City of Pinole

Financial and Investment Policies

Updated March 2023

Financial Policies

Structurally Balanced Budget 1
Reserve Policy 3
Revenue Policy – One-Time (Non-Recurring) Resources 4
Revenue Policy – User Fees and Charges 5
Expenditure and Budget Policy 6
Debt Policy 7
Receivables Policy 8
Grants Management Policy and Procedures 9
Capital Assets Policy and Procedures 14
Unclaimed Funds/Outstanding Checks Policy and Procedures 17

Investment Policies

Investment Policy 20
Pension Investment Policy 27

Structurally Balanced Budget

Policy

The City will aspire to create a proposed General Fund operating budget that is structurally balanced whereby current expenditures will be funded by current year revenue. If the proposed operating budget is structurally imbalanced, the City will develop a plan to create a proposed General Fund operating budget for the subsequent fiscal year that is structurally balanced.

Purpose

To ensure the sustainability of service and expenditure levels by requiring that ongoing General Fund operating expenditures be funded by ongoing revenues.

Definitions and Details

1. This policy applies to General Fund operating budgets.
2. Structural balance is defined as recurring (ongoing) revenues equaling or exceeding ongoing expenditures.
3. Under this policy, City staff will analyze whether the proposed General Fund operating budget is structurally balanced.
4. If City staff determines that the proposed budget is imbalanced, City staff will develop a plan to create a proposed General Fund operating budget for the following fiscal year that is structurally balanced, including possible revenue enhancements or expenditure decreases.
5. Internal service funds are intended to operate on a break-even basis.
6. To implement this policy, staff will identify General Fund operating revenue that is recurring and non-recurring. Recurring revenues are those that the City can reasonably expect to continue to receive on an annual basis over the next 5 to 10 years. Recurring revenues include, but may not be limited to, property taxes, sales and use taxes, utility user taxes, franchise taxes, business license taxes, transient occupancy taxes, other taxes, fines and forfeitures, interest on investments, use of money and property, motor vehicle in-lieu, city interfund transfers, licenses and permits, resources from other governmental agencies, charges to other City funds, and other reimbursements and charges for services. Non-recurring revenues are monies that the City cannot reasonably expect to continue to receive over the next 10 to 15 years. Non-recurring revenues include, but may not be limited to, fund balance, grant funds, financing proceeds, and sale of property and equipment. Revenue from recurring sources that is significantly above normal levels will be considered non-recurring revenues.
7. Staff will also identify General Fund operating expenditures that are recurring and non-recurring. A recurring expenditure is an ongoing cost that relates to an ongoing City service or activity. Examples of recurring expenditures are salaries, benefits, utilities, debt service, maintenance, normal capital outlays, and other mandated costs. Non- recurring expenditures are costs that are incurred for one-time activities,

or services that are scheduled to "sunset". Typical non-recurring expenditures include those for grant-funded activities, special initiatives, and one-time capital expenditures.

8. A structurally balanced General Fund operating budget is a best practice. It is, however, appropriate and consistent with best practice to adopt a structurally imbalanced budget for a given fiscal year under certain circumstances. For example, it is appropriate and consistent with best practice to use designated reserves as a non-recurring revenue to cover recurring expenditures during times of fiscal duress. If a budget is proposed with this characteristic, the Structurally Balanced Budget Policy provides appropriate direction, which is that staff should develop a plan to create a structurally balanced budget for the subsequent fiscal year.

Reserve Policy

Policy

The City will establish and maintain reserves to meet certain anticipated future obligations as well as to ensure that the City maintains adequate financial resources to continue to provide basic municipal services in the event of a significant unanticipated revenue decrease or expenditure increase.

Purpose

To ensure that the City maintains adequate financial resources to continue to provide basic municipal services in the event of a significant unanticipated revenue decrease or expenditure increase.

Definitions and Details

1. The City shall establish a separate account in the financial system to reserve funds intended to ensure that the City maintains adequate financial resources to continue to provide basic municipal services in the event of a significant unanticipated revenue decrease or expenditure increase. This account and the funds contained therein shall be referred to as the General Reserve. It shall be budgeted to contain an amount equivalent to 50% of the City's annual General Fund ongoing operating expenditures. Resources in the General Reserve account will be considered assigned[1] for the purpose of financial reporting per the standards of Generally Accepted Accounting Principles (GAAP) set forth by the Governmental Accounting Standards Board (GASB) Statement No. 54.
2. The City shall establish other separate accounts in the financial system to reserve funds for other appropriate purposes, such as for replacement of vehicles and major equipment; maintenance and replacement of capital assets; and long-term liabilities.
3. Funds held in the General Reserve can only be appropriated by a majority vote of the Council to address exceptional circumstances specifically related to a significant revenue shortfall, unanticipated expenditure, or other budget stabilization issue.
4. If the General Reserve funds are appropriated and expended, the City Council will endeavor to replenish them to the full amount noted above as part of the adoption of the subsequent budget, if not sooner.
5. This Policy shall be reviewed by the City Council periodically to ensure its consistency with current law and the City's current needs.

[1] Per the Governmental Accounting Standards Board (GASB) Statement No. 54, “assigned” fund balance is comprised of amounts that are constrained by the government’s intent to be used for specific purposes but are neither restricted nor committed.

Revenue Policy – One-Time (Non-Recurring) Resources

Policy

The City will strive to maintain a diversified and stable revenue base that is not overly dependent on any individual revenue type, land use, or major taxpayer. One-time resources (also referred to as "non-recurring") should be used for one-time (non-recurring) expenditures, including but not limited to establishing and rebuilding reserves, early retirement of debt, capital expenditures, and reducing unfunded pension liabilities (California Employee Retirement System (CalPERS) and Other Post Employment Benefits (OPEB)).

Purpose

To ensure that the City appropriately uses one-time resources, including not using one-time resources on ongoing expenditures, which can contribute to a structurally imbalanced budget.

Definitions and Details

1. Non-recurring revenues are monies that the City cannot reasonably expect to continue to receive over the next 10 to 15 years. Non-recurring revenues include, but may not be limited to, fund balance, grant funds, financing proceeds, and sale of property and equipment. Revenue from recurring sources that is significantly above normal levels will be considered non-recurring revenues.

Revenue Policy – User Fees and Charges

Policy

The City of Pinole is empowered to recapture, through fees, up to the full cost of providing specific services. Regular and consistent review of all fees is necessary to ensure that the costs associated with delivery of individual services have been appropriately identified, and that the City is fully recovering those costs. It is the City's policy to set user fees at full cost recovery levels, except where a greater community benefit is demonstrated to the satisfaction of the City Council, or when it is not cost effective to do so. The City will recover costs of new facilities and infrastructure necessitated through development impact fees consistent with state law.

Purpose

To determine the full costs of providing specific services so that the City Council can make informed decisions as to the appropriate levels of fees for services that may be imposed to avoid providing unwanted subsidies. The City Council may decide against full cost recovery in cases where greater community benefit is demonstrated.

Definitions and Details

1. Every service supported by user fees or charges will be analyzed bi-annually, or as required by statute or directed by City Council to determine the net cost of providing the service.
2. Net cost will be determined by identifying all revenues generated or attributed to the service and subtracting all cost elements (direct and indirect expenses, capital outlays and other one-time expenses). The resulting figure will be the level of subsidy, which the City Council will use as a basis for determining user fee increases or decreases.
3. If it is determined that there is a net cost to providing the service, the City Council will raise user fees to achieve full cost recovery, unless it is decided that the subsidy should be maintained.
4. Additional information may be necessary to aid in the decision as to whether or not a service should be subsidized (community benefit, cost-effectiveness, etc.)

Expenditure and Budget Policy

Policy

The City will deliver service in the most efficient and cost-effective manner. This includes utilizing the services of volunteers in areas where operationally and economically viable. The budget will state the objectives of the operating programs, and identify the resources being provided to accomplish the specified objectives.

Purpose

To provide guidance to staff in developing spending plans that address the City's priorities and policy objectives while ensuring benefit to the City.

Definitions and Details

1. Department expenditures are limited to:
    a. Budgeted expenditures approved by the City Council as appropriated by major category:
        i. Salary and Benefits;
        ii. Services and Supplies: Travel and Training, Office Expenses, Repairs and Maintenance, Materials, Professional Services, etc.; and Capital Outlay.
2. The operating budget will be prepared to fund current year expenditures with current year revenue. However, surplus fund balances may be used to increase reserves, fund Capital Improvement Projects, reduce unfunded pension liability (California Employee Retirement System (CalPERS) and Other Post Employment Benefits (OPEB)), or carried forward to fund future years' operating budgets when necessary to stabilize services and fund capital outlay.
3. Budget transfers require the approval of the City Manager or designee except those affecting personnel and capital projects which must be approved by the City Council.
4. Budget transfers required to hire additional permanent personnel require the City Council's approval.
5. The City will periodically update replacement and maintenance financing plans, and incorporate them into the Budget.
6. The City will monitor and review methods of operation to ensure that services continue to be delivered in the most cost-effective manner possible. This review process encompasses a wide range of productivity issues, including:
    a. Analyzing systems and procedures to ensure efficient delivery of services.
    b. Evaluating the ability of new technologies and related capital investments to improve productivity.
    c. Developing the skills and abilities of all City employees.
    d. Developing and implementing appropriate methods of recognizing and rewarding exceptional employee performance.
    e. Evaluating the ability of the private sector to perform the same level of service at a lower cost.

Debt Policy

Policy

The City will limit the use of debt so as not to place a burden on the fiscal resources of the City and its taxpayers. Long-term borrowing will be limited to capital improvements or projects that cannot be financed from current revenues. When capital projects are financed, the City will amortize the debt within a period not to exceed the expected useful life of the project. The City will limit the total debt ratio (debt guaranteed by the General Fund) to 10% or as required by bond coverage ratios. The debt ratio is calculated by the relationship between the debt and the General Fund revenue.

Purpose

To maintain fiscal viability by not encumbering the General Fund with excessive debt payments or using debt to support operating expenses.

Definitions and Details

1. For purposes of computing the percentage of debt payments the proposed budget expenditures will be used.
2. The ratio of debt payments to operating expenditures will be presented in the annual budget.
3. 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.
4. The City will not use long-term debt for current operations.
5. The City will not use short-term borrowing to support routine operations, provided however, that it may be used to meet temporary cash flow needs.
6. The City will maintain strong communications with bond rating agencies about the City’s financial condition and will follow a policy of full disclosure on financial reports and bond prospectus.
7. The City will strive to maintain or improve the City’s bond rating.
8. The City will utilize inter-fund loans when possible to reduce the cost of financing capital improvements.
9. The City is required to enter into an agreement for inter-fund loans beyond the current fiscal year.

Receivables Policy

Policy

The City will ensure the timely invoicing, monitoring, and collection of outstanding obligations owed to the City.

Purpose

To maintain appropriate oversight of all receivables and maintain sound fiscal management and accounting practices related to all receivables.

Definitions and Details

1. For the purpose of this policy, receivables are defined to include outstanding obligations owed to the City for services or goods supplied.
2. All receivables shall be recorded in accordance with Generally Accepted Accounting Principles (GAAP).
3. Accounts receivable will be administered by the Finance Department.
4. Accounts receivable shall be established for services or goods provided in advance of a payment and should include terms for collection. Invoices should be prepared in a timely manner but not less than on a monthly basis. Invoices should include a description of the goods or services provided, payment terms and remittance address.
5. All accounts receivable should be recorded in a manner that allows for aging analysis. Reconciliation of accounts receivable may be performed on a monthly, quarterly or annual basis depending on the type of receivable.
6. Collection options should be evaluated and pursued to maximize collections. The use of collection agencies and programs such as the State Interagency Intercept Collection Program or the County Tax lien process may be used based on the type of receivable.
7. An allowance for doubtful accounts should be recorded after a bad debt expense is estimated. Write-off of bad debt should be performed on an annual basis to ensure that accounts receivable and allowance balances are not overstated.
8. The City will establish written procedures to document the accounts receivable process and bad debt write-off process for adequate internal controls and proper management oversight. These procedures should be reviewed annually as part of the year end audit process.

Grants Management Policy and Procedures

Policy

City departments actively pursue federal, state and other grant opportunities when deemed appropriate. Grant funding allows the City to leverage local public funds by extending and enhancing the services it offers to the community, and to introduce new initiatives.

Purpose

The purpose of this policy is to specify circumstances when grant funding is appropriate and to establish a standardized set of procedures for the fiscal administration, management, and monitoring of public and private grants. This policy is intended to ensure compliance with all applicable administrative, financial, reporting, and monitoring requirements established by the funding agency as well as all applicable administrative and fiscal directives and guidelines established by the City of Pinole. The policy and procedures established herein shall apply to all Federal, State, County and private grants administered by the City.

Definitions and Details

1. Staff Responsibilities
    a. City Department seeking and managing grant funding is responsible for:
        i. Preparation of grant application materials;
        ii. Providing sufficient data to allow City Management to evaluate the costs and benefits of the proposed grant;
        iii. Obtaining appropriate approvals for submission of grant, if necessary;
        iv. Obtaining City Council approval for acceptance of grant;
        v. Understanding the operational and budgetary impact the grant has on the City;
        vi. Accumulating the appropriate accounting detail and supporting documentation;
        vii. Preparation of reports required by the grantor;
        viii. Providing the Finance Department with the following:
            1. Grant Award Letter;
            2. Grant Contract;
            3. City Council minutes of action or Council Resolution approving the grant;
            4. An administrative manual (this includes program guidelines and accounting procedures). This will allow Finance to maintain grant files which are accurate and complete.

ix. Providing Finance copies of all grant amendments, program reporting, reimbursement requests and other communications to all agents involved in the grant administration process for review prior to submission.

a. The Finance Department (Finance Director) is responsible for:
   i. Reviewing all financial reports to the grantor prior to submission to ensure its accuracy;
   ii. Assisting departments with any problems or questions regarding the grant submission process;
   iii. Scheduling audit of grant programs when requested by Grantee Agency. City staff will aid in the auditing process providing available source documents as requested by the auditing agency;
   iv. Coordinating the accounting for all receipts and disbursements related to the grant. Finance Department will determine setup and maintain the most appropriate method (s) of accounting for the grant in the financial system.

2. Pre-Application

   Prior to submitting an application for any grant award, the applicant department shall thoroughly review the grant requirements outlined in the solicitation to ensure that the department is aware of and has the capacity to meet all administrative, fiscal, programmatic, reporting and monitoring requirements.

3. Post-Award
   a. Set-Up

      All new grants should be reviewed by the Finance Director to ensure that all grant details are accurate and grant budget is established in the financial system in accordance with any special conditions required by the funder.

      i. Acceptance of all grants must be approved by action of the City Council. Said approval shall include authorization to appropriate funding to revenue and expenditure accounts.
      ii. For grants that were not included in the annual adopted budget, the applicant department will submit a request to appropriate revenue and expenditures to the City Council for review and approval. Once the grant budget has been approved by the City Council, department staff should submit a request to the Finance Department to establish the approved budget in the financial system.
      iii. The term of grant-funded positions must be clearly identified and disclosed to the City Council prior to approval. If the expiration of a grant requires the application of General Fund revenue for continued funding, this stipulation must also be disclosed.

iv. One-time or fluctuating grant sources should not be used for ongoing programs.
v. The awarded department assumes the lead role in grant management in collaboration with the Finance Department.

b. Cash Handling

Grant funds are received from various funding agencies via checks and electronic wire/ACH transfers only and should be sent to the Finance Department. Hard copy checks are deposited weekly and promptly recorded in the City's financial system.

4. Grant Monitoring and Quarterly Reporting

a. Grant Award Monitoring

Award monitoring shall be the responsibility of the applicant department to ensure that grant funds are expended for eligible activities in accordance with the guidelines established by the funder, including, but not limited to:

The applicant department shall obtain all documentation necessary to fully and accurately support all grant expenditures, including expenditures incurred by sub- recipients. Examples of supporting documentation may include, but not be limited to:

i. Employee timesheets
ii. Personnel Activity Reports
iii. Personnel Action Forms
iv. Payroll reports
v. Invoices and proof of payment
vi. Purchase receipts
vii. Workshop/Training itineraries
viii. Travel documents

b. Quarterly Reporting

Finance Department staff should review grant expenditures and cash position as needed to ensure proper oversight and fiscal administration of the grant. Claims for reimbursement based grants should be sent to the funder timely to ensure prompt reimbursement. If grant reimbursements are not received within the timeframe prescribed by the funder - generally 60 to 90 days - the appropriate applicant department staff should follow up to check on the status of the reimbursement request.

Grants are required to be reconciled at least quarterly as part of the Finance

Department's grant reconciliation process. Grant reconciliation should include review of all of the following:

i. Grant expenditure to revenue balance
ii. Grant budget to actual balance
iii. Status of reimbursement requests submitted to the funder for purpose of reversing revenue accruals
iv. Grant advances and whether or not funds should be recognized
v. Grant end dates, closeouts
vi. Review grant information against the general ledger to ensure accuracy of information listed

5. Record Retention

The City is committed to ensuring that all necessary grant records and documents are adequately retained as required by federal, state, and private funding agencies. The below Record Retention Schedule is approved as the retention schedule for grant records and documents maintained by the applicant department. The schedule is applicable to all physical and electronic grant records maintained by the department as part of the administration and management of federal, state, and private grant funds.

Record Retention Schedule: Grant Records	
Record Type*	Retention Period
Original grant proposal Grant-specific policies and procedures Grant award letter Grant agreement and subsequent modifications, if applicable Grant budget and subsequent modifications, if applicable All pertinent funder correspondence, including emails, phone log notes, letters, site visit/monitoring/corrective action/audit reports, etc… All pertinent sub-recipient/sub-grantee correspondence including emails, phone	At least 5 years following official notification by the awarding agency that the grant has been fiscally and programmatically closed OR at least 5 years following the closure of its audit report covering the entire award period, whichever is later.

log notes, letters, site visit/monitoring/corrective action/audit reports, etc… Fiscal and program/performance reports submitted to the funder including explanation of data collection/reporting methodology, if not evident Wire transfers and/or copies of reimbursement checks received Documentation of required matching funds All documentation relating to grantee compliance with the grant agreement All evidence of returned grant funds All supporting documentation necessary to fully and adequately justify grant expenditures including timesheets, payroll reports, Personnel Activity Reports, receipts, invoices, etc. Other documents deemed necessary and important by grant program/fiscal staff and/or documents required to be maintained by the funder	

* All grant documents and records should be organized and maintained in designated grant files or other systematic organizational structure.

Capital Assets Policy and Procedures

Policy

Purchased and donated assets meeting the City's capitalization definition and threshold will be classified and recorded in the City's financial records as capital assets. The value of the asset must meet the City's capitalization threshold of $5,000 to be recorded as a capital asset.

Purpose

To define costs eligible and establish thresholds for capitalization in conformity with Governmental Accounting Standards Board Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments and Statement No. 51 Accounting and Financial Reporting for Intangible Capital Assets.

Definitions and Details

1. Definition of a Capital Asset

   A capital asset is any tangible or intangible asset purchased for use in the day-to- day operations of the City with a useful life greater than one year and has an acquisition cost of $5,000 or more. Donations with an estimated appraised value of $5,000 or more and have a useful life greater than one year is also considered a capital asset. Capital assets include items such as land, sewer lines, buildings, vehicles, equipment, and furniture.

2. Major Asset Classes

   a. (100) Land – includes land under infrastructure and preparation costs. Costs can include acquisition prices and cost of initially preparing land for its intended use (basic site improvements, removal, excavation, relocation, reconstruction). Usually has an indefinite useful life and is not depreciated.
   b. (200) Improvements other than buildings - permanent improvements (non-moveable), other than buildings that add value to land, but do not have an indefinite useful life. Examples include fences, retaining walls, parking lots, and landscaping.
   c. (300) Buildings - permanent structures. Costs can include purchase of new building or cost of an improvement to an existing building. An entire building can be classified as one asset or be reported as separate capital assets if discrete portions of the building have significantly different useful lives (e.g. roof separate from building).
   d. (400) Infrastructure - capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, tunnels, drainage

systems, water and sewer systems, and lighting systems.

e. (600) Furnishings and Equipment - moveable assets that includes all costs to place equipment into service (freight, installation, warranties, and sales tax). Each piece of equipment must meet the minimum capitalization threshold and is not recorded in bulk. Examples include vehicles, furnishings, machinery, servers, and appliances.
f. (700) Other Capital Assets – capital assets that do not fit into any of the major asset classes. This can include:
    i. Intangibles – assets that are not physical in nature. Generally, this includes software and easements (can also include water rights, trademarks).
    ii. Easements - intangibles with an indefinite useful life and are not depreciated.
    iii. Software - both internally generated and off-the-shelf.
g. (900) Construction in Progress - construction projects in progress at the conclusion of the fiscal year. These costs are not depreciable until the project is completed and booked into the correct category of improvements, buildings, or infrastructure.

3. Capital Asset Useful Life

The capital asset useful life is the determining factor for the number of accounting periods over which the asset is to be depreciated. The City can determine the useful life of an asset by using historical information or by seeking guidance from other external resources to determine the proper useful life of the asset. Depreciation is recorded on a straight-line basis over the estimated useful life of the asset as follows:

Class	**Useful Life**
Bridges	75 years
Buildings	50 years
Equipment	5-10 years
Parks	70 years
Street drainage	100 years
Streets and roads	50 years
Vehicles	5-10 years
Wastewater infrastructure	50 years

4. Capital Asset Review

The City relies on a decentralized method to verify the accuracy of capital assets. Departments are responsible for evaluating the condition and functionality of existing capital assets assigned to their department to determine if the asset is still providing the most appropriate method to deliver services. Capital assets should be assessed on an annual basis.

5. Disposal of Capital Assets/Surplus Property

When an asset will no longer be used in operations, voluntarily or involuntarily, the asset shall be removed from the City's financial records and removed from service. Disposal of equipment, material, or inventory will be in accordance with the City's surplus property guidelines.

"Surplus Property" is used generically to describe any City property that is no longer needed or useable by the holding department. The City Council shall declare item(s) surplus prior to disposal.

6. Methods of Disposition

    a. The department head or designee in consultation with the Finance Director shall determine or approve one of the following methods of disposition that is most appropriate and in the best interests of the City.
    b. All surplus property is for sale "as is" and "where is", with no warranty, guarantee, or representation of any kind, expressed or implied, as to the condition, utility or usability or the property offered for sale. Appropriate methods of sale are as follows:
        i. Public Auction - Surplus property may be sold at public auction. City staff may conduct public Auctions, or the City may contract with a professional auctioneer including professional auction services.
        ii. Bids - Bids may be solicited for the sale of surplus property. Surplus property disposed of in this manner shall be sold to the highest responsible bidder.
        iii. Selling for Scrap - Surplus property may be sold as scrap if the department head or designee in consultation with the Finance Director deems that the value of the raw material exceeds the value of the property as a whole.
        iv. Negotiated Sale - Surplus property may be sold outright if the department head or designee in consultation with the Finance Director determines that only one known buyer is available or interested in acquiring the property.
        v. No Value Item – Where the department head or designee in consultation with the Finance Director determines that specific supplies or equipment are surplus and of minimal value to the City due to spoilage, obsolescence or other cause, or where the Finance Director, serving as the Purchasing Officer, determines that the cost of disposal of such supplies or equipment would exceed the recovery value, the department head or designee in consultation with the Finance Director shall dispose of the same in such a manner as he or she deems appropriate and in the best interest of the City.
    c. Surplus property that remains unsold will be donated to a non-profit organization or transferred to an appropriate recycle center.
    d. Proceeds from the sale or trade-in of surplus property shall be submitted to Finance for returning to the appropriate fund.

Unclaimed Funds/Outstanding Checks Policy and Procedures

Policy

The City of Pinole will account for unclaimed funds in a manner which follows Government Code Sections 50050 through 50056. Funds that remain unclaimed for at least three (3) years will become the property of the City of Pinole after the procedures identified herein have been followed.

Purpose

The purpose of this policy is to establish guidelines for the proper disposition of unclaimed funds and outstanding checks in accordance with government statutes.

Definitions and Details

1. Definitions

    a. Unclaimed Funds - Consists of funds which are not the property of the City but remain in the City Treasury for three (3) or more years without a claim being filed by the legal owner(s). Unclaimed funds do not include individual items of less than $15.00, any amounts in which the depositor's name is unknown, or restitution to victims.
    b. Warrant – Instrument issued to pay for goods and/or services rendered, issue refunds, etc. (i.e. a check).
    c. Stale Dated – A check that is older than six (6) months.
    d. Escheat – refers to state escheat laws that require agencies to transfer unclaimed property or funds to the state after three years and reasonable efforts locate the property owner.

2. Guidelines

    The City of Pinole has established the policy to hold unclaimed payroll and accounts payable checks rather than escheating the unclaimed funds to the State of California.

    This unclaimed funds policy applies to all outstanding payroll and accounts payable checks abandoned three years after the issue date.

3. Procedures: Items over $15.00

    a. Quarterly during the bank reconciliation process, the outstanding warrant register will be reviewed for items six (6) months and older. For the warrants six months and older, a letter and unclaimed property claim form will be mailed to the address on record for the issued warrant. See Exhibit 1 and 2 for examples.
    b. Every June 30th and December 31st, (final evaluation dates) all remaining

outstanding warrants will be evaluated. Any warrants issued more than 12 months prior to evaluation date will receive a second letter and affidavit form. If no response is received within 30 days for the warrants 12 months or greater, the warrant will be identified as stale dated. Stale dated warrants shall be cancelled and voided in the system. A journal entry shall be prepared to record the total amount of stale dated checks in a hold account called “Aged Unclaimed Warrants”.

c. A list of stale date warrants containing the warrant number, issue date, amount, and payee shall be maintained by the Finance Department. If a cancelled warrant is presented, or the payee files a claim after cancellation, the warrant shall be reissued by debiting the “Aged Unclaimed Warrants” account, and the original warrant shall be removed from the stale dated list.

d. Also, on June 30th and December 31st, the stale dated list shall be evaluated to determine which warrants are more than 3 years old from the date of issue. Warrants that are more than 3 years old will be handled as follows:

    i. A notice must be published once a week for two consecutive weeks in a newspaper of general circulation in the City of Pinole stating the payee, the amount, the fund in which the money is held, and that it is proposed that the money will become the property of the City of Pinole on a specific date (not less than 45 nor more than 60 days after the first publication). See Exhibit 3 for example.

    ii. Upon or prior to publication, a party of interest may file a claim (Exhibit 2) for the funds with the Finance Director. The claim must contain the claimant’s name, address, amount, tax identification number, and grounds for claim prior to the date the funds become property of the City of Pinole. The Finance Director can require additional information to help substantiate the claim.

    iii. On the day identified in the notice, the total dollar amount (on which no claims were filed) becomes the property of the City. A journal entry will be prepared to recognize the revenue. The money will be moved from “Aged Unclaimed Warrants” to the fund the warrant was originally issued from.

4. Procedures: Items under $15.00 or items where the depositor is unknown

    a. Quarterly during the bank reconciliation process, the outstanding warrant register will be reviewed for items six (6) months and older. For the warrants six months and older, a letter and unclaimed property claim form will be mailed to the address on record for the issued warrant. See Exhibit 1 and 2 for examples.

    b. Every June 30th and December 31st, (final evaluation dates) all remaining outstanding warrants will be evaluated. Any warrants issued more than 12 months prior to evaluation date will receive a second letter and affidavit form. If no response is received within 30 days for the warrants 12 months or greater, it becomes the property of the City of Pinole. Stale dated warrants shall be cancelled and voided in the system. A journal entry will be used to record the total amount of these warrants as revenue.

c. Any individual check of less than fifteen ($15) dollars, or any amount if the depositor’s name is unknown, which remain unclaimed for a period of one (1) year may be transferred from the funds which the money was originally drawn from by the City Council to the General Fund without the necessity of publication of notice in a newspaper. (Gov. Code Section 50055)

City of Pinole
INVESTMENT POLICY

I. Introduction

The purpose of this Policy is to define the parameters within which funds are to be managed. In methods, procedures, and practices, the policy formalizes the framework for the City of Pinole's investment activities that must be exercised to ensure effective and judicious fiscal and investment management of the City's funds.

II. Governing Authority

The investment program of the City of Pinole ("the City") shall be operated in conformance with federal, state, and other legal requirements. All funds will be invested in accordance with the City's Investment Policy, and California Government Code Sections 5360l, 5360l.l, 5360l.5, 5360l.6, 53635, 53646, 53635.5, and l648l.2.

III. Scope

It is intended that this policy cover all funds (except retirement funds) and investment activities under the direction of the City. The investment of bond proceeds will be in accordance with the provisions of relevant bond documents.

IV. Objectives

The primary objectives, in priority order, of the investment activities of the City shall be:

1. *Safety*
   Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.

2. *Liquidity*
   The investment portfolio of the City will remain sufficiently liquid to enable the City to meet its cash flow requirements.

3. *Return*

The investment portfolio of the City shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

V. Standards of Care

1. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse development.

The "prudent person" standard states that,

> "Investments shall be made with judgment and care under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

2. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

3. Delegation of Authority

The management responsibility for the investment program is hereby delegated to the City Treasurer or designee who shall monitor and review all investments for consistency with this investment policy. No person may engage in an investment transaction except as provided under the limits of this policy. The City Council may delegate its investment decision making and execution authority to an investment advisor. The advisor shall follow the policy and such other written instructions as are provided.

VI. Permitted Investment Instruments

1. U.S. Treasury and other government notes, bonds, bills, or obligations that carry the full faith and credit guarantee of the United States for the payment of principal and interest. Maturities shall not exceed five years in length. No more than fifty (50) percent of the City's investment portfolio may be invested in instruments defined under this section.

2. Federal Agency or U.S. government sponsored enterprises (GSE) bonds and note obligations, participations or other instruments. This includes but is not limited to obligations issued by Banks for Cooperatives, Federal Land Banks, Federal Intermediate Credit Banks, Federal Farm Credit Banks, Federal Home Loan Banks, the Federal Home Loan Bank Board, the Federal Home Loan Mortgage Corporation or in obligations, participations, or other instruments of, or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in guaranteed portions of Small Business Administration notes. Maturities shall not exceed five years in length**,** unless the funds to be invested are moneys generated from the proceeds of the sale of real estate assets restricted to a reserve account, and the investment security is "AA" rated by at least two of three nationally recognized rating agencies (Standard & Poor's, Moody's or Fitch) in which case maturities shall not exceed ten years in length. No more than 40 (forty) percent of the City's investment portfolio may be invested in instruments defined under this section.

3. Certificates of Deposit (CDs) which are Federal Deposit Insurance Company (FDIC) insured or fully collateralized time CD's in financial institutions in California. No more than 10 percent of the City's portfolio shall be invested in FDIC insured or fully collateralized time certificates of deposit. Maturities shall not exceed five years in length.

4. Negotiable FDIC insured Certificates of Deposit or deposit notes issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank. Purchase of negotiable CD's may not exceed 30 percent of the City's investment portfolio. Maturities shall not exceed five years in length, and must have an IDC number greater than 165 (excellent rated).

5. Bankers' Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by Moody's Investors Services or by Standard & Poor's Corporation. Purchases of Bankers' Acceptances may not exceed 180 days maturity or 40 percent of the City's investment portfolio. No more than l0 percent of the City's investment portfolio may be invested in the Banker's Acceptances of any one commercial bank.

6. Medium-term corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes shall be rated in a Double-AA rating category "AA" or its equivalent or better by a nationally recognized rating service. Additionally, corporate notes shall be widely diversified across all market sectors. Purchase of medium-term corporate notes may not exceed fifteen (15) percent of the City's investment portfolio. No more than five (5) percent of the City's investment portfolio may be invested in a medium-term note of any one corporation. Maturities shall not exceed five years in length.

7. Commercial paper rated in the highest tier of "prime quality" as provided by Moody's Investors Service, Inc., or Standard & Poor's Corporation, provided that the issuing corporation is organized and operating within the United States, has total assets in excess of $500 million and has an "A" or higher rating for its long-term debt, if any, as provided by Moody's or Standard & Poor's. Purchases of eligible commercial paper may not exceed l80 day's maturity nor represent more than l0 percent of the outstanding paper of an issuing corporation. Purchases of commercial paper may not exceed l5 percent of the City's investment portfolio. An additional l5 percent or a total of 30 percent of the City's investment portfolio may be invested only if the dollar weighted average of the entire amount does not exceed 3l days.

8. Repurchase Agreements used solely as short-term investments not to exceed 30 days. The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities, as described in VI.l and 2, will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the City's custodian bank versus payment or be handled under a tri-party repurchase agreement. The total of all collateral for each Repurchase Agreement must equal or exceed, on the basis of market value plus accrued interest, l03 percent of the total dollar value of the money invested by the City for the term of the investment unless the term of the investment is overnight, in which case the total of all collateral for the Repurchase Agreement must equal or exceed, on the basis of market value plus accrued interest, l00 percent of the total dollar value of the investment. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed on a regular basis. Market value must be calculated each time there is a substitution of collateral. The City or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

The City may enter into Repurchase Agreements with (l) primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York, and (2) California and non-California banking institutions having assets in excess of $l billion and in the highest short-term rating category as provided by Moody's Investors Service, Inc. or Standard & Poor's Corporation. The City will have specific written agreements with each firm with which it enters into Repurchase Agreements. No more than 10 percent of the City's investment portfolio may be invested in Repurchase Agreements.

9. State of California's Local Agency Investment Fund (LAIF). Up to l00 percent of the City's portfolio may be invested in LAIF or up to the maximum permitted by California State Law. The LAIF portfolio should be reviewed periodically.

10. Securities and Exchange Commission (SEC) registered Money Market Mutual Funds as authorized by Government Code Sections 5360l and/or 53635. To be eligible for investment pursuant to this subdivision these companies shall either:

a. Attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized rating services;
b. Have an investment advisor registered with the Securities and Exchange Commission with not less than five years experience investing in securities and obligations authorized by Government Code Section 5360l;
c. Assets under management in excess of $500,000,000;
d. The purchase price of the share of beneficial interest shall not include any commission charged by these companies; and,
e. Purchases shall not exceed l5 percent of the investment portfolio of the City.

Under no circumstances shall any funds of the City be invested in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages. Nor shall any of the City's funds be invested in any security that could result in zero interest accrual if held to maturity.

VII. Reporting Requirements

Quarterly investment reports shall be submitted by the City's Treasurer or designee to the City Council. The reports shall include, at a minimum, the following information for each individual investment:

- Type investment instrument;
- Institution/Issuer;
- Maturity date;
- Cost of security (par value) and dollar amount in all securities;
- Description of the funds and investments;
- Maturity distribution and of the portfolio;
- Current market value of all securities;
- Rate of return for the portfolio;
- A statement of compliance of the portfolio with the City's Investment Policy, and its ability to meet expenditure requirements for the next six months.

Pursuant to Government Code Section 53646 (e), the Treasurer may supply to the governing body, chief executive office and the external auditor a copy of the most recent statement received by the City on those investments in the State Local Agency Investment Fund in lieu of the above required statement.

VIII. Safekeeping and Custody

The assets of the City shall be secured through the third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Collateralized securities such as repurchase agreements shall be purchased using the delivery vs. payment (DVP) procedure.

City of Pinole
PENSION INVESTMENT POLICY

I. Introduction

The City of Pinole (the “City”) has established the City of Pinole Employee Benefit Pension Plan (the “Plan”), a Section 115 Trust. The goal of the Plan’s investment program is to provide a reasonable level of growth which will result in sufficient assets to offset a portion of the present and future obligations of retirement benefits provided by the California Public Employees Retirement System (“CalPERS”) for those eligible employees who meet the specified age and service requirements.

II. Statement of Purpose

The purpose of this Pension Investment Policy is to establish a comprehensive strategy for assets invested under the Plan, and outline prudent and acceptable parameters in which pension funds are to be managed.

The primary objectives of this policy are to:

- Facilitate the process of ongoing communication between the Plan Sponsor and its plan fiduciaries;
- Confirm the Plan’s investment goals and objectives and management policies applicable to the investment portfolio;
- Provide a framework to construct a well-diversified asset mix that can potentially be expected to meet the account’s short and long-term needs that is consistent with the account’s investment objectives, liquidity considerations and risk tolerance;
- Identify any unique considerations that may restrict or limit the investment discretion of its designated investment managers;
- Help maintain a long-term perspective when market volatility is caused by short-term market movements.

III. Roles and Responsibilities

Governing Authority

The pension investment program of the City of Pinole (“the City”) shall be operated in conformance with federal, state, and other legal requirements. All funds will be invested in accordance with the City’s Pension Investment Policy, and applicable California Government Code Sections.

Delegation of Authority

The management responsibility for the pension investment program is hereby delegated to the City Manager and/or Assistant City Manager or designee as Plan Administrator who shall monitor and review all investments for consistency with this investment policy. No person may engage in an investment transaction except as provided under the limits of this policy. The City Council may delegate its investment decision making and execution authority to an investment advisor. The advisor shall follow the policy and such other written instructions as are provided.

Duties and Responsibilities (Refer to Appendix for who serves in these roles)

Plan Administrator

The Plan Administrator for the City of Pinole is responsible for:

- Confirming the accuracy of this Investment Guidelines Document, in writing.
- Advising Trustee and Investment Manager of any change in the plan/account's financial situation, funding status, or cash flows, which could possibly necessitate a change to the account's overall risk tolerance, time horizon or liquidity requirements; and thus would dictate a change to the overall investment objective and goals for the account.
- Monitoring and supervising all service vendors and investment options, including investment managers.
- Avoiding prohibited transactions and conflicts of interest.

Trustee

The plan Trustee is responsible for:

- Valuing the holdings.
- Collecting all income and dividends owed to the Plan.
- Settling all transactions (buy-sell orders).

Investment Manager

The Investment Manager is responsible for:

- Assisting the Plan Administrator with the development and maintenance of this Investment Policy document.
- Meeting with the Plan Administrator to review portfolio structure, holdings, and performance.
- Designing, recommending and implementing an appropriate asset allocation consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this Policy.
- Researching and monitoring investment advisers and investment vehicles.

- Purchasing, selling, and reinvesting in securities held in the account.
- Monitoring the performance of all selected assets.
- Voting proxies, if applicable.
- Recommending changes to any of the above.
- Periodically reviewing the suitability of the investments, and being available at such other times within reason at your request.
- Preparing and presenting appropriate reports.
- Informing the Plan Administrator if changes occur in personnel that are responsible for portfolio management or research.

Standards of Care

Prudence

The standard of prudence to be used by investment officers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse development.

The "prudent person" standard states that,

> "Investments shall be made with judgment and care under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

IV. Asset Allocation

The goal of the Plan's investment program is to provide a reasonable level of growth, which will result in sufficient assets to pay a portion of the present and future obligations of the Plan. The following objectives are intended to assist in achieving this goal:

- The Plan should seek to earn a return in excess of its policy benchmark over the life of the Plan.

- The Plan's assets will be managed on a total return basis which takes into consideration both investment income and capital appreciation. While the Plan Sponsor recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. To achieve these objectives, the Plan Sponsor allocates its assets (asset allocation) with a strategic perspective of the capital markets.

Investment Time Horizon:	Intermediate-term
Anticipated Cash Flows:	Assets in the Plan will seek to mitigate the impact of future rate increases from CalPERS. Typically, increases in rates come with a one-year advance warning; however the Plan Administrator may request disbursement of assets at any time.
Investment Objective:	The primary objective is to generate a reasonable level of growth over time. The assets in this Plan will eventually be used to fund Pension Plan obligations for assets managed in the CalPERS Trust.
Risk Tolerance:	*Custom* – The account's risk tolerance has been rated moderate, which demonstrates that the account can accept price fluctuations to pursue its investment objectives.

Strategic Asset Allocation

As of the date of this Pension Investment Policy adoption, the asset allocation ranges for the City of Pinole Employee Benefit Pension Plan is as follows:

Strategic Asset Allocation Ranges		
Cash	Fixed Income	Equity
0-20%	45%-75%	25%-45%
Policy: 4%	Policy: 60%	Policy: 36%

Market conditions may cause the account's asset allocation to vary from the stated range from time to time. The Investment Manager will rebalance the portfolio no less than quarterly and/or when the actual weighting differs substantially from the strategic range, if appropriate and consistent with the Plan's objectives.

V. Investment Guidelines

Security Guidelines

Equities

With the exception of limitations and constraints described above, the Investment Manager may allocate assets of the equity portion of the account among various market capitalizations (large, mid, small) and investment styles (value, growth). Further, the Investment Manager may allocate assets among domestic, international developed and emerging market equity securities.

Total Equities	25%-45%
Equity Style	*Range*
Domestic Large Cap Equity	12%-35%
Domestic Mid Cap Equity	0%-10%
Domestic Small Cap Equity	0%-15%
International Equity (incl. Emerging Markets)	0%-15%
Real Estate Investment Trust (REIT)	0%-8%

Fixed Income

In the fixed income portion of the account, the Investment Manager may allocate assets among various sectors and industries, as well as varying maturities and credit quality that are consistent with the overall goals and objectives of the portfolio.

Total Fixed Income	45%-75%

*High Yield securities may be purchased, but they will be held using a diversified exchange traded fund, or mutual fund vehicle.

If individual fixed income securities are purchased for the Plan, the following guidelines will be adhered to in the management of the fixed income segment:

Eligible Investments

- Debt obligations of the U.S. Government, its agencies, and Government Sponsored Enterprises
- Mortgage-Backed Securities (MBS)
- Asset Backed Securities (ABS)
- Collateralized Mortgage Obligations (CMO)
- Commercial Mortgage-Backed Securities (CMBS)
- Corporate debt securities issued by U.S. or foreign entities including, but not limited to, limited partnerships, equipment trust certificates and enhanced equipment trust certificates
- Eligible instruments issued pursuant to SEC Rule 144(a)
- Municipal Bonds

With the exception of Debt obligations of the U.S. Government, its agencies, Government Sponsored Enterprises and US TIPS, the total investment in any fixed income security issuer shall not exceed 3% of total plan assets. These restrictions do not apply to fixed income funds or exchange-traded funds (ETFs).

Quality

The portfolio will maintain a minimum weighted average quality of A- at all times. Individual securities shall have a minimum quality rating of Baa3 by Moody's or BBB- by Standard & Poor's (S&P).

Duration

The Investment Manager will maintain the portfolio duration within +/- 25% of the benchmark duration at all times.

Diversification

- No more than 5% of the portfolio assets may be invested in any individual issuer, with the exception of securities issued or guaranteed by the U.S. Government, its agencies, and Government Sponsored Enterprises.

- No more than 10% of the portfolio may be invested in securities issued under Rule 144A.

Performance Benchmarks

The performance of the total Plan shall be measured over a three and five-year periods. These periods are considered sufficient to accommodate the market cycles experienced with investments. The performance shall be compared to the return of the total portfolio blended benchmark shown below.

<u>Total Portfolio Blended Benchmark</u>

19.00%	S&P 500 Index
3.50%	Russell Mid Cap Index
5.50%	Russell 2000 Index
2.50%	MSCI Emerging Market Index
4.50%	MSCI EAFE Index
1.00%	Wilshire REIT Index
45.50%	Bloomberg Barclays Capital Aggregate Bond Index
13.00%	ML 1-3 Year US Corp/Gov't Index
1.50%	US High Yield Master II
4.00%	Citi 1Mth T-Bill

<u>Asset Class/Style Benchmarks</u>

Over a market cycle, the long-term objective for each investment strategy is to add value to a market benchmark. The following are the benchmarks used to monitor each investment strategy:

Large Cap Equity	S&P 500 Index
Growth	S&P 500 Growth Index
Value	S&P 500 Value Index
Mid Cap Equity	Russell Mid Cap Index
Growth	Russell Mid Cap Growth Index
Value	Russell Mid Cap Value Index
Small Cap Equity	Russell 2000 Index
Growth	Russell 2000 Growth Index
Value	Russell 2000 Value Index
REITs	Wilshire REIT Index
International Equity	MSCI EAFE Index
Investment Grade Bonds	Bloomberg Barclays Capital Aggregate Bond Index
High Yield	US High Yield Master II

Security Selection

The Investment Manager may utilize a full range of investment vehicles when constructing the investment portfolio, including but not limited to individual securities, mutual funds, and exchange-traded funds. In addition, to the extent permissible, the Investment Manager is authorized to invest in shares of mutual funds in which the Investment Manager serves as advisor or sub-adviser.

Investment Limitations

The following investment transactions are prohibited:

- Direct investments in precious metals (precious metals mutual funds and exchange-traded funds are permissible).
- Venture Capital
- Short sales*
- Purchases of Letter Stock, Private Placements, or direct payments
- Leveraged Transactions*
- Commodities Transactions Puts, calls, straddles, or other option strategies*
- Purchases of real estate, with the exception of REITs
- Derivatives, with exception of ETFs*

**Permissible in diversified mutual funds and exchange-traded funds*

VI. Reporting Requirements

Quarterly reports shall be submitted by the Investment Manager to the Plan Administrator of the City of Pinole. These reports will be submitted by the City's Treasurer or designee to the City Council.

APPENDIX

Plan Sponsor Account Information as of the date this pension investment policy is adopted:

Plan Sponsor:	City of Pinole
Plan Administrator:	City Manager and/or Assistant City Manager or designee
Governance:	Pinole City Council
Plan Name ("Plan")	City of Pinole Employee Benefits Pension Plan
Trustee:	US Bank
Type of Account	Pension Plan
ERISA Status:	Not subject to ERISA
Investment Manager:	US Bank, as discretionary trustee, has delegated investment management responsibilities to HighMark Capital Management, Inc. ("Investment Manager"), an SEC-registered investment adviser
Investment Authority:	Except as otherwise noted, the Trustee, US Bank, has delegated investment authority to HighMark Capital Management, an SEC-registered investment adviser. Investment Manager has full investment discretion over the managed assets in the account. Investment Manager is authorized to purchase, sell, exchange, invest, reinvest and manage the designated assets held in the account, all in accordance with account's investment objectives, without prior approval or subsequent approval of any other party(ies).