

ADMINISTRATIVE MEMORANDUM

XXXX-XX

EFFECTIVE DATE: July 1, 2019
SUBJECT: PRODUCTIVITY BANK
(Responsible Department: Finance)

PURPOSE:

There shall be established in the City of Salinas a productivity/stabilization reserve fund to be known as the "Productivity Bank." This Productivity Bank shall be used to provide loans to Salinas City departments that can justify projects and/or initiatives that will generate additional revenues above current certified levels, and/or will generate savings, in order to help the City reach fiscal sustainability. Having a formal program provides a forum for employees and departments to pursue cost-saving measures in a structured fashion. The productivity bank promotes a strategic approach to the way in which City government conducted its business by encouraging innovation, accountability, and entrepreneurship.

The Productivity Bank shall be managed by the Finance Director under the direction of the City Manager of the City of Salinas or their designees, as appropriate. The Financial Director shall be the custodian of the Productivity Bank.

POLICY AND PROCEDURE:

Bank loan committee.

- A. Requests for loans from the Productivity Bank shall be reviewed and considered for approval by a Bank Loan Committee. A quorum of a majority of all members shall be required to conduct Committee business. Approval of an application for a loan and issuance of a loan shall require a majority vote of all present members of the Bank Loan Committee, except as otherwise provided herein. The Bank Loan Committee shall consist of seven members. Each of these members shall be full-time regular City employees. The City Manager shall select the members of the Committee and on alternate, as follows:
 - a. One Department Director, other than the Finance Director or Assistant City Manager (ACM);
 - b. Three exempt employees, other than Department Directors or ACM; and.
 - c. Three non-exempt employees.
- B. Applications shall be reviewed and, if appropriate, recommended for approval by the Bank Loan Committee. Proposals that are recommended for approval shall be sent to the City Manager for a final decision. The City Manager shall have authority to approve or deny the proposal as presented.

- C. The members of the Bank Loan Committee may be removed by the City Manager upon written notice.
- D. The members of the Bank Loan Committee may vote to recommend to the City Manager remove a member.
- E. The Bank Loan Committee shall meet as needed to conduct business, but not less than two times per year.
- F. The Finance Director or his/her designee shall provide administrative support for the Committee.

Loans.

- A. The maximum term of any Productivity Bank loan shall be determined by the Bank Loan Committee, and in no event shall the payback period for said loan exceed five years, except as provided below.
- B. The annual interest rate for any Productivity Bank loan shall be equal to and locked in at the most recently published quarterly State's Local Agency Investment Fund (LAIF) rate. The LAIF rate is the rate earned by the City for a majority of the City's idle cash on hand. Currently, published quarterly rate is 2.55% for the quarter ending March 2019 (<https://www.treasurer.ca.gov/pmia-laif/historical/quarterly.asp>). The interest will be added to the Productivity Bank fund balance and will serve as a hedge against inflation. The Bank Loan Committee shall determine the applicable penalties and additional charges for the failure to repay Productivity Bank loans in a timely manner. All projects and initiatives financed, in whole or in part, by said loans shall be projected to produce sufficient savings and/or new revenue - to enable the Productivity Bank loan recipient to fully repay said loan within the applicable loan term, plus accrued interest, penalties and charges.
- C. As determined by the City Manager and Finance Director, loans from the Productivity Bank may be expended directly from a new project account by the City department that receives a loan, or the loan proceeds may be transferred to the operating budget of the City department receiving a Productivity Bank loan.
- D. Loans shall be repaid over the term of the loan on a schedule established by the Bank Loan Committee. To the extent permitted by law, loan repayments, plus accrued interest, penalties, and charges, shall be appropriated in the budget of the department receiving the loan based upon the terms of the applicable loan repayment schedule. The following shall apply:
 - a. Loans made to finance projects and/or initiatives that produce additional revenue or reduce costs shall be repaid by dedicating 100% of new revenue or reduce costs generated by the project and/or initiative to repaying the loan; except that if new revenue or reduce costs in a year is greater than the loan repayment schedule for

that year, revenue or reduce costs in excess of the repayment schedule amount shall be shared in the following manner:

- i. First year of the loan: To the extent permitted by law, 100% of revenue or reduce costs in excess of the amount required to repay the loan shall be appropriated to the department that has been issued the loan. Said revenue or reduce costs may only be used to fund nonrecurring expenditures in that department.
 - ii. Second year of the loan: To the extent permitted by law, 50% of revenue or reduce costs in excess of the amount required to repay the loan shall be appropriated to the department that has been issued the loan. Said revenue or reduce costs may only be used to fund nonrecurring expenditures in that department. The remaining 50% of the revenue or reduce costs in excess of the amount required to repay the loan shall accrue to the Productivity Bank as further paydown on the loan.
 - iii. Third year of the loan and thereafter: All revenue or reduce costs in excess of the amount required to repay the loan shall accrue to the General Fund.
- E. Nothing in this section shall be construed to require the City to dedicate or appropriate savings or revenue to any particular department or purpose unless said savings or revenue is the direct product of a project and/or initiative financed by the Productivity Bank.
- F. In the event that the purpose(s) of any project and/or initiative financed by Productivity Bank loans can no longer be accomplished or there is a substantial likelihood that the loan amount cannot be repaid with interest within the applicable term, as determined by the Bank Loan Committee, the Bank Loan Committee may require that said recipient department immediately return any unexpended Productivity Bank loan amounts. Any such returned amounts shall be reduced from the recipient department's obligation to repay the corresponding Productivity Bank loan.
- G. The Committee may, by unanimous vote, approve loans amounts and terms in excess of those defined above.
- H. Committee members will be considered to have a conflict of interest if the projects and/or initiatives being considered for a loan was initiated by the member and would be not allowed to vote on the loan for that projects and/or initiative or participate as a committee member during the discussion/consideration of that projects and/or initiatives.

Operating procedures.

- A. The Bank Loan Committee shall issue rules setting forth the criteria by which it shall evaluate loan applications. The Bank Loan Committee shall publish such rules no later than July 1, 2019. These rules may be amended from time to time in accordance with the criteria

set forth herein. The Bank Loan Committee may create and furnish a form to applicant departments which shall be used in conjunction with a Productivity Bank loan application.

- B. Loans may only be made for projects and/or initiatives that increase revenue and/or reduce costs where said projects and/or initiatives cannot otherwise be funded from the City's capital budget or from a department's operating budget without negatively impacting normal service levels.
- C. Applications submitted to the Bank Loan Committee shall include all information requested by the Bank Loan Committee, including but not limited to a description of the project and/or initiative that the loan will fund, itemized and detailed costs of the project and/or initiative (nonrecurring and recurring), all funding sources, the benefits the project and/or initiative will provide and how the project and/or initiative is intended to increase revenue and/or reduce costs, an assessment of the project's and/or initiative's implementation risks and the likelihood of success, and any other information required by the Bank Loan Committee or the Productivity Bank staff. The applicant shall also demonstrate its ability to repay the loan with interest within the applicable term.
- D. Productivity Bank staff will work with each applicant department to determine whether a project and/or initiative qualifies for a loan. An application for a Productivity Bank loan may proceed to the Bank Loan Committee only after the Productivity Bank staff has determined that an application is complete and ready for its review and consideration. A majority vote of all then-existing members of the Bank Loan Committee is required for approval of a Productivity Bank loan.
- E. Loans shall be made by the Bank Loan Committee based on quantitative measures, which shall at a minimum include a demonstrated ability to produce additional revenue and/or reduce costs. Qualitative measures regarding the relative merits of projects and/or initiatives may be used to break a tie in the ranking of projects and/or initiatives.
- F. The Bank Loan Committee shall use funds from loan repayments, interest payments on loans, interest earnings on proceeds in the Productivity Bank stabilization reserve fund, penalties and charges on loans, and gain-sharing funds to make loans for other qualifying projects and initiatives.
- G. All funds awarded shall be subject to audit by the Bank Loan Committee and the Office of Internal Audit, or their successors in interest.
- H. The Bank Loan Committee shall require a department to execute an agreement or a memorandum of understanding, containing the repayment terms and all other pertinent provisions, as a condition of awarding a Productivity Bank loan. In no instance shall any Productivity Bank loan proceeds be disbursed or expended without a fully signed agreement or memorandum of understanding being in effect.

Ongoing reporting requirements.

- A. Staff of the Productivity Bank shall monitor and report on the progress of each project and initiative made by the Productivity Bank to ensure that the Productivity Bank will be repaid all outstanding loans plus accrued interest, penalties and charges, that the City is deriving the benefits originally projected for the project and/or initiative, and that the loan amounts are being used in accordance with the underlying purpose(s) of the project and/or initiative. The recipient department shall provide periodic updates on project and/or initiative implementation to the Productivity Bank staff as requested.
- B. No later than December 30 of each year, the Bank Loan Committee shall issue a report of the Productivity Bank, the status of all loans made from Productivity Bank funds, and the financial and operating performance of the projects and initiatives financed by the Productivity Bank.
- C. All recipient departments shall provide the Bank Loan Committee and Productivity Bank staff with all information required or requested for evaluating the performance of any project or initiative financed by a Productivity Bank loan.