



## STAFF REPORT

TO: Mayor Keis and Members of City Council  
FROM: Brenda Malinowski, Finance Director  
DATE: June 20, 2019  
RE: Financial Policies

### **ACTION REQUESTED:**

Approve the Financial Policies as presented.

### **BACKGROUND:**

Strong financial policies provide guidance in the responsible use of the City's resources and contribute to the City's financial health. It is important to review and revise the Financial Policies periodically, and they were last reviewed in 2016. These revised Financial Policies were reviewed at the last Council workshop. During the workshop, it was suggested to remove the per capita reference in the Debt Policy. This has been done.

Listed below are the sections and noteworthy items included in the Financial Policies:

- Table of Contents
  - A table of contents has been added to the Financial Policies for ease of use.
- Accounting, Auditing, and Financial Reporting
  - Internal control procedure responsibility has been added to this section. The Finance Director is responsible for implementing internal control procedures.
- Budgetary and Financial Control
  - No major changes.
- Investments
  - This policy is now in compliance with current State Statutes. The policy also addresses credit risk, interest rate risk, and diversification. These are items that are disclosed in the annual CAFR (Comprehensive Annual Financial Report).
- Revenue
  - No major changes.
- Fund Balance – Governmental Funds
  - This policy had been adopted by resolution in 2011. The policy is now included in the Financial Policies. A section has been added to discuss the fund balances of Special Revenue, Debt Service, and Capital Project funds.
- Capital Budgets
  - No major changes.

- Debt Management
  - This policy now includes debt issuance practices, debt structuring practices, and post issuance practices. These are items that Rating Agencies study during a ratings review process. The Conduit Debt Policy needs to be updated yet.
- Purchasing
  - This policy now has sections regarding purchasing levels for both budgeted and unbudgeted purchases. There are also additional sections regarding emergency purchases, noncompetitive purchases, employee reimbursements, and disbursements. The employee reimbursement section will also be included in the Personnel Policy.
- Credit Cards
  - This was a separate policy that is now included in the Financial Policies.
- Elected Officials Device Allowance
  - This was a separate policy that is now included in the Financial Policies.
- Risk Management
  - No major changes.

If the Council approves all the Financial Policies, the Council approval date will be included at the bottom of each policy. As new or revised Financial Policies are approved by Council in the future, these policies will be added to the Financial Policies.

**STAFF RECOMMENDATION:**

Approve the Financial Policies as presented.

**ATTACHMENT:**

Financial Policies

**City of Little Canada**  
**Financial Policies**  
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## **SECTION 1 - INTRODUCTION**

The City of Little Canada has established these financial policies to provide a framework that guides the responsible use of municipal resources and contributes to the City's overall financial health. These policies apply to all elected and appointed City officials.

The policies are consistent with all state and federal requirements in effect as of May 2019. Statutory and regulatory changes that become effective at a later date will supersede the City's fiscal policies. No provision in this policy is intended to violate, supersede or conflict with any applicable Federal law or regulation, State statute or local ordinance. In the event of conflicting or violation of any such regulation, the offending provision of this chapter will be void, but all remaining provisions will remain in effect.

The City Council is responsible for adopting and amending statements of purpose and policy.

The City Administrator and Finance Director are responsible for implementing the City's financial policies and proposing changes to the policies that the City Council may wish to consider from time to time. The Finance Director is authorized to adopt and amend procedures to implement these fiscal policies adopted by the City Council. It is intended that this document will be revised from time to time. Revision dates will be indicated at the end of each policy.

## **SECTION 2 –ACCOUNTING, AUDITING, AND FINANCIAL REPORTING**

### **Purpose**

Consistent application of accounting practices that conform to Generally Accepted Accounting Principles (GAAP) and governmental accounting standards ensures public confidence in the integrity of the City's financial condition and provides meaningful information about the City's operations.

### **Policy**

The City will use an accounting system to maintain records consistent with generally accepted accounting standards and principles for local government accounting as set forth in the Government Accounting Standards Board (GASB), and consistent with applicable state statutes and regulations. The following considerations and procedures will be used to comply with this policy:

- The City will establish and maintain the highest standard of accounting practices, in conformity with GAAP.
- The City will comply with statements promulgated by GASB.
- Quarterly reports will present a summary of General Fund financial activity by department as compared to Budget. Department Heads will review quarterly reports comparing actual revenues and expenditures to the budgeted amounts. Any negative variance in any revenue or spending category for their department as a whole projected to exceed \$10,000 by year-end will be reported in writing to the Finance Director, City Administrator, and Council. Department heads can request department financial activity at any time during the current quarter and it will be provided.
- Staff will bring these Financial Policies to the City Council periodically.
- The City will arrange for an annual audit of all funds and account groups by independent certified public accountants.
- The City will attempt at all times to maintain the Certificate of Excellence in Financial Reporting issued by the Government Finance Officers Association.
- The Finance Director will implement internal control procedures for the following:
  - Cash and Deposit Handling
  - Investment and Bank Statement Reconciliation
  - Accounts Receivables and Collections
  - Financial transaction recordkeeping including journal entry approval
  - Capital Asset Reconciliation
  - Payroll and Payroll Reporting

## SECTION 3 - BUDGETARY AND FINANCIAL CONTROL

### Purpose

The City's operating budgets establish annual plans for funding the costs of municipal programs and services. The operating budgets are comprised of the General, Special Revenue, and Debt Service Funds. Budgeting policies are designed to promote a long-term perspective required to maintain a constant level of services by ensuring stable revenues and efficient allocation of those revenues among City services.

### Policy

Department Directors will be responsible for the administration of their respective Department Budgets. Department Directors are expected to submit requests for any required budget adjustments, such as supplemental appropriations, to the Finance Director or the City Administrator before the program incurs cost overruns for the annual budget period.

- Department Directors will be permitted to spend budgeted departmental funds up to \$5,000 without City Administrator approval.
- The City Administrator will be permitted to spend unbudgeted City funds up to \$5,000 without Council approval.

The following considerations and procedures will be used to comply with this policy:

- Proper care in the management of funds lies with the manager responsible for approving expenditures. Such management includes, but is not limited to, reviewing expenditures before authorization, reviewing financial reports to detect errors and assess progress, and staying within expenditure budget authorization. All costs incurred must be reasonable and necessary. Any obligation incurred by any person in the employ of the City for any purpose not authorized in the budget resolution or for any amount in excess of the amount herein authorized may be deemed a personal obligation of the person incurring the expenditure.
- The City will not use short-term borrowing to balance the budget for any fund except to provide for a capital need in one fund and an investment opportunity for another fund.
- The City will not sell assets or use one-time accounting principle changes to balance the budget for any fund, except as approved by the City Council.
- City staff will make a general effort to obtain the lowest overall price for the best product or service.
- The City will televise all budget meetings each year, including the required Budget Meeting with public input.
- The operating budgets will provide for all current expenditures with current revenues, matching ongoing operating expenses with the appropriate source of ongoing revenues. The City's annual General Fund operating budget will be balanced so that current expenditures will not exceed current revenues. Exceptions to this practice would be; emergency situations, the use of prior year's surpluses to minimize the current year levy increase or limiting the reliance on state aid because its continuance in future years is questionable. The operating budgets will provide for adequate maintenance of the capital plant and equipment, and for their orderly replacement.

- The annual budget for the City's enterprise operations will be self-supporting, providing for the reasonable replacement of property, plant, and equipment, in addition to operating expenses. Utility fees and other rates for service will be reviewed and adjusted annually to ensure adequate funding for operating and capital expenses.
- Before adding a new program or service, the City will perform a cost-benefit analysis of the proposed program or services.
- A summary of the City's tax rates and Levy information based on the City's Annual Budget will be published in the City newsletter upon Council establishment of a preliminary levy.



## SECTION 4 - INVESTMENTS

### Purpose

The City is committed to managing investments in a manner that protects investment capital, provides liquidity for adequate cash flow, and provides an acceptable rate of return. Investment earnings also generate a predictable source of annual revenue for the City.

### Policy

The City will maintain a program for the investment of funds in a manner which maximizes security, provides a maximum return, and meets daily cash flow demands. The investments will conform to all applicable federal and state statutes regarding the investment of public funds. The Finance Director will exercise investment strategy and monitoring, and the investment results shall be presented to the City Council at least quarterly.

### Objectives

The primary objectives of investment activities, in order of priority, shall be safety, liquidity, and return:

#### 1. Safety

Investments shall be administered in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

##### A. Credit Risk

The City will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:

- Limiting investments to the types of investments authorized by Minnesota State Statutes. These investments are listed under Authorized Investments.
- The City will minimize deposit Custodial Credit Risk, which is the risk of loss due to a depository bank failure (or credit union) by obtaining collateral or bonds for all uninsured deposits, and by obtaining necessary documentation to show compliance with state law and federal law.
- The City will eliminate investment Custodial Credit Risk by permitting brokers that obtained investments for the City to hold them only to the extent there is Securities Investment Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be held in safekeeping.
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

##### B. Interest Rate Risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that security maturities match cash requirements for ongoing operations. This will avoid the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities, money market mutual

- funds, or similar investment pools.
- A schedule of receipts and disbursements shall be maintained so that investments can be coordinated with expected cash flows.
- The maximum term of investments will be 6 years unless disclosed in writing to the City Council.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrently with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools (4M Fund) which offer same-day liquidity for operating and short-term funds.

3. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Securities shall generally be held until maturity.

After the liquidity and scheduled maturity needs are satisfied, the balance of the funds available for the investment will be placed with institutions that offer the greatest safety and highest rate of return. Purchases of investments should be made on the basis of competitive offers and bids when practical.

## **Standards of Care**

1. Delegation of Authority

The Finance Director is designated as the Investment Officer of the City and is responsible for investment management decisions and activities. The Finance Director and City Administrator are authorized to make investments on behalf of the City. The Finance Director shall develop and maintain written administrative procedures for the operation of the investment monitoring, diversification of risk, as well as a system of controls to regulate the activities of the investments.

2. Prudence

The standard of prudence to be used shall be the "Prudent Investor rule" and shall be applied in the context of managing the overall portfolio: "investments shall be made with judgment and care – under prevailing circumstances – 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."

City employees meeting this standard will 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 developments.

3. Ethics and Conflicts of Interest

Employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

**Authorized Financial Institutions, Depositories, and Broker/Dealers**

The Finance Director will maintain a list of financial institutions and depositories authorized to provide investment services. Annually, the Finance Director will obtain the Minnesota Broker Notification and Certification form required by Minnesota Statutes 118A prior to any investment transactions with the City.

**Authorized Investments**

The City will invest only in securities authorized by Minnesota Statute §118A.04 and §118A.05.

Investment instruments authorized and permitted by this policy are as follows:

1. **United States Securities.** City funds may be invested in governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities as defined in Minnesota Statute §118A.04) and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
2. **State and Local Securities.** City funds may be invested in the following:
  - A. Any security which is a general obligation of any state or local government with taxing powers which is rated “A” or better by a national bond rating service (including Debt issued by the City of Little Canada).
  - B. Any security which is a revenue obligation of any state or local government with taxing powers which is rated “AA” or better by a national bond rating service (including Debt issued by the City of Little Canada).
  - C. A general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better by a national bond rating agency.
3. **Commercial Paper.** City funds may be invested in commercial paper issued by United States Corporations or their Canadian subsidiaries that are rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.
4. **Time Deposit.** City funds may be invested in time deposits that are fully insured by the FDIC or bankers acceptances’ of United States banks.

5. **Certificates of Deposit (CD).** City funds may be invested in transferable CDs that are fully insured by the FDIC.
5. **Money Market Mutual Funds.** City funds may be invested in money market mutual funds that meet the criteria of this policy.
6. **Minnesota Joint Powers Investment Trust.** City funds may be invested in agreements or contracts for shares of a Minnesota joint powers investment trust whose investments are restricted to comply with Minnesota Statutes.

### **Safekeeping and Custody**

Investments will be held in safekeeping pursuant to Minnesota Statutes 118A.06. Specifically, investments may be held in safekeeping with:

1. Any Federal Reserve Bank,
2. Any bank authorized under the laws of the United States or any state to exercise corporate trust powers, including but not limited to the bank from which the investment is purchased,
3. A primary reporting dealer in the United States government securities to the Federal Reserve Bank of New York, or
4. A securities broker-dealer who is:
  - registered as a broker-dealer pursuant to Minnesota Statutes Chapter 80A or is exempt from the registration requirements,
  - regulated by the Securities and Exchange Commission; and
  - maintains insurance through the Securities Investment Protection Corporation or excess insurance coverage in an amount equal to or greater than the value of the securities held.

The City's ownership of all securities in which the fund is invested should be evidenced by written acknowledgments identifying the securities by:

1. The names of issuers,
2. The maturity dates,
3. The interest rates,
4. Any serial numbers or cusips.

The Finance Director shall establish a system of internal controls, which shall be reviewed with the independent auditor of the City. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

## **Investment Diversification and Constraints**

### **1. Diversification of instruments**

It is the policy of the City to diversify its investment portfolios. To eliminate the risk of loss resulting from the overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all City funds shall be diversified by maturity, issuer, and security type. No more than 5% of the overall portfolio be invested in securities of a single issue, except when backed with collateral.

### **2. Diversification of maturity dates**

At least 5 percent of the City's portfolio shall be kept in investments, which are available on a daily basis without loss of principal. This is to ensure that funds will be available for unexpected expenditures.

### **3. Maximum Maturities**

To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than six (6) years from the date of purchase.

Reserve funds and other funds with longer-term investment horizons may be segregated into a long-term "core" investment portfolio and invested in securities exceeding six (6) years if the maturities of such investments are made to coincide with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the City Council.

## **Reporting**

The Finance Director shall prepare an investment report at least quarterly, including a report of the investments held and investment activity.

## SECTION 5 - REVENUE

### **Purpose**

The City is committed to managing public revenues in a manner that provides maximum service value to the community and ensures a diversified and stable revenue system. Revenue sources will be matched with appropriate expenditures to ensure adequate long-term resources to fund various municipal programs and services. Additionally, user fees will be designated to the funds they are used to support (i.e. Park charge fees will be designated to the Parkland Acquisition Fund). Any deviation from this policy must be pre-approved by the City Council.

### **Property Tax Policy**

Property taxes are the most important source of revenue for both services and capital investment. In managing property taxes, the City will seek a balance between providing appropriate level of services, maintaining infrastructure, and affordability for residents. The following considerations and procedures will be used to comply with this policy:

- Property tax planning shall seek to identify future opportunities such as changes in the tax base, and the impact of levy supported debt.
- Forecasting future valuation is an essential element of financial planning, but a difficult task. Taxable property valuation depends on many variables — actual development, statutory tax capacity rates, use of tax increment financing, operation of the fiscal disparities system, and County valuations.
- The City will seek a balanced tax base through support of a sound mix of residential, commercial, and industrial development.
- City planning efforts will be impaired by a lack of local control over the property tax system. Legislative changes in the property tax system and other elements of local government finance require on-going adjustment to plans and projections. Future possible property tax reform may enhance or limit the future ability to use property taxes.
- Planning must account for the likelihood that the ability to levy general property taxes will be subject to some form of limitation in a future year, such as Levy limits.

### **Other Revenues Policy**

The City will maintain a diversified and stable revenue system to shelter it from short-run fluctuations in any one revenue source. The City will conservatively estimate its annual revenues by an objective, analytical process. All existing and potential revenue sources will be re-examined annually. The following considerations and procedures will be used to comply with this policy.

- The total sum appropriated for the General Fund shall be less than the total estimated revenue by a safe margin. It is the policy of the City that this “safe margin” will allow for property tax collections of 97.5% in any given budget year.
- Financial planning should consider the instability of intergovernmental sources and the the limits and demands on property taxes. Therefore City must continue to make effective use of fees, charges, and other non-tax revenues.
- Planning must recognize the relationship between finance and community development. Significant fee revenue associated with redevelopment and commercial expansions should

not be considered reoccurring in nature. Given the City's substantially developed status, the revenue from development-related charges (building permits, plan check fees, etc.) fees should be based on reasonable levels of repairs and renovation activity.

- The City will establish all user charges and fees for General Fund program activities at a level related to the cost of providing the services, or as adjusted for particular program goals. Each year, the City will review the full cost of activities supported by user fees in order to identify the impact of inflation and other cost increases. These fees, along with the resulting net property tax costs, will be reviewed with the City Council at budget time.
- Transfers between funds shall not be used as a source of revenue to balance fund deficits.

### **Utilities Revenue Policy**

User fees that support utility enterprise operations or other enterprise operations will be established at a level sufficient to fund operating costs and provide for a reasonable level of replacement cost for infrastructure and equipment. Enterprise operations will be managed as self-supporting services that should breakeven on a cash basis. The following considerations and procedures will be used to comply with this policy:

- All utility rates should be adjusted on an annual basis to account for inflation. An annual rate review of neighboring cities with similar utility systems will be done in order to confirm that the City's rates are at a competitive and reasonable level.
- Replacement (or bonding for replacement) of enterprise infrastructure will be paid with accumulated (or annual) earnings of the particular system via the Water Sewer Capital Replacement Fund.
- A transfer of equity from an enterprise fund to the General Fund should only be done in extreme circumstances to fund an unusual, unanticipated expense. In no event shall such equity transfers be made to balance a General Fund shortfall. Equity transfers must be approved by the City Council.

### **Non-Recurring Revenue Policy**

The City Council will use non-recurring revenue sources, such as one-time grants, settlements, and intergovernmental fund transfers conservatively. This will minimize the City's reliance on using such funds to cover ongoing operating expenditures.

## SECTION 6 - FUND BALANCE –GOVERNMENTAL FUNDS

### Purpose

The City is committed to maintaining a stable financial environment for the City’s operations that allows the City to provide quality services to its residents in a fiscally responsible manner. This policy also provides a measure of financial protection against unanticipated events that would adversely affect the financial condition of the City and jeopardize the continuation of necessary public services.

This policy will ensure that the City maintains adequate fund balance and reserves in order to:

- Provide sufficient cash flow for daily financial needs
- Secure and maintain bond ratings
- Offset significant economic downturns or revenue shortfalls, and
- Provide funds for unforeseen expenditures related to emergencies.

### Definitions

Fund Balance – Net position of a governmental fund (the difference between assets and liabilities reported in the governmental fund).

Governmental Funds – These are the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

Nonspendable Fund Balance – Amounts that are not in a spendable form, or are legally or contractually required to be maintained intact. “Not in spendable form” includes items that are not expected to be converted to cash (such as inventories and prepaid amounts) and items such as the long-term amount of loans and notes receivable, as well as property acquired for resale.

Restricted Fund Balance – Amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – Amounts constrained for a specific purpose by formal action of a government using its highest level of decision-making authority. Action to constrain resources must occur prior to year-end. However, the amount can be determined in the subsequent period.

Assigned Fund Balance – Amounts that are constrained by the City’s intent to use for specified purposes, but are neither restricted nor committed. Assigned fund balance in the General Fund includes amounts that are intended to be used for specific purposes.

Unassigned Fund Balance – Unassigned Fund Balance is the difference between total fund balance in a governmental fund minus its nonspendable, restricted, committed, and assigned components. The unassigned fund balance is only used in the General Fund or when there is a negative fund balance in another governmental fund.



## Policy

**General Fund** –The General Fund is used to account for and report all financial resources that are not required to be reflected in another fund.

Unassigned fund balance for the General Fund shall be between 42.5% and 65% of the subsequent year’s budget. Since a significant source of revenue in the General Fund comes from property taxes, maintaining an adequate unassigned fund balance ensures that sufficient resources are available to fund basic City functions between the property tax settlements that are received in July and December.

If the unassigned fund balance rises above or below the desired range at year-end, the City Administrator and/or Finance Director shall report such amounts to the City Council as soon as practicable after the end of the fiscal year. Should the actual amount of unassigned fund balance fall below the desired range, the City shall create a plan to restore the appropriate levels. Should the actual amounts of unassigned fund balance rise above the desired range; excess funds will be transferred to the General Capital Improvement Fund (Fund 400).

The City Council has designated the authority to assign fund balance for specified purposes to the City Administrator and/or Finance Director.

**Special Revenue Funds** – Special Revenue Funds are used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. After nonspendable and restricted fund balance assignments, fund balance in the special revenue funds will be committed as follows:

Fund	Specific Revenue Source	Committed For
Economic Development	Charges for Services	Economic Development
Parks & Recreation	Charges for Services	Parks & Recreation
Cable TV	Franchise Fees	Cable TV
Recycling/Trash	Charges for Services	Recycling/Trash

**Debt Service Funds** – Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest debt payments. This policy does not create any specific reservation of fund balance within any Debt Service Fund as it is established as part of the ordinance or resolution which authorizes the issuance of the bonds.

**Capital Projects Funds** – The Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. These projects may extend beyond a fiscal year. No specific reserve requirement is established for the Capital Projects Funds. However, adequate fund balances will be determined as part of the 5-year Capital Improvement Plan approved each year.

### **Spending Order of Fund Balances**

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted (committed, assigned, and unassigned) resources as they are needed. When unrestricted resources are available for use, it is the city's policy to use resources in the following order: 1) committed, 2) assigned, 3) unassigned.

### **Annual Review**

The Finance Director and/or City Administrator will review fund balances annually with the City Auditor and determine the adequacy of those balances.

## SECTION 7 – CAPITAL BUDGETS

### Purpose

The City is committed to long-term capital planning to ensure capital items can be added or replaced capital items when needed, without significant fluctuations in the property tax levy. Capital budgeting will enable the City to maintain a stable property tax rate, prevent peaks and valleys in its debt retirement program, and maintain or improve its credit rating. The City's Capital Funds include:

- General Capital Improvement Fund (Fund 400)
- 10% Fund (Fund 408)
- Infrastructure Fund (Fund 450)
- Park Land Acquisition Fund (Fund 456)
- Fire Equipment Replacement (Fund 457)
- Water/Sewer Capital Replacement Fund (Fund 604)

### Policy

The City's capital planning process will include a five-year capital improvement plan (CIP). The CIP will identify costs for all capital items with funding sources. These capital items will include facilities, major building repairs, infrastructure improvements and replacements, furniture, fixtures and equipment, vehicles, and technology upgrades. It will include all purchases with a combined value of \$5,000 or more, and a life expectancy of five years or more.

The CIP will be reviewed each year. The current year of the CIP will be incorporated in the City's annual operating budget. The remaining four years of the CIP will be used to identify and schedule future capital expenditures.

During the annual budget process, the City Council will evaluate the proposed CIP items based on the acceptability of funding sources and the financial impact on the City's tax levy, total debt, and utility rate levels. The following considerations and procedures will be used to comply with this policy:

- The City will maintain all its assets at a level adequate to protect the City's and its citizens' capital investment and to minimize future maintenance and replacement costs.
- The City staff will identify the estimated cost and potential funding sources for each capital project proposal before it is submitted to the Council for approval. In that process, staff will determine the most effective financing method for the proposed project.
- The City staff will coordinate the development of the CIP with the development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.
- The financing investment in infrastructure and equipment may be constrained by levy limits and the ability to raise property taxes. With levy limits, the use of debt may be needed to create a property tax levy outside of levy limits.

## **SECTION 8 – DEBT MANAGEMENT**

### **Purpose**

Debt provides the City of Little Canada with a revenue source that can be used to finance capital expenditures in advance of when it would be possible to do so on a pay-as-you-go basis. It can reduce long-term costs due to inflation, prevent lost opportunities, and equalize the cost of improvements among present and future constituents. The goal of the City's debt management program is to stabilize the overall debt burden and future tax levy requirement, ensuring that issued debt can be repaid without weakening the City's financial condition.

### **Policy**

This policy will set forth parameters for issuing debt, managing outstanding debt, provide guidance for decision-makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, method of sale that may be used and structural features that may be incorporated. This policy recognized a binding commitment to the full and timely repayment of all debt by the City. Adherence to the debt policy helps the City to maintain a sound debt position and protect its credit quality.

### **Limitations on the Issuance of Debt**

#### **1. Legal Debt Limits**

- Minnesota Statutes, Section 475 prescribes the statutory debt limit that outstanding principal of debt cannot exceed 3% of taxable market value.
- Current local ordinances do not limit the City's ability to issue debt.

#### **2. Policy Limits**

- Use of Debt: Debt will be used only for capital costs. The City will not utilize debt for current operations except in the case of an extreme financial emergency, which is beyond the City's control or reasonable ability to forecast.
- CIP and Financial Planning: The City's Capital Improvement Plan (CIP) shall contain debt assumptions which match this policy and requires a commitment to long-range financial planning which looks at multiple years of capital and debt needs.
- Tax Increment Bonds: The City shall use G.O. Tax Increment Bonds only when the development merits special consideration.

#### **3. Financial Limits:**

- Direct debt is the amount of general obligation principal or lease obligations supported by taxes, special assessments, or tax increment which are outstanding for the City only. Indirect debt is the amount of the City's share of debt of other taxing jurisdictions.

- Bond issues may require a special debt levy. The City hereby adopts a policy to limit the amount of the city's property tax levy dedicated to debt service (principal and interest plus 5% for G.O. bonds ) to less than 5% of the total tax levy. Unlike rating agencies, the City's definition of tax levy does not include special assessments, tax abatements, or tax increments.
- Pure revenue bond debt for the City shall be used primarily as lease revenue bonds, supported by taxes.
- Conduit debt – See conduit debt policy.

### **Debt Issuance Practices**

Whenever the City is contemplating a possible bond issue, the information will be developed concerning the following categories commonly used by rating agencies assessing the City's creditworthiness.

- Debt Analysis
  - Debt capacity analysis
  - Purpose of which the debt is issued
  - Debt structure
  - Debt burden
  - Debt history and trends
  - Adequacy of debt and capital planning
- Financial Analysis
  - Stability, diversity, and growth rates of tax or other revenue sources
  - Trend in assessed valuation and collections
  - Current budget trends
  - History and long term trends of revenues and expenditures
  - Fund balance status and trends in operating and debt funds
  - Cash flow projections
- Economic Analysis
  - Population and demographics
  - Economic environment and trends
- Rating Agencies: The City will utilize Standard and Poor's for all of its debt issuance of more than \$1M or longer than 3 years in term.
- Method of Sale: The City shall use competitive bidding for all of its debt unless the debt is so specialized in its nature that it will not attract more than 2 bids.

- Refunding:
  - Current refunding bonds shall be utilized when present value savings of 3% of refunded principal is achieved or in concert with other bond issues to save costs of issuance.
  - Special assessment or revenue debt will not be refunded unless the Finance Director determines that special assessments or other sufficient revenues will not be collected soon enough to pay off the debt fully at that call date.
- Professional Services. The City shall use an outside bond attorney and an independent municipal advisor to structure the sale of debt.

### **Debt Structuring Practices**

- Term: State law limits general obligation debt to 30 years in most circumstances. The City shall generally structure public improvement bonds not to exceed 10 years in term.
- The City will follow a “pay-as-you-go” capital funding policy, supporting capital spending with the use of debt whenever feasible. In evaluating the use of long-term debt, the City will consider such things as scheduled improvements, the availability of funds on hand to finance the project, the cost of issuance, the opportunity to bundle multiple projects in the issue, and the current interest rate market. Bond issues will be structured to ensure that debt is repaid within a period not to exceed the expected useful life of the project.
- The City will usually issue debt with level principal and interest payments.
- The City shall have a call date (pre-payment date) as short as possible consistent with achieving the best interest rates possible for the City. Obligations shall be callable at par.

### **Post Issuance Practices**

- Continuing Disclosure: The City shall comply with SEC rule 15(c)2(12) on primary and continuing disclosure. The Finance Director is responsible for providing ongoing disclosure information and will be assisted by the City’s Municipal advisor in the execution of this task.
- Arbitrage Rebate and Monitoring: The Finance Director is responsible for working closely with the Municipal advisor and Bond Council to determine if and when arbitrage rebate reports are required to be completed for each issue.
- Investment of Debt Proceeds: The City will temporarily invest the proceeds of debt obligations in accordance with its investment policy. Interest earnings realized within construction accounts will be applied first toward the payment of project costs, then for payment of debt service associated with the obligations.

## SECTION 9 - PURCHASING POLICY

### Purpose

The City will strive to obtain goods, materials, supplies, and equipment at the lowest price and best value for the taxpayer dollars using reasonable efforts that promote efficiency and accountability for the disbursement of public funds. The City will also take steps to maximize revenues from the sale of surplus/unneeded City property or equipment. The purchasing policy has the following objectives:

- Ensure that all purchases comply with applicable laws, in particular, the Uniform Municipal Contracting Law, Minnesota State Statute Section 471.345.
- Comply with the Minnesota Public Purchase Doctrine
- Make the best possible use of tax dollars by purchasing goods and services economically
- Provide clear and consistent guidelines for the City staff to follow in making purchasing decisions.

### Policy

This policy will ensure that the goods and services required by the City are obtained using established procedures that comply with all legal requirements for public purpose expenditures while promoting fair and open competition to ensure public confidence in the procurement process, ensure fair and equitable treatment of vendors who transact business with the City, and provide safeguards for the maintenance of a procurement system of quality and integrity. Local preference will be given when cost effective.

### Purchasing Procedures- Budgeted Items

The approved operating budget provides detail on goods and services that are expected to be purchased in the current year. The legal level of budget control in the operating budgets is at the department level (i.e. Streets, Administration, Planning, etc.) Purchasing procedures for these goods and services that have been approved in the operating budgets are as follows:

#### Micro-Purchases (less than \$499)

Purchases valued at less than \$499 will be considered Micro-Purchases and can be made on the open market without obtaining competitive quotations or proposals. City staff will ensure that the price is fair and reasonable. Two quotes will be obtained if it is cost effective to do so. Purchases will not be split to avoid competition. Department Head or Department Designee approval is necessary before making the purchase.

#### Small Purchases (\$500 to \$4,999)

Purchases valued between \$500 and less than \$5,000 will be considered Small Purchases and will be made after obtaining at least two (2) quotes or proposals from qualified vendors. Department Head approval is necessary before making the purchase.

#### Large Purchases (\$5,000 to \$24,999)

Purchases valued between \$5,000 and less than \$25,000 will be considered Large

Purchases, and will be made after obtaining at least two (2) quotes or proposals from qualified vendors. Department Head and City Administrator approval is necessary before making the purchase. Documentation of the two quotes will be submitted to the Finance Department with the invoice for payment.

Major Purchases (\$25,000 to \$174,999)

Purchases valued between \$25,000 and less than \$175,000 will be considered Major Purchases and will be made after obtaining at least two quotes or proposals from qualified vendors. Department Head, City Administrator, and City Council are necessary before making the purchase. Documentation of the two quotes will be submitted to the Finance Department with the invoice for payment.

Competitive Bid Purchases (\$175,000 and Greater)

Purchases valued larger than \$175,000 will follow Minnesota Competitive Bid procedures under Minnesota State Statute Section 471.345.

**Purchasing Procedures – Unbudgeted Items**

The City Administrator may approve unbudgeted purchases less than or equal to \$5,000. The City Administrator must approve the purchase before the purchase. Unbudgeted purchases greater \$5,000 must be approved by City Council before the purchase. Two quotations are needed for unbudgeted purchases less than \$175,000.

The Competitive Bid procedures under Minnesota State Statute Section 471.345 must be followed for purchases \$175,000 and greater.

**Emergency Purchases - Declared Emergency**

The City may waive competitive bidding requirements to contract for the purchase of goods, equipment, materials, and services following the declaration of a local emergency, in accordance with Minnesota’s Emergency Management Act. The City Administrator will submit a written report detailing the emergency and the nature of emergency purchases to be approved by the City Council.

**Emergency Purchases - Other Emergencies**

The City may waive competitive bidding requirements to contract for the purchase of goods, equipment, materials, and services under other circumstances (i.e. water main break) where an immediate threat to life, public health, and safety exists. The City Administrator will submit a written report detailing the emergency and the nature of emergency purchases to be approved by the City Council.

**Joint Purchasing/Cooperative Purchasing Agreements**

The City has the authority to enter into Joint Purchasing or Cooperative Purchasing Agreements with other governmental units as provided for in Minnesota Statutes. Procurements made through Joint Purchasing or cooperative Purchasing Agreements will satisfy the City’s competitive procurement requirements.



## **Noncompetitive Purchases**

Noncompetitive Purchases can be made under the following circumstances:

- When a sole source of the good or service exists and has been verified by the City Administrator.
- When the procurement is for goods or services not available competitively, such as utilities, subscriptions, professional dues and memberships, conference and seminar registration, permits and licenses, advertisements in publications, taxes, required federal, state and local fees and charges, etc.

## **Employee Reimbursements**

City employees who incur city-related purchases must request reimbursement within 90 days of incurring the expense.

## **Disbursements**

No disbursement of city funds shall be made until approved by City Council, except when issued for payments of judgments, salaries, and wages previously established by Council, principal and interest on obligations, rent and other fixed charges, the exact amount of which has been previously determined by a contract authorized by the Council. If there is a disbursement of city funds before City Council approval, the disbursement will be approved at the next council meeting.

## **Service Providers and Consultants**

The City Council will approve contracts for service providers and consultants. At a minimum of every 5 years, the City Council will conduct a review of consultant performance to ensure service is being provided at an appropriate level and price. Reviews will focus on service levels and cost competitiveness. On an “as needed basis”, the City will seek proposals from service providers and consultants when service levels may not be adequate or to ensure quality service at a good value is being achieved.

## **Sale or Disposal of City Equipment**

The City Administrator will determine the appropriate method of selling or disposing of unneeded City property, which may include advertising the sale of the equipment, auctioning or providing for the equipment to be auctioned or trading in existing City equipment when purchasing new equipment. Under no condition will unneeded City equipment be sold to a City officer. A City employee may purchase City equipment of nominal value (less than \$50.00) only when it is sold through an auction or a sealed bid process in which the equipment is sold to the highest responsible bidder.

If the expected selling price of the equipment is more than \$50,000, the City will follow competitive bidding requirements.

### **Purchase of Sale of City Real Estate**

The City may retain a real estate agent to assist with land transactions. The City will not sell property to a City officer. The planning commission will be notified prior to the sale of any City-owned property and no sale shall be made until the planning commission has commented on the same as per the City's Comprehensive Plan.

## SECTION 10 - CREDIT CARDS

### Purpose

The purpose of this policy is to provide employees with guidance on the use of City-issued credit cards while ensuring compliance with City and State regulations.

### Policy

In an effort to provide employees with an efficient, cost-effective method for making small dollar purchases of goods or services as required during the normal course of their duties, the City has established a credit card program. A City-issued credit card will be issued after the Department Head and Finance Director has approved the request and the employee has signed the Credit Card User Agreement.

The following guidelines, responsibilities, and expectations are as follows in the use of the city-issued credit card:

- The credit card must be protected from theft or unauthorized use. The Department Head and Finance Director must be notified immediately if the card is lost, stolen or if the employee suspects unauthorized use.
- Any purchase on the credit card must be work-related and not for personal use. Personal use of the card will be grounds for disciplinary action.
- Any credit card purchase must comply with the City's Purchasing Policy.
- The card must not be used to obtain a cash advance.
- The employee is responsible for providing an **itemized receipt** for each credit card transaction in a timely manner to Accounts Payable. A timely manner is defined as sufficient time for Accounts Payable to process the payment as part of the normal accounts payable process done before each Council Meeting and to avoid payment of any late fees.
- Any single transaction in excess of \$1,000 must have prior written authorization by the Department Head or City Administrator.
- If the City does not authorize a credit card purchase, the employee who made the purchase becomes personally liable for the amount of the purchase. (MN Statute 471.382)
- The City will pay the entire credit card balance each month.

## **SECTION 11 – ELECTED OFFICIALS DEVICE ALLOWANCE**

### **Purpose**

The purpose of this policy is to provide the City Council with a device of their choosing for downloading, and viewing agenda packets in a paperless format. .

### **Policy**

Each member of the City Council will be provided an allowance of up to \$1,000 every four years to be used to purchase a device of their choosing for downloading and viewing agenda packets and other city information in a paperless format. The device chosen will then be the personal property of the elected official. If the elected official wishes to purchase a device that costs over the allowance amount, they would bear the cost over the allowance amount. The allowance amount will be adjusted as necessary to allow for the acquisition of sufficient devices.

Payment of the allowance will occur after the elected official provides documentation of the expenditure(s) up to the allowed amount. Expenditures are allowed for the device itself and any appropriate application to aid in the viewing of the agenda and for making notes on the same. The elected official will own the device, and each member will be responsible for maintaining the device at their own cost. Each member will also be responsible for purchasing any applications needed to view/make notes on agenda materials, and for knowing how to utilize the device. If an elected official prefers a paper agenda packet, the allowance will not be available for the purchase of any devices associated with a paperless agenda packet. The allowance is not to be used to pay for internet access, any wireless phone service, or other applications not specifically approved by the City Council. Official City of Little Canada e-mail will be supported; however the laptop or tablet computers are a personal device and must be treated as such. If service is required for any device, it will need to be provided by a third party, as the city does not have the capacity to support these personal devices.

## SECTION 12 – RISK MANAGEMENT

**Purpose:** To ensure the best coverage in the most economical manner and to minimize exposure to risk.

**Policy:** The City will annually review its insurance coverage with their agents. The following considerations and procedures will be used to comply with this policy:

- Upon policy renewal City staff will review coverage schedules to ensure all City assets are properly insured and that deductible levels are commensurate with risk and premium cost.
- The City's risk avoidance program will be administered with the assistance of a professional risk manager provided currently provided through LMCIT.
- The City will periodically contract for SafeAssure to conduct educational safety and risk avoidance programs to meet OSHA requirement and any other perceived needs.