalization although the total cost of \$6,000 exceeds the threshold of \$5,000.
- Repair costs for fixed assets will be subject to capitalization when the repair extends the useful life of the related fixed asset.
- Useful Life Schedule

Description	Useful Life In Years
Buildings	100 Years
Machinery and equipment	5 Years
Furniture and fixtures	5 Years
Improvements other than buildings	3 Years
Sidewalks, curb, gutters, and streets	20-50 Years
Traffic signals	15 Years
Street signs	15 Years
Storm drains	20-50 Years
Park equipment	10-50 Years

- For construction in progress, no depreciation is recorded until the asset is placed in service. When construction is completed, the asset shall be reclassified as building, building improvement, land improvement, or equipment and should be capitalized and depreciated.
- The City shall use the straight-line method for depreciating all fixed assets (the basis of the asset is written off evenly over the useful life of the asset). Depreciation shall begin in the month the asset is placed in service.
- All computer and computer related equipment will be recorded and controlled as inventory and not depreciated. Constant changes in technology, software demands, and system configurations cause this asset class to be obsolete before it reaches its useful life.

Donated Assets

Fixed assets acquired by gift, donation or payment of a nominal sum not reflective of the asset's market value shall be assigned cost equal to the fair market value at the time of receipt.

Adopted: Resolution 11-086 (Adopted November 2, 2011)

Amended: Resolution 14-063 (Amended October 1, 2014)

Amended: Resolution 15-055 (Amended October 21, 2015)

RESOLUTION NO. 16-xxx

**AMENDING COUNCIL POLICY NOS. 000-2 MEETING AND TRAVEL EXPENSE
REIMBURSEMENT AND 400-6 BUDGET AND FINANCIAL MANAGEMENT**

FINDINGS

1. Council Policy 000-2, *Meeting and Travel Expense Reimbursement*, should be amended to comport with the Credit Card Policy, and amending Council Policy 400-6 *Budget and Financial Management* will provide additional internal controls over budget expenditures throughout the fiscal year.
2. Best practices and application of the policies in the prior fiscal year indicate revisions to the policies are necessary to strengthen internal controls and decrease the likelihood of exceeding appropriation limits.
3. This action does not constitute a "Project" as that term is defined under the California Environmental Quality Act (CEQA) Guideline Section 15378, as it is an organizational or administrative activity that will not result in direct or indirect physical changes in the environment.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF PACIFIC GROVE:

1. The foregoing Findings are adopted by the City Council as though set forth in full.
2. Council Policy Nos. 000-2 and 400-6 are amended as indicated in the draft amended policy attached hereto.
3. This Resolution shall take effect immediately following its adoption.

PASSED AND ADOPTED BY THE COUNCIL OF THE CITY OF PACIFIC GROVE
this 7th day of September, 2016, by the following vote:

AYES:

NOES:

ABSENT:

APPROVED:

BILL KAMPE, Mayor

ATTEST:

SANDRA KANDELL, CITY CLERK

APPROVED AS TO FORM:

DAVID C. LAREDO, City Attorney