



# **CITY OF BIG LAKE**

## **FINANCIAL POLICIES**

**Financial Policies Revised by Big Lake City Council – January 2020  
Economic Development Policies Approved – December 2019**

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# ORGANIZATIONAL MISSION

*Provide responsible governance through respect and trust while enhancing partnerships within the community and establish reasonable service expectations to meet the needs of the residents and business owners.*

## INTRODUCTION

- A. **Purpose:** The City of Big Lake has an important responsibility to its citizens to plan the adequate funding of services desired by the public, including the provisions and maintenance of public facilities, prudent financial management and accurate accounting for public funds. The City strives to ensure that it is capable of adequately funding and providing local government services needed by the community. The City will maintain or improve its infrastructure on a systematic basis to encourage its citizens to maintain quality neighborhoods with rising property values and long-term affordable taxes and fees.
- B. **Objectives:** In order to achieve this purpose, the following objectives are established for the City's fiscal performance:
1. To protect the City Council's policy-making ability by ensuring that important policy decisions are not controlled by financial problems or emergencies.
  2. To enhance the City Council's policy-making ability by providing accurate information on the full cost of current operations, new proposals and capital requests.
  3. To assist sound management of the City government by providing accurate and timely information on the City's financial condition.
  4. To provide sound principles to guide the decisions of the City Council and City staff which have fiscal impacts.
  5. To set forth operational principles which promote long-term cost effectiveness while providing services desired by the public and minimal financial risk
  6. To employ revenue policies and forecasting tools to identify and prevent undue or unbalanced reliance on certain revenues to distribute the costs of municipal services fairly and to provide adequate funds to operate desired programs, as determined by the Council.
  7. To provide and improve essential public facilities and prevent deterioration of the City's infrastructure in order to assist in long-term cost effective provision of City services.
  8. To protect and enhance the City's credit rating and prevent default of any municipal debt obligations.

9. To ensure the legal use and protection of all City funds through a good system of financial and accounting controls.
10. To maintain a Risk Management Program that will minimize the impact of legal liabilities, natural disasters or other emergencies through the following activities.
  - a) Loss Awareness – Proactive teamwork and training Citywide to increase awareness and enhance safety and comply with or exceed OSHA regulations.
  - b) Loss Prevention – Prevent negative occurrences.
  - c) Loss Control – Reduce or mitigate expenses of a negative occurrence.
  - d) Loss Financing – Provide a means to finance losses.
  - e) Loss Information Management – Collect and analyze relevant data to make prudent loss prevention, loss control and loss financing decisions.
11. To record transactions in a manner which matches current revenues to current expenditures (full cost including benefits and depreciation).
12. To report year-end financial information in accordance with generally accepted accounting principles (GAAP) and in accordance with recommended best practices as promoted by the Government Finance Officers Association (GFOA).

# AUDIT

## External Auditor Independence Policy

### PURPOSE

In accordance with the Government Accountability Office, the authority on local government audits, in all matters relating to audit work, the external audit shall be free both in fact and appearance from personal external and organizational impairments to independence.

- The City will arrange for an annual audit of all funds and account types by independent certified public accountants qualified and licensed to issue such reports.
- Annually, an annual financial report will be prepared for the City. This report shall be made available to elected officials, city management, bond-rating agencies and the general public.
- The city's external audit organization shall not be responsible for designing, developing and/or installing the City's accounting system or its operating system where this system generates information used in preparing financial statements of the City of Big Lake.
- External auditors shall not develop a performance measurement system or any other system relied upon in developing financial statements.
- City external auditors may prepare draft financial statements, schedules or perform other duties as long as they are based on management's direction and the work results in a recommendation to management.
- City management must approve decisions based on the external auditor's recommendations.
- External auditors shall provide routine advice to the City of Big Lake and to management to assist them in activities such as establishing internal controls or implementing audit recommendations and can answer the technical questions and provide training; however, they may not direct or unduly influence management with those decisions.

Any non-audit work related to tax rulings, arbitrage, attestation, compilation, sales tax audits, counted value audits and financial report assistance proposed by the auditors, or for which the City wishes to hire them must be approved by the City Council prior to hiring them.

# BUDGETARY AND FINANCIAL CONTROL

## Budgetary and Financial Control Policy

### PURPOSE

- A. General budgetary and financial control is to be centralized in one department whose functions shall include, but not limited to, the following:
1. Budget compilation
  2. Budget monitoring
  3. Central purchasing
  4. Strong internal audit functions
  5. Income and expenditure projections
  6. Capital improvement financing and plan
  7. Debt management – including Conduit Debt
  8. Cash and investment management
  9. Monitoring financial data for warning signals or trends
  10. Preparation of financial summary reports for key funds at least quarterly for City Council review as well as the general public
  11. Maintain a detailed inventory listing of all material fixed assets so as to adequately ensure proper accounting and safeguard of assets.
  12. “Project Financial Analysis” to be presented as part of any proposal to the Council in connection with any new or expanded operating or capital improvement programs and other projects. The objective of the financial analysis is to provide the best possible estimate of expenditures, revenues, and staffing impacts of a proposed project. The financial analysis should be factual, informative, and concise; which should enable the Council to make intelligent and informed decisions.
  13. Payroll
  14. Human Resources – Benefits
  15. Accounts Receivable
  16. Receipts, Collections, and Customer Billing
  17. Accounts Payable
- B. The City will maintain a program for the investment of funds consistent with the City’s investment Policy.
- C. The City will strive to maintain an undesignated and unreserved General Fund Balance of 50% of the General Fund portion of expenditures for the following year. If the City has more than the required level, such excess may be transferred to the Capital Improvement Funds for Infrastructure or Equipment/Building Replacement at year-end.
- D. The City Council delegates the authority to designate fund balance, as required for prudent fiscal management, to the City Administrator and Finance Director.
- E. The City will also review, and update the schedule of fund balances, reserves, and working capital in all other operating funds of the City and determine adequacy of those money balances, using specified guidelines and criteria in conjunction with the budgets set annually.

- F.** Primary responsibility in the management of budgeted funds lies with the Department Directors. Such management includes, but is not limited to, reviewing expenditures before authorization, reviewing monthly financial reports to detect errors and assess progress, and staying within expenditure budget authorization. All costs incurred must be reasonable and necessary. Department Directors shall be responsible for contacting the Finance Director should there be any questions regarding financial management or if the issue or concern is related to internal controls. The Finance Director will monitor overall budget operating progress routinely throughout the year.
- G.** Regular monthly reports will present a summary of financial activity by major type of funds as compared to budget. Department Directors will review monthly 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 \$50,000 by year-end will be reported in writing to the Finance Director and City Administrator.
- H.** The City will not use short-term borrowing, internal or external, to balance the operating budget for any fund.
- I.** The City will not sell assets or use one-time accounting principal changes to balance the budget for any fund.
- J.** The City will develop two-year budgets; the previously developed budget for the following year will be fine-tuned as necessary during the next budget cycle. Each year the City will certify only the following year's budget and levy to Sherburne County.
- K.** The City will provide ample time and opportunity for public input into its Budget setting deliberations each year.
- L.** The City will establish and maintain the highest standard of accounting practices, in conformity with Generally Accepted Accounting Principles (GAAP) and with recommended best practices as promoted by the Government Finance Officers Association (GFOA).
- M.** The City will strive to obtain the annual GFOA Certificate of Achievement for Excellence in Financial Reporting in the coming years.

## **Operating Budget Policy**

### **PURPOSE**

The formal budgeting process provides the primary mechanism by which key decisions are made regarding the levels and types of services to be provided, given the anticipated level of available resources.

1. The City will attempt to maintain its present service level for priority and essential services subject to available revenues. New services will be considered for funding within available resources.
2. The City will utilize a “bottom-up” resource allocation approach. Each department will have an opportunity to request personnel, goods, capital items and services needed to carry out its responsibilities in a timely manner.
3. The City enterprise operations are to be self-supporting, including capital improvement and depreciations. Enterprise operations are to be reviewed annually for self-sufficiency.
4. The City will utilize procedures that allow departments to integrate priorities and objectives into the budget requests.
5. The operating budget, authorizing expenditure of City monies, will be adopted annually by the City Council. The authority to make changes to the adopted City Budget during the year is as follows:
  - a. City Council approval is required for all budget adjustments or transfers that will increase a department’s adopted expenditure budget, or adjustments that are made to facilitate a department restructuring.
  - b. Budget adjustments and transfers among expenditures accounts may be authorized during the fiscal year by the City Administrator and the Finance Director, if there is no effect on the department’s gross expenditure budget and the adjustment is not to employee compensation.
6. The City will budget to maintain fund balances at adequate levels to ensure sufficient resources are available for current and future expenditures whether planned or unforeseen.
  - a. The City will budget to maintain an unreserved designation for cash flow for each operating fund, to support operations until current revenues are received. Based upon the semi-annual collection of local taxes, each operating fund relying on property tax related revenues should maintain cash flow designations at year-end necessary for approximately 6 months of operations.
7. The City will maintain a budgetary control system to ensure adherence to the budget and will prepare regular reports, which compare actual revenues and expenditures to budget amounts.

8. The City will coordinate development of the Capital Improvement Budget with the development of the annual operating budget. Each capital improvement project is reviewed for its impact on the operating budget in terms of revenue generation, additional personnel required and additional operating expenses. This also includes the enterprise funds.
9. The capitalization threshold for assets of the City, as defined in the Fixed Assets Policy, applies to all budgets and purchases associated with the Capital Expenditures series of accounts.

# CASH/INVESTMENTS

## Fire/Explosion Escrow Account

### PURPOSE

The City is authorized per Minnesota Statutes, Section 65A 50 to establish an escrow account to receive a portion of insurance settlement proceeds from a claim on real property located in the city that is damaged by fire or explosion.

1. The City will only receive funds once a final settlement is reached on the loss of the real property due to a fire or explosions and within 30 days after agreement of a final settlement, the owner has not filed with the insurer evidence of a contract to repair or has not consented for direct payment from the insurer to contractor to perform repair services. The insurer must withhold the following amounts:
  - A. 25% of the actual value of the owner's real property at the time of the loss, or;
  - B. 25% of the final settlement.
2. The City will establish procedures to ensure the safekeeping of insurance settlement funds until such time as they are used for approved purpose as follows:
  - A. The Finance Director will immediately deposit the money into the established fire/explosion escrow account.
  - B. The money deposited into this account cannot be commingled with city funds.
  - C. The account may be interest bearing, and any interest earned shall be retained by the city to defray expenses incurred.
3. The City will use fire/explosion escrow funds for appropriate purposes as indicated below:
  - A. If reasonable proof is not received within 45 days after the funds have been received by the Finance Director, the city must use the funds to secure, repair, or demolish the damaged or destroyed building and clear the property in question, so that the structure and property are in compliance with city code requirements.
  - B. The city cannot proceed with cleaning up the property without court approval, which will take a hazardous building action
  - C. Any unused portion of the retained funds must be returned to the owner.
  - D. No more than 15% of the funds used by the city may be attributed to the city's administrative expenses.

## **Forfeited Funds Policy**

### **PURPOSE**

The City receives property and money through law enforcement seizures under Federal Law 21USCS Section 881(e) and Minnesota Statutes, Section 609.531-609.5317.169A.63.

1. The City will use proceeds from these seizures as defined in State Law and Department of Justice guidelines. Forfeited property and cash will be used:
  - C. Only for law enforcement purposes, or;
  - D. Only as a supplement to budgeted funds, or;
  - E. Not as a source to supplant ordinary operating expenses.
  
2. The City will establish procedures to ensure the safekeeping of forfeited property and funds until such time as they are used for approved purpose.
  
3. The City will use forfeited funds for appropriate Police purposes. (This list is not exhaustive, but serves to describe many appropriate uses.)
  - A. Vehicles
    - i. Forfeited automobiles may be used to supplement the police fleet, but not to replace existing budgeted vehicles.
    - ii. Unused vehicles will be stored, sold according to the City policy, and the proceeds used according to this policy.
  - B. Other Property
    - i. May be used in ongoing Police operations.
    - ii. Will be sold if no police use is imminent and cash proceeds used according to this policy.
  - C. Cash
    - i. Will be deposited and credited to the Narcotics Forfeiture Fund upon completion of all associated criminal and civil processes.
    - ii. Unbudgeted proposed purchases will be drawn from the designated Narcotics Forfeiture Fund.
  - D. Examples of appropriate use of cash
    - i. Vehicles may be rented which do not supplant vehicles normally provided through City Funds. Such vehicles are in addition to the regular fleet.
    - ii. Equipment may be purchased providing it is not part of the regular budget.
    - iii. Overtime may be paid providing it is unanticipated in the rest of the Police budget.
    - iv. Training cost in addition to those in the regular budget may be paid.
  - E. Example of Inappropriate Uses
    - i. Purchasing any item(s) with forfeited funds, which were already approved in the regular budget.
    - ii. Paying regular salaries or benefits for Drug Forfeiture funds, but permitted for DWI Forfeiture fund as part of program operation.
    - iii. Purchasing anything for other City departments unless for law enforcement purpose.
    - iv. Capital purchases previously approved for purchase with City Funds.

## **Investment Policy**

### **PURPOSE**

This policy has been developed to serve as a reference point for the management of city assets. It is the policy of the City to invest public funds in a manner, which provides for the following in order of importance: Safety; Liquidity; and Yield (return on investments) that conforms to all federal, state and local regulations governing the investment of public funds. All investments purchased by the City are expected to be held until maturity. The City will invest in securities that match the City's operational, short-term and longer-term core reserve needs.

### **SCOPE**

This policy applies to all financial assets of the City. All cash and investments are pooled together to achieve economies of scale for each entity. These funds are accounted for in the Comprehensive Annual Financial Report (CAFR) and include all City Funds:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Debt Service Funds
- Enterprise Funds

### **PRUDENCE**

Investments shall be made with judgment and care under circumstances existing at the time the investment is made. 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. The prudent person standard requires that a fiduciary exercise discretion and average intelligence in making investments that would be generally acceptable as sound. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal liability 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 situations. Those with access to and management responsibilities for City Investments must comply with investment procedures developed for the Finance Department.

### **OBJECTIVE**

The primary objective of the City of Big Lake's investment activities shall be:

- Safety – Safety of principal is of critical importance to the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
  - Credit Risk – the risk of loss due to failure of the security issuer or backer will be minimized by:
    - Limiting investments to the types of securities listed in the Authorized and Suitable Investment Section of this investment policy.
    - Pre-qualifying the financial institutions, broker/dealers, and advisors with which the City will do business in accordance with the Financial Service Providers Section.
    - 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. Insurance or collateral may be required to ensure return of principal.

- Interest Rate Risk – The risk that the market value of securities in the portfolio will fall due to changes in market interest rates will be minimized to:
  - Provide for liquidity by reviewing cash flow requirements and make investments to meet the shorter cash flow needs, thereby avoiding the need to sell securities in the open market prior to maturity.
  - Manage the average maturity of the overall portfolio to be consistent with the risk profile of the City not to exceed 7 years.
- Liquidity – The City’s investment portfolio will remain sufficiently liquid to enable the City to meet all operating and working cash flow requirements as reasonably anticipated. The portfolio will be structured so that the liquid component, a minimum of 15 percent of total investments, of the portfolio will be invested only in checking, money market savings, money market mutual funds, or local government investment pools, which offer same day liquidity for short-term funds. Additionally, since all possible cash demands cannot be anticipated, the overall portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).
- Yield/Return on Investment – The City’s investment portfolio shall be designed with the objective of attaining a market rate of return. The core of investments is limited to low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:
  - A security with declining credit may be sold early to minimize loss of principal.
  - A security swap would improve the quality, yield, or target duration in the portfolio.
  - Liquidity needs of the portfolio require that the security be sold.

## **DELEGATION OF AUTHORITY**

The investment program shall be operated in conformance with federal, state, and other legal requirements. Authority to manage the City’s investment program is derived from the following:

- Minnesota Statutes § 118A **DEPOSIT AND INVESTMENT OF LOCAL PUBLIC FUNDS.**

Management responsibility for the investment program is hereby delegated by the City Council to the City Finance Director or City Administrator. The City Finance Director shall:

- Monitor performance of the investment portfolio;
- Ensure funds are invested in accordance with the policy;
- Analyze, recommend, and implement operational procedures that will enhance the City’s investment program; and
- Ensure that proper internal controls are developed to safeguard investment assets.

Procedures should include reference to: safekeeping, delivery versus payment, investment accounting. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the City Finance Director. The City Finance Director shall be responsible for all investment transactions and shall establish a system of controls to regulate the activities of subordinates.

## **ETHICS AND CONFLICTS OF INTEREST**

Any City Official (elected or appointed) or staff involved in the investment process shall refrain from conducting personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment staff shall annually disclose to the City Clerk any material financial interest as required by state statute on an annual Statement of Economic Interest form. Investment staff shall subordinate their personal investment transactions to those of the City, particularly with regard to the time of purchases and sales, and shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

## **FINANCIAL SERVICE PROVIDERS**

The City Finance Director shall maintain a list of financial institutions authorized to provide investment services. Public deposit shall be made in a qualified public depository as established by state laws.

Financial service providers who desire to offer investments must provide the City Finance Director with the following upon request:

- Audited Financial Statements
- Completed Broker/Dealer Certificate
- Certification of Having Read the City's Investment Policy
- Depository Contracts
- Credit Report
- Proof of FINRA (Financial Industry Regulatory Authority) membership
- Proof of State Registration
- Evidence of Adequate Insurance Coverage

## **BROKER REPRESENTATIONS**

Municipalities must obtain from their brokers certain representations regarding future investments. Minnesota Statutes, Section 118A, requires municipalities to provide each broker with information regarding the municipality's investment restrictions. Before engaging in investment transactions with the City of Big Lake, the supervising officer at the securities broker/dealer shall submit a certification annually according to Minnesota Statutes, Section 118A. The document will state that the officer has reviewed the investment policies and objectives, as well as applicable state law, and agrees to disclose potential conflicts of interest or risk to public funds that might arise out of business transactions between the firm and the City of Big Lake. All financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the City's funds.

## **AUTHORIZED AND SUITABLE INVESTMENTS**

Minnesota Statutes, Section 118A, list all permissible investments for municipalities. This list establishes the maximum investment risk permitted for Minnesota municipality. Even though the Minnesota Statutes, Section 118A provides for more instruments to be used for investing purpose, the following list of investment is based on the investment objectives as defined in Objection Section of this policy, the City will limit its investments to the following types of securities:

- **Money Market Funds** – may be held with next day withdrawal capacity to provide for daily liquidity requirements. These money markets must be AA. They may only invest

in securities with a final maturity no longer than 13 months and for which the Finance Director has obtained and reviewed the fund prospectus.

- **Certificate of Deposits** – a negotiable or non-negotiable instrument issued by commercial banks and insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).
- **Savings/Demand Deposits** – are financial institutions that are qualified as a “depository” of public funds of government entities. The City may hold balances in qualified bank deposits. Funds may be held in savings accounts at approved depository banks. If balances are greater than the FDIC limit, collateral of 110 percent will be held for the excess balances. Non-interest bearing deposits will be held at a minimum. However, the interest bearing demand deposit programs that banks provide for next day access to funds will be utilized. The City will typically hold a compensating balance in its checking account to cover monthly banking fees.
- **U.S. Treasury Obligations** – including bonds, notes, Treasury bills, or other securities which are direct obligations of the United States. Instruments sold and issued by the U.S. Government carry the full faith guarantee of the U.S. Government. These instruments provide the highest quality available to purchase and are highly liquid.
- **Municipal Securities** – are registered securities of state/county/local and other governmental agencies. Bonds of the state/county/local and other government agencies which have at the time of investment one of the three highest credit ratings of nationally recognized rating agency are allowable investments. They must have a taxing power rating of A, AA, or AAA. Tax exempt or taxable bonds qualify as long as they meet the rating standards.
- **U.S. Agency Securities (GSEs or Government Sponsored Enterprises)** – are instrumentalities, or organizations created by an act of Congress. GSE securities have the implied guarantee of the U.S. Government and are privileged to certain access to capital and support of government programs. The issues are generally considered to have the second highest credit quality in the fixed income markets and provide higher yields than U.S. Treasury obligations. The ratings on all the agencies that the City can invest are the highest available and include the following specific issuers:
  - **FHLB** – The Federal Home Loan Bank system was created by Congress in 1932 and acts as a source of funds for its nearly 8,000 member banks. FHLB does not purchase home mortgages to the same extent as Freddie Mac and Fannie Mae, but primarily lends money to homeowners through its member financial institutions. FHLB system members include commercial banks, thrifts, credit unions, and insurance companies. Each member is a shareholder in one of the 12 regional Federal Home Loan Banks; each regional bank is an individual corporate entity, which must meet strict management and capitalization criteria befitting its GSE status. The FHLB system is regulated by the Federal Housing Finance Board (FHFB) and the Office of Finance (OF).
  - **FHLMC** – The Federal Home Loan Mortgage Corporation encompasses Freddie Mac; it is a housing GSE created by Congress in 1970 to provide liquidity and stability in the home mortgage market, thereby increasing the flow of funds available to mortgage borrowers. In order to accomplish this goal, Freddie Mac does not make individual mortgage loans to consumers. Rather, Freddie Mac purchases mortgages from lenders, thereby allowing them to lend the proceeds to more borrowers. Freddie Mac is regulated by the Secretary of Housing and Urban

Development (HUD) and by the Office of Federal Housing Enterprise Oversight (OFHEO).

- **FFCB** – The Federal Farm Credit Bureau is an agency of the Federal government set up to supply credit to various classes of institutions and individuals such as farmers and farm cooperatives.
- **FNMA** – Federal National Mortgage Association chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of HUD. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FHMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payments of principal and interest.

## Glossary

**Advance Refunding.** A refinancing transaction in which new (refunding) bonds are issued to repay (refund) outstanding bonds prior to the first call date. The proceeds of the refunding bonds are deposited in an escrow account, invested in government securities, and used to pay debt service on the refunded bonds through the applicable call date.

**Arbitrage.** The difference between the interest paid on the tax-exempt securities and the interest earned by investing the security proceeds in higher-yielding taxable securities. IRS regulations govern arbitrage on the proceeds from issuance of municipal securities.

**Capitalized Interest.** A portion of the proceeds of a bond issue which is set aside to pay interest on the same bond issue for a specific period of time. Interest is commonly capitalized for the construction period of the project.

**Capital Lease.** A lease obligation that has met the criteria to be categorized as a capital lease as opposed to an operating lease under generally accepted accounting principles.

**Competitive Sale.** A sale/auction of securities by an issuer in which underwriters or syndicates of underwriters submit sealed bids to purchase the securities. Contrast to a negotiated sale.

**Debt.** Any obligations of the City for the payment of money pursuant to Minnesota State Statutes.

**Escrow.** A fund established to hold monies pledged and to be used to pay debt service on an outstanding issue.

**General Obligation Bonds.** Bonds issued by the City secured by the City's pledge of its full faith and credit and unlimited taxing power.

**Negotiated Sale.** A method of sale in which the issuer chooses one underwriter to negotiate terms pursuant to which such underwriter will purchase and market the bonds.

**Net Tax Supported Outstanding Debt.** Defined for this policy as outstanding principal multiplied by the percentage of the repayment supported by a tax levy less any fund balance reserved for debt service.

**Private Placement.** The original placement of an issue with one or more investors as opposed to being publicly offered or sold.

**Refunding.** A transaction in which the City refinances an outstanding issue by issuing new (refunding) bonds and using the proceeds to immediately retire the old (refunded) bonds.

**Revenue Bonds.** Bonds issued by the City secured by a specific revenue pledge of rates, rents, or fees.

**Tax-Supported Debt.** Debt that is expected to be repaid from levied taxes and possibly other sources.

**Underwriter.** A dealer that purchases new issues of municipal securities from the issuer and resells them to investors.

# CAPITAL IMPROVEMENT

## PURPOSE

1. The City will develop a multi-year plan; ideally for at least 10 years, for Capital Improvements Program (CIP). As resources are available, the most current year of the CIP will be incorporated into the current year operating budget as the Capital Improvement Budget (CIB). The CIP will be reviewed and updated annually using years 2 and on are for planning purposes only.
2. The City will identify the estimated cost and potential funding sources for each capital project proposal before it is submitted to the Council for approval and in that process will determine the most effective financing method for the proposed project. All construction projects shall include at least a ten percent (10%) contingency prior to receiving bids and at least five percent (5%) upon acceptance of the bid.
3. The City will make all capital improvements in accordance with the adopted capital improvement program, or as it is amended by the Council. Capital purchases, not otherwise funded through an approved budget, shall require City Council approval.
4. The City will coordinate development of the capital improvement budget with the development of the operating budget. Future operating costs associated with the new capital improvements will be projected and included in operating budget forecasts.
5. The City will use inter-governmental assistance to finance only those capital improvements that are consistent with the capital improvement plan and City priorities, and whose operating and maintenance costs have been included in operating budget forecasts.
6. The City will maintain all its assets in a manner adequate to protect the City's and its citizens' capital investment and to minimize future maintenance and replacement costs. The City will provide for maintenance and replacement from current revenues where possible.
7. To be considered in the CIP a project must have an estimated cost of at least \$5,000 in one of the calendar years of the project. Projects may not be combined to meet the minimum standard unless they are dependent upon each other.
8. Capital projects and/or capital asset purchases will receive a higher priority if they meet a majority of the following criteria:
  - a. Mandatory project
  - b. Maintenance project
  - c. Improve efficiency
  - d. Provide a new service
  - e. Broad extent of usage
  - f. Length of expected useful life
  - g. Positive effect on operation and maintenance costs

- h. Availability of county/state/federal grants
  - i. Elimination of hazards (improves public safety)
  - j. Prior commitments
  - k. Replacement due to disaster or loss
9. The CIP is to be presented by the Finance Director annually to the City Council for approval. Any substantive change to the CIP after approval must be approved by the City Council.

# CAPITAL ASSETS

## PURPOSE

As noted in the Budgetary and Financial Control Policy, the City will maintain a fixed asset system to identify and protect all City Assets.

The capitalization threshold for assets of the City is \$5,000. The Finance Director will be responsible for monitoring and tracking all fixed asset purchases over the capitalization threshold. This tracking will include:

- A. Recording the vendor information and date of purchase
- B. Purchase price of the asset
- C. Useful life of the asset
- D. The assignment of an identifying number for tracking purposes.

Useful lives for assets will be assigned as follows:

- |                              |          |
|------------------------------|----------|
| 1. Infrastructure            | 30 years |
| 2. Buildings                 | 30 years |
| 3. HVAC/Heating              | 20 years |
| 4. Playground Equipment      | 10 years |
| 5. Fire Vehicles             | 10 years |
| 6. Heavy Equipment           | 10 years |
| 7. Police Vehicles           | 3 years  |
| 8. Public Works Equipment    | 5 years  |
| 9. Other Department Vehicles | 5 years  |
| 10. Office Equipment         | 5 years  |
| 11. Software                 | 3 years  |

To ensure adequacy of City records, Department Directors will be responsible for notifying the Finance Director of disposal of any equipment. The notification should include the following.

- a) Description of the asset disposed of
- b) Disposal date
- c) The identifying number assigned or VIN of the asset
- d) Amount of proceeds received on disposal

When selling any City property, the following steps shall be followed:

- 1. There will be a reasonable public notice, i.e. newspaper or social media
- 2. The property will be sold by public auction or sealed bid
- 3. If an employee buys the property they must not be directly involved in the auction or sealed response process
- 4. The property must go to the highest bidder
- 5. A minimum bid accepted can be required

# DEBT MANAGEMENT

## PURPOSE

One of the keys to sound financial management is the development of a debt management policy. This need is recognized by bond rating agencies and development of a debt policy is a recommended practice by the Government Finance Officers Association. A debt policy establishes the parameters for issuing debt and managing the debt portfolio. It provides guidance to the administration regarding purposes for which debt may be issued, types and amounts of permissible debt and method of sale that may be used. It helps ensure fiscal responsibility and promotes financial sustainability. The following debt management policy is intended to demonstrate a commitment to long-term financial planning. It will be used in conjunction with the Capital Improvement Plan for the City. Adherence to this policy will help assure improve or maintain the City's AA credit rating (Standard and Poor's Rating –New June 2018).

## GUIDELINES FOR DEBT ISSUANCE

- Debt financing can include general obligation bonds, revenue bonds, lease/purchase agreements, or other financing instruments allowed under Minnesota State statutes.
- The City will prepare and update annually a five-year Capital Improvement Plan (CIP) to be approved by the City Council. The CIP will be developed with an analysis of the City's infrastructure and other capital needs, and the financial impact of the debt service required to meet the recommended financing plan.
- The City will analyze each project (proposed for financing through debt issuance) to determine the tax impact and future operating costs associated with the project and related debt issuance costs.
- The City Council shall appropriate all proceeds from debt issuance.
- The City will comply with all applicable U.S. Internal Revenue Service and U.S. Treasury arbitrage requirements for bonded indebtedness in order to preserve the tax-exempt status of such bonds.
- The City will maintain good communications with bond rating agencies regarding its financial condition. The City will follow a policy of full disclosure in every financial report and bond prospectus.
- The City will issue long-term debt to purchase or construct capital improvements or equipment with a minimum expected life of five years, that cannot be financed from current revenues or resources. For the purpose of this policy, current resources are defined as that portion of fund balance in excess of appropriate required reserves and designations. The term of any bond issue will not exceed the useful life of the capital project/facility or equipment.
- The City will not use long-term borrowing to finance annual operating needs except in the case of an extreme financial emergency, beyond the City's control or reasonable ability to forecast.

- The City will plan bond issues to minimize the frequency of issuance to ensure the lowest possible costs of issuance. When determining the size of a bond issue, the City will consider the need for construction, debt service, and capitalized interest funds. The City will prepare construction fund draw schedules in conjunction with planning of the City's CIP.
- Bonds will be amortized on a level debt schedule basis to the extent practical considering forecasted debt service and repayment sources.
- The City's preferred method of sale of bonds is via competitive sale to underwriters; however, the City may sell bonds via a negotiated sale, private placement, or other method if deemed advantageous.
- Bonded debt should always be investment grade in order to minimize debt service costs.

## **Limitations on level of debt to be issued and outstanding**

### **Statutory Limitations:**

Total net general obligation debt will not exceed the statutory limit as required by Minnesota Statute § 475.53. (As of 2015 the limit on debt is 3% of estimated market value)

### **Self-Imposed Debt Limits:**

- Net tax-supported outstanding debt as a percentage of the total estimated market value in the City will not exceed 3.50% in any given year.
- The total debt levy will not exceed 50% of the total levy in any given year.

A four-fifths majority is required to override the self-imposed debt limits. The City could also find itself exceeding the self-imposed limits if market value declines. If the self-imposed debt limits are exceeded, the City has three years to correct the imbalance. No new debt will be issued during this time.

### **Types of debt issuances:**

- The City may issue general obligation debt for capital or other properly approved projects.
- Where possible, the City will use special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.
- The City may issue revenue bonds to fund proprietary activities such as water, sewer, storm water utilities, and the municipal liquor store or for other capital projects that generate adequate revenues from user fees to support operations and debt service requirements. The bonds will include written legal covenants which require that revenue sources are adequate to fund annual operating expenses and annual debt service requirements.
- The City may issue tax increment bonds to fund public improvements or for economic development (private) in the downtown. All Tax Increment Financing (TIF) proposals

shall include a financial impact analysis addressing the economic relationship of the proposed project to the City's estimated tax rates, service costs, and employment opportunities. If TIF General Obligation Bonds are proposed, there shall be a review and opinion by the City's fiscal agent regarding structuring the issue and the adequacy of the tax increments to retire the debt.

- Capital leases may be used to purchase buildings, equipment, furniture and fixtures. The term of any capital lease shall not exceed the useful life of the leased asset.
- Lease financing and master lease obligations, including lease revenue bonds, may be considered as alternative financing sources.

### **Refunding of Debt:**

The City will refund debt when it is in the best financial interest of the City to do so.

- **Debt Service Savings** – When a refunding or advance refunding is undertaken to generate interest rate cost savings, the minimum aggregate present value savings will be 3% of the refunded bond principal amount. The present value savings will be net of all costs related to the financings.
- **Term of Refunding Issues** – The City will refund bonds within the term of the originally issued debt. However, the City may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible. The City also may consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed project/facility should be considered in this decision.
- **Arbitrage** – The City shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refunding. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

### **Post-issuance Compliance:**

It is critical that the City comply with the requirements of federal and state law that apply following the issuance of debt by the City. Tax-exempt debt obligations (debt for which the interest paid to the debt holders is excludable from their gross income for federal income taxes) result in lower interest costs to state and local governments. The tax-exempt status remains throughout the life of the debt obligation provided all applicable state and federal tax laws are satisfied at the time of issuance and throughout the term of the obligation. The Internal Revenue Service (IRS) is responsible for enforcing compliance with the Internal Revenue Code and most other regulations governing tax-exempt obligations. The IRS expects issuers and beneficiaries of tax-exempt debt to adopt and implement a post-compliance debt policy and procedures to safeguard against post-issuance violations that may result in the loss of the tax-exempt status of the debt.

The City will monitor all of its tax-exempt debt obligations to ensure that all tax-exempt debt obligations remain in compliance with the IRS Code and all other regulations governing tax-exempt obligations. This section applies to all tax-exempt debt obligations including bonds, notes, loans, lease purchase contracts, and other forms of tax-exempt debt. This section does not apply to conduit/private activity bonds.

The Finance Director of the City of Big Lake is designated as the City’s agent who is responsible for post-issuance compliance of all tax-exempt debt obligations, and is referred to in this section as the “Compliance Officer”.

The Compliance Officer will assemble all relevant documentation, records and activities required to ensure post-issuance debt compliance and create procedures for each obligation. At a minimum, these procedures will include the following:

- General post-issuance compliance
- Proper and timely use and accounting for bond proceeds
- Arbitrage yield restrictions and rebate
- Timely filings and other general requirements
- Private activity concerns
- Records retention
- Additional activities that support the point above
- Other requirements that become necessary in the future

The Compliance Officer will be assisted by other City staff and may assign responsibilities to professional consultants, such as bond counsel, financial advisors, paying agents, and rebate analysts, when appropriate.

The Compliance Officer will ensure that the procedures are updated on a regular and as-needed basis. The City will provide continuing education opportunities relating to post-issuance compliance and the Compliance Officer will update City staff on changes in post-issuance compliance.

### **Terms and Conditions for the issuance of Conduit Debt:**

Not-for-profit agencies and other entities may request the City to issue pass-through, conduit debt. These issues are not projects of the City, but of a separate corporation. In order to expedite assistance and avoid costs for the City, the following is required:

- The applicant must provide to the Finance Director documentation about the entity requesting the assistance, the project, and the proposed financing method. The City also requires that the applicant assume all of the costs incurred by the City in examining the legal and fiscal aspects of the project as well as ongoing monitoring and reporting of outstanding bonds once issued. The applicant must make a deposit of one fourth of one percent (1/4%) of the proposed issuance amount with a minimum deposit of \$3,000 and a maximum deposit of \$25,000. These funds will be applied against the costs incurred by the City for staff time, its consultants, and any other expenses caused by the proposal including costs associated with non-bank qualified bonds. If the application is denied, the deposit amount in excess of these costs will be refunded to the applicant. If the application is approved, the full deposit will be retained to cover additional costs of issuance and future monitoring. If the City’s actual costs exceed the deposit amount, the applicant will be required to reimburse these additional amounts.
- The applicant should be prepared to demonstrate how the proposed project would benefit the community.

- The City Administrator and Finance Director will review the proposal and determine whether the request will be presented to the City Council during a public hearing.
- The debt instrument must not place the City at risk in any way, financially or legally, in appearance or in fact. The Federal Government has placed the burden of weighing the balance of “public purpose versus private benefit” upon the City Council for conduit debt issues. The City Council will consider risk, the “public versus private benefit” balance, and the recommendation of its staff. Because of the subjective nature of the issues it must weigh, the Council retains the right to refuse to authorize any issue at its sole discretion and without need to give cause. The obligor must indemnify the City against all future costs including but not limited to lawsuits, findings that the issue was not tax-exempt, or penalties of any kind. The documents must clearly reflect the indemnification of the City.
- If the City Council approves the conduit debt application, the bond attorney for the issue must:
  - ◆ Provide to the City Council a written statement indicating that the documents have been appropriately prepared, all concerns of the City and points covered by this document have been addressed, and it is acceptable for the Council to adopt the needed resolutions. No documents will be adopted by the Council or signed by Council members or staff without the attorney’s statement.
  - ◆ Prepare a contract obligating the agency requesting the debt (obligor) to repay to the City any interest margin for bank qualified bonds that the agency uses and the City later needed on debt it issues for its own purposes.
  - ◆ Assure that the Official Statement prominently displays in large, bold type that the City of Big Lake does not have any obligation to repay the debt and what the rating of the bond issue is.
  - ◆ When the issue is complete and closed, provide two copies of the transcript and amortization schedules of the issue to the Finance Director.
- The City will not be responsible for any continuing disclosure or arbitrage calculations or rebate. The documents must clearly reflect that the obligor is responsible for these matters.
- The agency requesting the conduit debt and their advisors must arrange for the logistics of all document movement, timing, signature, publication, etc.
- City Administration places items on the Council agenda and obtains signed documents from the Council. It is the responsibility of the requesting agency to:
  - ◆ Inquire as to when Board meetings are scheduled (and to check again as necessary because meeting dates change without notice).
  - ◆ Inquire as to when documents must be delivered in order to be accepted for the agenda.

- ◆ Arrange for copies, which need to be signed and to provide the necessary envelopes and postage or other arrangements to move the documents when signed.
- ◆ The documents are signed after the meeting at a time convenient to the Mayor, typically within a week after the meeting.
- ◆ Arrange for notices requiring publication to the appropriate newspaper, pay for the publication, and obtain any signed affidavits necessary.
- ◆ Attend all necessary Council meetings to answer questions the Council may have about the issue while the documents are being considered.
- ◆ Arrange to have any other necessary documents delivered for signature by other City officials such as the City Administrator and the Finance Director and after signature have appropriate self-addressed and stamped envelopes available for return. The officials should be notified in advance, that documents are being sent for signature.
- ◆ Arrange for all IRS and Federal or State filings and or fees.
- ◆ Arrange to have all necessary professional fees paid directly to the professionals who either did the work out of bond proceeds or make other acceptable arrangement with the professionals doing the work.

## Glossary

**Advance Refunding.** A refinancing transaction in which new (refunding) bonds are issued to repay (refund) outstanding bonds prior to the first call date. The proceeds of the refunding bonds are deposited in an escrow account, invested in government securities, and used to pay debt service on the refunded bonds through the applicable call date.

**Arbitrage.** The difference between the interest paid on the tax-exempt securities and the interest earned by investing the security proceeds in higher-yielding taxable securities. IRS regulations govern arbitrage on the proceeds from issuance of municipal securities.

**Capitalized Interest.** A portion of the proceeds of a bond issue which is set aside to pay interest on the same bond issue for a specific period of time. Interest is commonly capitalized for the construction period of the project.

**Capital Lease.** A lease obligation that has met the criteria to be categorized as a capital lease as opposed to an operating lease under generally accepted accounting principles.

**Competitive Sale.** A sale/auction of securities by an issuer in which underwriters or syndicates of underwriters submit sealed bids to purchase the securities. Contrast to a negotiated sale.

**Debt.** Any obligations of the City for the payment of money pursuant to Minnesota State Statutes.

**Escrow.** A fund established to hold monies pledged and to be used to pay debt service on an outstanding issue.

**General Obligation Bonds.** Bonds issued by the City secured by the City's pledge of its full faith and credit and unlimited taxing power.

**Negotiated Sale.** A method of sale in which the issuer chooses one underwriter to negotiate terms pursuant to which such underwriter will purchase and market the bonds.

**Net Tax Supported Outstanding Debt.** Defined for this policy as outstanding principal multiplied by the percentage of the repayment supported by a tax levy less any fund balance reserved for debt service.

**Private Placement.** The original placement of an issue with one or more investors as opposed to being publicly offered or sold.

**Refunding.** A transaction in which the City refinances an outstanding issue by issuing new (refunding) bonds and using the proceeds to immediately retire the old (refunded) bonds.

**Revenue Bonds.** Bonds issued by the City secured by a specific revenue pledge of rates, rents, or fees.

**Tax-Supported Debt.** Debt that is expected to be repaid from levied taxes and possibly other sources.

**Underwriter.** A dealer that purchases new issues of municipal securities from the issuer and resells them to investors.

# DONATION OF SURPLUS PROPERTY

## PURPOSE

The purpose of this Policy is to establish procedures for the donation of Surplus Equipment by the City to a Nonprofit Organization as required by Minnesota Statute § 471.3459 (2016).

## SCOPE

This policy applies to all City departments that generate Surplus Equipment and governs the actions of all City employees and officials.

## DEFINITIONS

“City” means the City of Big Lake, Minnesota.

“City Council” means the governing body of the City.

“Donation” means to contribute, donate or give Surplus Equipment at no cost to a Nonprofit Organization that serves a public purpose and benefits its community as a whole.

“Eligible Organization” means a Nonprofit Organization serving one or more of the following functions: cultural, historical, educational, safety, social services, environmental or economic.

“Fair Market Value” means the price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of all relevant facts.

“Nonprofit Organization” means an organization formed under Section 501(c)(3) of the Internal Revenue Code.

“Policy” means this Policy adopted by the City Council.

“Surplus Equipment” means equipment used by the any City department, and cellular phones and emergency medical and firefighting equipment that is no longer needed by the City because it does not meet industry standards for emergency medical services, police, or fire departments or has minimal or no resale value.

“Surplus Equipment Form” means the form attached as Exhibit I to this Policy that must be filled out by a Nonprofit Organization requesting a Donation of Surplus Equipment.

## PROCEDURE

The City shall determine all Surplus Equipment and may offer it for Donation in conformance with the following guidelines:

1. Identify Surplus Equipment. Department supervisors are responsible for monitoring their equipment and shall identify and report all Surplus Equipment to the City Finance Director on at least an annual basis.

2. Determine the Fair Market Value of Surplus Equipment. The City Finance Director shall work with City staff to determine the Fair Market Value of the Surplus Equipment.
3. City Council Declaration. The City Finance Director will forward a list of the Surplus Equipment with each item's Fair Market Value to the City Council who shall approve or deny the Surplus Equipment as eligible for Donation. The City has no obligation to make a Donation of Surplus Equipment. Surplus Equipment that is not donated may be sold, recycled or discarded in the discretion of the City Administrator.
4. Donation. After the City Council has determined the Surplus Equipment is eligible for Donation, the City Finance Director is responsible for coordinating the Donation of the Surplus Equipment in accordance with the terms of this Policy.
5. Transfer between Departments. All Surplus Equipment must first be considered for transfer between departments for the benefit of the City.
6. Advertisement. Surplus Equipment shall be posted as eligible for Donation on the City's website. The City may also use other reasonable means to notify Eligible Organizations about the availability of Surplus Equipment. The City shall wait at least 30 days after advertising Surplus Equipment before approving any Donation.
7. Surplus Equipment Form. Eligible Organizations interested in Surplus Equipment shall fill out a Surplus Equipment Form and submit the form to the City Finance Director.
8. Approval of Donation. If the Surplus Equipment has a Fair Market Value less than \$500, the City Department Director shall approve the Donation to an Eligible Organization, subject to review by the City Council. If the Surplus Equipment has a Fair Market Value greater than \$500, the City Council must approve the donation by a majority vote of the City Council.
9. Prioritization of Donations. If more than one Eligible Organizations requests a Donation for the same Surplus Equipment, the City shall consider factors it deems relevant including how the Surplus Equipment will be used, the benefit to the Eligible Organization, the impact on the City, how the Donation will accomplish goals of the City Council, and any previous Donation to the Eligible Organization.
10. Conflict of Interest. All City employees and officials are prohibited from taking possession of any Surplus Equipment on behalf of an Eligible Organization.
11. As Is. A Donation of Surplus Equipment is made "as is" with no warranty, guarantee or representation of any kind, express or implied, as to the condition, utility, or usability of the Surplus Equipment offered. The Surplus Equipment may be defective and cannot be relied up for safety purposes.
12. Title. The City Finance Director or Police Chief, if police department equipment, shall cause any title or other ownership documents to be transferred to the Eligible Organization at the time

of transfer. Any fees required to transfer the Surplus Equipment are the responsibility of the Eligible Organization.

13. Transportation. In the Surplus Equipment Form, the Eligible Organization must provide a detailed plan for transporting the Surplus Equipment from the City to the Eligible Organization. The Eligible Organization must pay all expenses associated with the transportation of the Surplus Equipment.

14. Delegation. The City Administrator may delegate specific responsibilities for implementing this Policy.

15. Documentation. The City Finance Director shall document the Donation of all Surplus Equipment and shall keep such records in accordance with the City's Records Retention Schedule.

16. Review of Policy. The City Finance Director is responsible for maintaining and reviewing this Policy. Any changes to this Policy must be approved by the City Council.

# FUND BALANCE YEAR-END CLASSIFICATION

(PER GASB 54)

## PURPOSE

The Government Finance Officers Association's (GFOA's) guiding principle for classifying the various components of fund balance is to indicate the extent to which the government is bound to honor constraints on the specific purpose for which amounts in the fund can be spent.

Following governmental accounting standards, the City has three basic categories: governmental funds, proprietary funds and fiduciary funds. This fund balance classification policy applies only to the governmental categories.

## GOVERNMENTAL FUNDS

In 2009, the Governmental Accounting Standards Board (GASB) issued a new standard, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This new standard has altered the categories and terminology used to describe the components of fund balance in the governmental funds (but it does not apply to proprietary or fiduciary funds).

The City's governmental funds include the following funds types:

- A. General Fund
- B. Special Revenue Funds
- C. Debt Service Funds
- D. Capital Project Funds

Definitions (as they apply to Governmental Funds under GASB 54):

- **Fund Balance** – the difference between assets and liabilities reported in a governmental fund.
- **Nonspendable Fund Balance** – amounts that are not in a spendable form (e.g., prepaid items and inventories of supplies). Resources that must be maintained intact pursuant to legal or contractual requirements are also considered nonspendable.
- **Restricted Fund Balance** – amounts subject to externally enforceable legal restrictions (creditors, grantors, contributors, and by law through constitutional provisions or enabling regulations).
- **Unrestricted Fund Balance** – the total of committed fund balance, assigned fund balance, and unassigned fund balance, as described below.
  - **Committed Fund Balance** – amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision-making authority (City Council). Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the constraint originally. The City Council must take action on these commitments before year-end.

- **Assigned Fund Balance** – amounts a government intends to use for a specific purpose; intent can be expressed by the government body or by an official or body to which the governing body delegates the authority.
- **Unassigned Fund Balance** – amounts that are available for any purpose; these amounts are reported only in the general fund.

#### **A. General Fund**

The General Fund is established to account for all revenues and expenditures which are not required to be accounted for in other funds. Revenue sources included property taxes, license and permit fees, fines and forfeits, program revenues, intergovernmental revenues, investment interest earnings, and transfers. The General Fund’s resources finance a wide range of functions including the operations of general governmental, public safety, and public works.

The General Fund may have committed fund balances at year end for purchase order encumbrances and budget carryovers. The General Fund may have a portion of its fund balance classified as nonspendable if there are long term receivables, inventories, or prepaid items on the balance sheet.

The General Fund is the only fund that can have any unassigned fund balance. The working capital balance of the general fund will fall into the unassigned fund balance classification.

#### **B. Special Revenue Funds**

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. Governmental accounting standards require that substantial inflows of revenues into a special revenue fund be either restricted or committed in order for the fund to be considered a special revenue fund.

- **Economic Development Authority** - the Big Lake Economic Development Authority (EDA) is a legal entity separate from the City. Although legally separate, the Big Lake EDA is reported as if it were part of the primary government because the component unit’s total debt outstanding is expected to be repaid almost entirely with resources of the primary government.
- **Narcotic Forfeiture** - this is considered restricted based on federal and/or state statute.
- **DWI Forfeiture** – this is considered restricted based on federal and/or state statute.
- **Traffic Safety Program** – this is considered restricted based on federal and/or state statute.
- **Farmers Market** – this is considered committed per City Council
- **Veterans Memorial** – this is considered committed per City Council

#### **C. Debt Service Funds**

Debt service fund balances are considered restricted; they are resources that are being accumulated for payments of principal and interest maturing in current and future years. All of the City of Big Lake debt service funds are considered restricted.

#### **D. Capital Project Funds**

Capital project fund balances are considered restricted or committed; they are resources that are being accumulated for current and future projects. Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. In Big Lake, capital project funds are split into three categories:

- **Capital Projects** – this category has balances that are considered both restricted and committed/assigned. The TIF districts are restricted through enabling legislation. The Neighborhood Stabilization Program is restricted through grant documents. The Park Development is restricted through state statute. Industrial Park Land purchase is assigned by the City Council. The Local Development Escrow is considered assigned.
- **Improvement Construction** – this category is considered assigned by the City Council. The category includes the Capital Project/Street Improvement Fund and the Infrastructure Improvement Fund.
- **Equipment/Building Replacement** – this category is considered assigned by the City Council.

#### **E. Order of Fund Balance Spend-down**

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 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, and (3) unassigned.

#### **F. Carryovers and Encumbrances**

For each year end, the City Council approves purchase order encumbrances and/or budget carryovers; both will be considered committed fund balances upon approval by the City Council.

# **PUBLIC PURPOSE EXPENDITURE**

## **PURPOSE**

The City Council recognizes that public funds may only be spent if the expenditure meets a public purpose and the expenditure relates to the governmental purpose for which the City was created.

The meaning of “public purpose” is constantly evolving. The Minnesota Supreme Court has followed a broad approach and has generally concluded that “public purpose” means an activity that meets ALL of the following standards:

- The activity will primarily benefit the community as a body.
- The activity is directly related to functions of government
- The activity does not have as its primary objective the benefit of a private interest whether profit or not-for profit.

This policy is intended to provide guidelines regardless which expenditures are for public purposes and authorized in accordance with the City’s annual budget process, and which expenditures are not considered to fall within the public purpose definition and are therefore not allowed. There is a public benefit in ensuring high employee productivity and morale.

## **RESPONSIBILITY**

The City Administrator is the responsible authority overseeing all city expenditures and as such is the chief purchasing agent for the City. Responsibility for administering this Public Purpose Expenditure Policy has been delegated to the Finance Director. Further, all officers and employees authorized by their department to make purchases for the benefit of their respective departments are responsible for complying with this policy and corresponding procedures.

## **POLICY**

Expenditures of public funds must comply with the public purpose standards defined above. When reviewing an expenditure to verify the standards have been met, the City Administrator, or his/her designee, should consider the time of day the event is held, the business purpose of the event, whether the event was intended to attract non-City employees, the frequency of the event, and the reasonableness of the cost. The following guidelines address specific examples of public expenditures, but examples are not meant to be all-inclusive.

### **Examples of Permitted Expenditures for Meals and Refreshments**

Use of City funds in reasonable amounts for meals and/or refreshments for elected/appointed city officials and employees are permitted in the following circumstances.

- Meals and Refreshments are allowed at the following events:
  1. A city business meeting in which the character of the meeting would involve predominately non-city employees
  2. Breakfast/lunch/dinner meeting for official city business when it is the only practical time to meet. Only expenses incurred by the city employee(s) may

be reimbursed. The City Administrator may allow exceptions when deemed in the interest of the City.

3. Non-routine, official meetings of the City Council, Committees or subgroups (i.e. Annual Committee Meeting, Council recognition at the end of a term, etc.)
4. Conference, workshop, seminar or meetings which the City Administrator or department head has authorized the employee to attend.
5. Department-sponsored meetings, conferences or workshops where the majority of invited participants are not city employees.
6. Meetings consisting primarily of city employees when the refreshment and/or meals are an integral part of the event and are necessary to sustain the flow of the meeting and to retain the captive audience, and if the meeting is one of the following:
  - An annual staff meeting for all employees
  - A non-routine management team or organizational meeting
7. Official meetings of the City Council, council committees, advisory boards/commissions, and task forces, when they are of a non-routine basis or when special events are held (i.e. as retirements or recognition).
8. During performance of election related duties on Election Day.
9. During Emergency Situations as required.

### **Examples of Other Permitted Expenditures**

- Recognition Events/Purchases (Minnesota Statutes 412.221 and 15.46)
  1. Purchases for recognition at special one-time or once-per-year events when provided at modest level with prior City Administrator approval (i.e. recognition plaques, awards, etc.)
  2. Employee Recognition Program for years of Services for regular and permanent part-time employees who work 20 or more hours a week year around, as well as the Volunteer Fire Department employees for the City of Big Lake.
    - City employees completing 5,10,15,20,25,30 and 35 years of service may receive a service award not to exceed \$90 in value.
  3. Monthly Community Member Volunteer Recognition; the community member is recognized with a plaque at a monthly council meeting.
- Employee Wellness Program; the City Council recognizes the importance of employee fitness and health as it relates to the overall work and life satisfaction of the employee and the overall impact on the City's health insurance program. As Such, the City Council supports an Employee Wellness Program, which has been designed to educate employees on fitness/health issues.
  1. The cost of an Employee Wellness Program will be included in the City of Big Lake Annual Budget. This item will be approved annually by the City Council as part of the overall budget approval process which includes a public hearing on the proposed budget.

- Special Events
  1. Such as National Night out, Department Open Houses and other events that involve or invite participation by the general public.
  2. Expenditures for meals and participation fees are allowed, and representative staff members may participate in the events that directly benefit the marketing of the City. Such expenditures are Public Relations expenditures pursuant to Minnesota Statute 469.101, subd. 16, and Minnesota Statute 438.11.
- Employee Training
  1. Is allowed for reasonable registration, tuition, meals and travel expenses for conferences, seminars, workshops, tuition and approved city employment related course work in accordance with the City of Big Lake personnel policies.
- Memberships and Dues
  1. Participation in the local Chamber of Commerce is allowed per Minnesota Statute 469.191 “permits a home rule or statutory city to appropriate no more than \$50,000 annually out of the general fund to any incorporated development society or organization of the state for promoting, advertising, improving or developing the economic and agricultural resources of the city”.
  2. Cost of membership/dues in professional organizations and City social and community organizations when the purpose is to promote, advertise, improve or develop the City’s resources and relationships and not personal interest or gain.
- Clothing and other sundry items
  1. Employees may receive t-shirts and other sundry items of nominal value when these items are made available to the general public or if these items are determined by the City Administrator to be important to the successful involvement of employees in special city-sponsored or city supported events (National Night Out, etc.). Employees may be supplied with uniforms, clothing, boots and other gear necessary for the performance of their job.

**Prohibited Expenditures**

Use of City funds for meals and/or refreshments or other items for elected and/or appointed City officials and employees are prohibited:

1. Alcoholic beverages
2. Employee functions or celebrations that are solely social in nature (e.g. birthdays, holiday luncheon, ice cream social).
3. Fundraisers for non-City related events
4. Participation in optional activities unless included as part of an overall conference registration fee (e.g. optional golf rounds, sporting events, concerts).

5. Employee-sponsored fundraising events (e.g., charitable giving campaign).
6. For funeral flower arrangements upon death of an employee, elected official, or one of their immediate family members.

### **Documentation**

All expenses allowed above must be fully documented. The expected documentation will include date and time of the event, business reason for the event (agenda from a meeting is sufficient), staff and non-city representatives in attendance, and a receipt for the actual purchase. Failure to provide sufficient documentation may result in a denial of the expense.

Any expenditure for meals or refreshment that exceeds \$250 for one event must have prior, written authorization by the Department Director, before the purchase is made. Any expenditure for meals or refreshments that exceed \$500 for one event must have prior, written authorization by the City Administrator, before the purchase is made. Failure to obtain the necessary authorization may result in denial of the claim.

### **Special Requests**

From time to time, there may be an event that is a proper public expenditure, but that is not contemplated by the policy above. Department Directors may submit to the City Administrator or the City's Administrator's designee, a request for such a public expenditure in writing. This request must show how the expenditure is related to a public purpose as stated in the Purpose section above. Only expenditures that meet all of the findings in the Purpose section above may be approved.

# PURCHASING

## PURPOSE

To establish a consistent City-wide policy for the acquisition of goods, services, repairs, construction, joint power agreements, and in-kind agreements for all Departments, Boards, Commissions and Agencies of the City, except Boards or Agencies which are required to follow their own statutory or regulatory provision, in a manner that is in compliance with the Big Lake City codes and applicable State and Federal laws governing municipal contracting and the expenditure of public funds.

To establish a consistent City-wide policy for contracts to protect the City from liability and ensure that contractors perform their duties properly. Well-drafted contracts are essential to protecting the City and enforcing its rights. The absence of a contract or an unenforceable contract could easily result in costly litigation and embarrassment for the City.

## POLICY

To 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.

## RESPONSIBILITY

The City Administrator is the chief purchasing agent for the City. Responsibility for administering established Purchasing Policies and Procedures has been delegated to the Finance Director.

The following Purchasing procedures have been established:

1. The City will purchase supplies, equipment and services best suited to the specific needs of the City in as economical a means as possible
  - a. The City will purchase EnergyStar certified equipment and appliances if possible
  - b. The City will purchase paper containing at least 30% post-consumer recycled content if possible
2. The City will promote fair competition among bidders and will comply with all statutes and regulations of the City, State, and Federal government that may pertain to the purchase of supplies, equipment, and services by a municipal entity.
3. Standards for purchasing:
  - a. **\$0 - \$1,000**
    - i. City Department Directors will be allowed to make purchases of less than \$1,000 without additional staff approval.
    - ii. These items can be purchased on the open market without obtaining price quotes.
    - iii. Employees should make a reasonable effort to obtain supplies as inexpensively as possible.
  - b. **\$1,001 - \$25,000**
    - i. When possible price quotes should be obtained from various vendors.

- ii. Reasonable effort should be made to secure price quotes from local vendors when available.
- iii. Purchases of specialized items not usually stocked by vendors, or for services not obtained frequently, do not require price quotes.
- iv. Additional staff approval is not required if the items was included in the budget.
- v. Quotes shall be retained for 1 year after receipt.
- c. **\$25,001 - \$175,000 (New law as of 8/1/18, prior amount \$100,000)**
  - i. Sealed bids or quotes must be obtained, with at least two quotations whenever possible.
  - ii. The Department Director shall make a recommendation for purchase to the City Council for their action.
- d. **\$175,000 +**
  - i. All purchases over \$175,000 require the formal preparation of specifications, with bids solicited by public notice in the City's official newspaper.
  - ii. Bids must be publicly opened, and approved by City Council.
  - iii. Statue requires all contracts to be awarded to the lowest responsible bidder, unless there is reasonable justification for approval of a higher bid, as determined by City Council.
  - iv. Specifications cannot be written to exclude a specific type of equipment or supplies.

On all purchases that require obtaining bids or quotes, the "State Bids" obtained through the State's cooperative purchasing program are considered to have met this requirement.

- 4. For purchases not requiring the bidding process, whenever it is reasonably possible the purchase will be made from local vendors. The City Council will routinely consider the local vendor's quote when it does not exceed the lowest non-local vendor quote by more than 5%.

### **Professional Services**

Contracting for professional services, such as those provided by engineers, lawyers, architects, accountants, and other services requiring technical scientific, or other professional training, when competitive bidding is not required, shall be the primary responsibility of the Department, but with the Purchasing oversight and compliance with established contract procedures. All contracts will be approved by the City Council.

### **Non-Monetary Contracts**

Contracts with no monetary requirements including joint powers and in-kind agreements must be approved by the City Council and signed by the Mayor.

### **Emergency Purchases**

Minnesota Statue 12.37 gives the City the ability to declare an emergency situation for a limited period of time. During such emergency, the City is not required to use the typically mandated procedures for purchasing and contracts.

Emergency purchases require approval by the City Administrator, Finance Director and when necessary because of the dollar amount, formal City Council action. An emergency purchase is defined as one where an immediate response is required to protect the health, welfare or safety of the public or public property.

### **Conflicts of Interest**

Minnesota State Statutes 471.87 and 471.88 prohibit the purchase of goods and services wherever a conflict of interest may exist.

City of Big Lake Personnel Policy requires City employees to remove themselves from situations in which they would have to take action or make a decision where the action or decision could be perceived or actual conflict of interest or could result in a personal benefit for himself or herself or a family member. Any officer or employee having an interest in any proposed legislative action of the council and who gives an opinion or recommendation to the council, shall disclose on the record of the council the nature and extent of such interest.

No purchase orders, contracts or service agreements shall be given to an employee of the City or to a partnership or corporation of which an employee is a major stockholder or principal. No employee shall enter into the relationship with a vendor where the employee's actions are, or could reasonably be viewed as, not in the best interest of the City. If any employee becomes involved in a possible conflict situation, the employee shall disclose the nature of the possible conflict to his or her supervisor and to the City Administrator. The City Administrator will promptly notify the individual in writing of an approval or disapproval of the activity. If disapproved, the employee shall remove himself or herself from the conflict situation.

### **Gifts and Gratuities**

No member of the council, official or employee may accept any gift or gratuity in any size under circumstances in which it could be reasonably thought to influence him or her in the performance of his or her official duties or appears to be a reward for any official action of his or her part. Employees responsible for making purchasing decisions for the City may not accept, directly or indirectly, any gifts, favors, privileges, or employment from current or prospective City vendors.

### **Compliance**

No agent or employee shall have the authority to bind the City to any contract or procurement. Any procurement transaction made on behalf of the City which is not in compliance with established policies and procedures shall be deemed unauthorized. Any person making an unauthorized purchase may be liable for payment, restitution and/or further disciplinary action. Any obligation incurred by any City employee for any purpose not authorized in the budget or for any amount in excess of the amount authorized is considered a personal obligation of the person incurring the expenditure.

## Cash Disbursements

### PURPOSE

The goal of the City is to safeguard the assets of the city and to ensure an appropriate level of fiduciary responsibility.

### Policies for cash disbursements:

- All invoices must be approved and coded by the appropriate Department Director and submitted to the Finance Director for payment.
- The Accounting Technician is responsible for the creation of checks from the payment batches and mailing out checks. In the absence of the Accounting Technician, the Payroll Accounting Clerk or Finance Director may code and record payments. Checks are processed weekly on Wednesday and mailed out on Friday.
- The Payroll Accounting Clerk verifies each check disbursement run and records the check numbers and total dollar amount of cash disbursement used in the daily subsidiary check register.
- The Mayor and City Administrator are authorized check signers for the City.
- The Payroll Accounting Clerk is responsible for the creation of electronic checks and entering them into the accounting system to record electronic payment activity for the City, as approved by the Finance Director
- All claims are reviewed and approved by City Council.
- The Finance Director is responsible for reconciling accounts payable at year-end.
- Monthly, the Finance Director is responsible to review expenditures to verify coding was correct. The Payroll Accounting Clerk will make the necessary adjustments as needed, which the Finance Director approves.
- At least quarterly, the Finance Department prepares a financial report that is presented to Council. The report shows year-to-date actual versus budget comparisons, for both revenues and expenditures/expenses, for the General Fund and all Proprietary Funds. The report also provides a summary of investments held by the City.

## **Credit Card Policy**

### **PURPOSE**

The City of Big Lake may provide credit cards to employees who frequently travel on city business or otherwise show a business reason for usage of a credit card. Credit cards will not be provided to city employees merely for the personal convenience of the employee. This policy addresses how to obtain a city credit card, procedures to pay credit card bills, and staff usage of city credit cards in the conduct of city business.

### **Obtaining a City credit card:**

A staff member who wishes to obtain a city credit card to use in the conduct of city business shall submit a request to his or her supervisor. The request shall include reasons why the employee wishes to obtain the credit card. All requests must be recommended for approval by the City Administrator, including a recommendation for a credit limit. The City Administrator will forward approved requests to the Finance Director for processing. The approval will include a specific dollar limit.

City credit cards will generally be issued when the following criteria are met:

- The staff member travels frequently on city business; and/or
- The staff member has primary responsibility for purchasing equipment and supplies for his or her department.

### **Procedure and responsibilities:**

- When possible and where convenience is not a primary concern, vendor acceptance of a purchase order or check and/or invoicing the city is preferred over using a city credit card. When the credit card is used, the vendor should be informed that the city is not subject to the state or local government sales tax.
- Dependent on individual needs, each staff's credit card shall be subject to dollar limits. Requests for increases in the limit should be submitted to the City Administrator for approval and then to Finance for processing.
- To prevent misuse and unnecessary finance charges, each cardholder is responsible for:
  - reviewing their individual statement for unauthorized usage;
  - providing substantiation for each charge;
  - routing the statement with all original documentation attached to the Finance Department within 5 working days of statement receipt (the turnaround time for credit card payments is short and subject to finance charges on the total balance due); and
  - Where applicable, obtaining the appropriate approvals from those with budget authority.
- Each charge must be evidenced by an original externally generated and itemized receipt or itemized substantiation for an online transaction.
- The cardholder will be responsible for any charges that an external generated and itemized receipt is not attached.
- A credit card purchase must comply with all statutes, rules and city policies. If credits are due, it is the cardholder's responsibility to ensure that they are received. (To avoid

finance charges, the full amount of the monthly credit card bill must be paid regardless of credits in process.)

- The cardholder should sign and approve the overall monthly statement that shall constitute his/her approval of each individual charge. The cardholder should indicate the appropriate budget category to which each charge should be coded. When charges relate to more than one person, the purpose of charges and names of attendees should be noted on the statement.
- Use of the city credit card for personal purchases is prohibited.
- No employee is allowed to use a city credit card without obtaining prior permission from the cardholder. When granted, it is the card user's responsibility to submit documentation to the cardholder. Ultimately it is the cardholder's responsibility to obtain documentation for all charges.
- Under no circumstances may cards be used by non-city employees.
- No cash advances are permitted using city credit cards.
- It is the cardholder's responsibility to safeguard the credit card and protect it from theft and unauthorized use. This includes:
  - immediately reporting lost cards or unauthorized use to the credit card company as well as to the Finance Department;
  - promptly destroying expired credit cards;
  - keeping the credit card in a secure location;
  - taking appropriate precautions when using the credit card to make purchases on the Internet and
  - turning in the credit card to the Finance Director upon termination, resignation or termination.
- Improper use of the city's credit card may result in disciplinary action, and cardholders may be held personally responsible for unapproved purchases.
- All credit card purchases are subject to external audit, and brief descriptions of each charge are noted on the accounts payable approval list submitted to the city council after each check run.
- The city reserves the right to cancel an individual's credit card for any reason.

# REVENUE AND UTILITY COLLECTION

## Revenue Policy

- The City will endeavor to maintain a diversified and stable revenue system to shelter it from annual fluctuations in any one revenue source.
- The City will conservatively estimate and budget for its annual revenues by an objective, analytical process. All existing and potential revenue sources will be re-examined annually.
- The City will maintain sound appraisal procedures to keep taxable property values current and a physical review of each parcel will be made at least every five years in accordance with Minnesota Statute 273.08.
- The city will seek a balance tax base through support of a sound mix of residential, commercial, and industrial development.
- The City will follow an aggressive policy of collecting revenues including assessing charges against the property for collection in the manner of a tax or assessment.
- The City will allocate citywide revenues to funds, which provide services to the entire City.
- The City will attempt to invest all cash holdings in accordance with the cash and investment policy and maximize those holdings with an effective payment policy.
- The City will establish all user charges and fees for General Fund program activities at a level related to the full cost of providing the services, or as adjusted for particular program goals. On-going, the City will review the full cost of activities supported by user fees to identify the impact of inflation and other cost increase and will review these fees along with the resulting net property tax costs with the City Council at budget time. Sensitivity to market rates will also be considered in setting fees and charges.
- The City will set fees and user charges for each enterprise fund such as water, wastewater, storm water or revenue facilities, (Municipal liquor store) at a level that fully supports the total direct and indirect cost of the activity, including depreciation of capital assets and debt service, to maintain a positive cash flow and provide adequate working capital. Replacement (or bonding for replacement) of enterprise infrastructure will be paid for from accumulated (or annual) earnings of the particular system.
- The City will conduct a public hearing, as required by law, prior to setting fees or charges.
- The City Administrator or designee may reduce the escrow amount collected per the fee schedule on a case by case scenario up to \$1,500. Any amount over \$1,500 will need to be approved by the City Council.

## **Utility Collection Policy**

The City of Big Lake uses the right to disconnect water services to properties for non-payment of the utility bill under this policy. For all properties that have been disconnected and payment has not been received by November of each year, the balance owed, as well as any old outstanding final balances, will be certified to Sherburne County as a special assessment. The collection action will be accomplished by certification of the charges against the property for collection in the manner of a tax or assessment. Additional fees will be added to delinquent charges certified to Sherburne County for collections as follows:

- Per parcel charge - \$20.00
- Annual interest rate – 6%
- Term – one year

All rates and rents for water consumption shall be charged directly to owner and/or tenant and due within thirty (30) days after period of consumption. Bills should be paid promptly when due, in the case bills are not paid when due, a penalty as identified on the City Fee Schedule will be added to the bill.

If rates or rents are not paid within thirty (30) days after they become due, the City may order the water shut off; and it shall not be turned on again until the bills, together with a fee as set in the fee schedule for the cost of turning off the service, and an additional fee is paid to turn on the water.

No water will be shut off from October 15 until the following April 15 if part of the premise's primary heat source except in compliance with the Cold Weather Rule, Minnesota Statute 216B.097.

The City Administrator or designee may waive the monthly late fee or service disconnection fee on a case by case scenario up to \$300. Any amount over the \$300 would need City Council's approval.

Vacated properties water shall be shut off to prevent property loss and strain on City water and sewer systems caused by unattended water use. A notice will be sent to owner/and or tenant that services will be disconnected and not reconnected until charges as set in the fee schedule have been paid.

## **Sidewalk Snow Remove Invoice Collection Policy**

The City of Big Lake uses the right to charge property owners to clean sidewalks of snow per city code 550.01, which states that the owner or occupant of any premises in the City shall clear the sidewalk in front of or beside the premises, of snow and loose or melting ice within twenty-four hours after the completing of any snowfall. For all properties that do not comply with code the City will bill the owner an administrative fee, based on the current fee schedule, plus the invoice amount from the authorized contractor.

For all invoices that are not paid in full by November of each year, the outstanding balance will be certified to Sherburne County as a special assessment. The collection action will be accomplished by certification of the charges against the property for collection in the manner of

a tax or assessment. Additional fees will be added to delinquent charges certified to Sherburne County for collections as follows:

- Per parcel charge - \$20.00
- Annual interest rate – 6%
- Term – one year

The City Administrator or designee may waive the fee on a case by case scenario up to \$300. Any amount over the \$300 would need City Council’s approval.

### **Weed and Grass Removal Invoice Collection Policy**

The City of Big Lake uses the right to charge property owners to remove weeds or grass growing upon any lot or parcel of land, including lands between the curb line of the street or alley and the property line of private properties to a height greater than one foot, or which are about to go to seed per city code 510.02, which states that the owner of any premises in the City shall remove weed and or grass that is in violation of stated code within seven (7) days of notice. For all properties that do not comply with code the City will bill the owner an administrative fee, based on the current fee schedule, plus the invoice amount from the authorized contractor.

For all invoices that are not paid in full by November of each year, the outstanding balance will be certified to Sherburne County as a special assessment. The collection action will be accomplished by certification of the charges against the property for collection in the manner of a tax or assessment. Additional fees will be added to delinquent charges certified to Sherburne County for collections as follows:

- Per parcel charge - \$20.00
- Annual interest rate – 6%
- Term – one year

The City Administrator or designee may waive the fee on a case by case scenario up to \$300. Any amount over the \$300 would need City Council’s approval.

### **Administrative Citation Collection Policy**

The City of Big Lake will send unpaid administrative citations, such as parking tickets or zoning violations to a collection agency for collections.

# **RISK MANAGEMENT**

## **PURPOSE**

A comprehensive risk management plan seeks to manage the risks of loss encountered in the everyday operations of an organization. Risk management involves such key components as risk avoidance, risk reduction, risk assumption, and risk transfers through the purchase of insurance. The purpose of establishing a risk management policy is to help maintain the integrity and financial stability of the city, protect its employees from injury, and reduce overall cost of operations.

## **POLICY STATEMENT**

The City will maintain a risk management program that will minimize the impact of legal liabilities, natural disasters or other emergencies through the following activities.

1. Loss prevention – prevent losses where possible
2. Loss Control - reduce or mitigate losses
3. Loss financing – provide a means to finance losses
4. Loss information management – collect and analyze data to make prudent prevention, control and financing decisions.

The City will review and analyze all areas of risk in order to, whenever possible, avoid and reduce risks or transfer risks to other entities. Of the risks that must be retained, it shall be the policy to fund the risks which the city can afford and transfer all other risks to insurers.

The City will maintain an active safety committee comprise of City employees.

The City will annually conduct educational safety and risk avoidance programs within its various division.

Staff will report to Council, annually on the results of the City's risk management program for the preceding year.

# TRAVEL AND TRAINING

## Travel Policy

### PURPOSE

It is the purpose of this policy statement to establish adequate internal controls to satisfy Internal Revenue Service (IRS) regulations, State laws, and to provide a framework to use as a guide to prescribe circumstances for which travel reimbursement or travel purchasing card transactions will be authorized. Only claims for accommodations and services actually incurred or in accordance with the Standard Federal Per Diem Rate in the case of meals and incidental expenses would be reimbursed once the Travel Expense Report has been approved. Employees are expected to utilize the same care when incurring official expenses that a prudent person would utilize if traveling on personal business.

### City Reimbursement of Travel Cost.

The City will pay or reimburse all travel costs that are both reasonable and necessary. All persons conducting official City business are expected to show good judgement in the nature and amount of expenses incurred while conducting City business. Per Minnesota Statue, purchase of alcoholic beverages cannot be reimbursed. Travel must be by the most direct or normally traveled route unless approved in advance by the employee's supervisor. Reimbursement will be limited to the cost of travel by direct route or on an uninterrupted basis. The employee will be responsible for any additional cost exceeding the business purpose related expense.

The following expense may be approved for reimbursement:

- **Transportation** – Coach airplane passage is considered standard for travel out of state, as air travel is generally more economical in time and money than other modes of transportation when making long trips. Any out of state training or travel must be pre-approved by the City Administrator, or the City Council in the case of out-of-state training opportunities for the City Administrator.
- **Travel by Automobile** - When traveling in a City vehicle, the employee should use a City assigned purchasing card for fuel expenses or their own credit card if a City purchasing card is not available. Due to potential liability considerations, transportation of persons not on official City business is prohibited in City Vehicles.

When personal automobiles are used as a mode of transportation for travel, reimbursement will be reimbursed at the current IRS mileage reimbursement rate. Payment of mileage will be based on the most direct route from the point of departure to the point of destination. The City is not responsible for damage to personal vehicles while on official business, as the employee's vehicle is not covered by the City's insurance coverage.

- **Car Rental** - Prior approval by the Department Director is required if it is necessary to rent a car at the travel destination. Pre-payment of a car rental can be made using a City purchasing card. No personal use of car rental is allowed to be claimed on the Travel Expense Report.

- **Lodging** – Hotel or motel accommodations should be appropriate to the purpose of the trip. Lodging should be chosen based on reasonableness of cost and proximity to the conference, meeting, or training site.

Each employee shall be allowed an individual single room. Where multiple occupancy by other than City employees/official occurs, only the actual cost of the single room rate (if different from the double room rate) may be claimed for reimbursement or charged to City purchasing card.

Detailed lodging receipts must be submitted for reimbursement as well as documentation for charges on a City purchasing card. The receipts must include the nightly room rate and any incidental expenses charged. Only incidental costs related to the room charges will be reimbursed.

Business telephone calls and reasonable personal calls incurred during overnight stays are reimbursable. When assigned, a City mobile device or cell phone should be used for telephone calls. Expenses that are not deemed reasonable and necessary will not be reimbursed. Some non-reimbursable examples are: movies in your hotel room, fees to use the hotel's health club, dry cleaning, and personal items (such as toothpaste, shampoo, etc.)

Unless previously approved by the Department Director or City Administrator, overnight stays within 60 miles of the City will not be reimbursed.

- **Per Diem** – The per diem allowance is a daily payment for meals and related incidental expenses when overnight travel accommodations are necessary, in accordance with published federal per diem rates instead of receipt based reimbursement. An employee may claim an amount not to exceed the allowable per diem rate in accordance with the Standard Federal Per Diem Rate Schedule in effect at the time of travel (current per diem rates are located at [www.gsa.gov](http://www.gsa.gov)). A City assigned purchasing card may **NOT** be utilized to pay for meal expenses when per diem is claimed. The per diem allowance is separate from lodging, transportation and other miscellaneous expenses. The per diem allowance covers all charges, including taxes and service charges where applicable for:
  - **Meals** – Expenses for breakfast, lunch, dinner, snacks and related tips and taxes (specifically excluded are alcoholic beverage and entertainment expenses, and any expenses incurred for other persons). Tips shall not exceed 15% of a City reimbursed meal cost.
    - In the event an approved training/conference event is more than one day in duration, the maximum reimbursement will not exceed the daily per diem rates set annually by the Standard Federal Per Diem Rate Schedule for meals and incidentals for the area.

- Employees may claim full per diem for the day of departure and the day of return from a business trip, regardless of the departure or arrival time.
  - When an event encompasses a full day, employees may spend the daily allowance among the three meals, at their discretion, unless meals are included as part of the event registration. In that case, the money allotted for that meal cannot be spent.
  - For partial days, the meal allowance will not exceed the amounts set annually by the Standard Federal Per Diem Rate Schedule for meals and incidentals separately for breakfast, lunch, or dinner.
  - Detailed receipts will be required for reimbursement (also for any meals purchased with a City Purchasing card) upon return from the event. Receipts must clearly state the date, location, and item(s) ordered. Non-itemized credit card receipts will not be reimbursed.
  - Employees may occasionally be in the position of having to provide a meal for other persons who have official business with the City. In addition, receipts for these meals must include the name of each person attending the meal along with a description of the public purpose/benefit of the meeting.
- *Incidental expenses* – Fees for Taxi, parking, as well as tips for porters, baggage carriers, bellhops and hotel maid service, associated with travel while on official City business will be reimbursed at actual cost. Receipts must be submitted for reimbursement.

### **City Reimbursement of Travel Costs that do not Require Overnight Travel**

Travel plans involving expenses that do not require overnight travel accommodations will be reimbursed based on actual cost substantiated by appropriate receipts. The employee is entitled to reimbursement of meal expenses after submitting actual receipts. No reimbursement is authorized if meals are provided during the meeting or event. When available, the assigned City credit card should be used for these types of activities. This includes training or meeting within 60 miles from the City.

### **International Travel**

For domestic travel purposes, the IRS definition of the United States includes the 50 states and the District of Columbia. The purpose of travel outside the United States for City business must be unquestionably professional in content and should only be considered if a similar meeting, conference, or training of similar quality cannot be found within the continental limits of the United States. International travel expenses for business related purposes are deductible, as outlined in the IRS Code Publication 463 (Travel Outside the United States), but may be limited if the travel involves non-business activities. Any travel outside the United States must be approved by the City Council.

**Other**

Falsification of travel documents/expense reporting, resulting in overpayment of the City's assets, may cause for disciplinary action.

It is the employee's responsibility to:

- Maintain accurate records;
- Make a conscious effort to minimize expenses while maintaining an adequate level of comfort and convenience;
- Request reimbursement in an accurate and timely manner, 30 days or less.

**Training Policy**

Training must be approved in advance by the Department Director. Requests for reimbursement of training costs must include information on the training session and proof of payment.

# EDA FINANCIAL POLICES

## Tax Increment Financing Policy

*BLEDA Adopted May 12, 2014  
City Council Adopted May 28, 2014  
Revised February 8, 2017*

*For the purpose of this policy, the "City" shall also mean the Big Lake Economic Development Authority (BLEDA), which serves in conducting various economic development, housing and redevelopment programs and activities within the City of Big Lake.*

### **I. GENERAL POLICY**

The purpose of this policy is to establish the City's position relating to the use of Tax Increment Financing for private development. Minnesota Statutes, Section 469.174 through 469.1794, as amended, governs the use of Tax Increment Financing (the "TIF Act"). This policy shall be used as a guide in processing and reviewing applications requesting Tax Increment assistance. The fundamental purpose of tax increment financing in Big Lake is to encourage desirable development and/or redevelopment that would not otherwise occur "but for" the assistance provided through TIF.

The City of Big Lake may consider Tax Increment Financing for projects that serve to accomplish the City's goals for housing and economic development as they may change over time. The goals include facilitating projects that would result in the creation of quality jobs (e.g. stable employment and/or attractive wages and benefits) and the attraction, retention, and expansion of business and housing options in the City.

### **II. CITY'S OBJECTIVE FOR THE USE OF TIF:**

As a matter of adopted policy, the City of Big Lake may consider using Tax Increment Financing (TIF) to assist private development projects to achieve one or more of the following purposes:

- Remove blight and/or encourage redevelopment in the commercial and industrial areas of the City in order to encourage high quality development or redevelopment and private reinvestment in those areas.
- To promote neighborhood stabilization and revitalization by the removal of blight and the upgrading of existing housing stock.
- To retain local jobs and/or increase the number and diversity of quality jobs (e.g. stable employment and/or attractive wages and benefits).
- To encourage additional unsubsidized private development in the area, either directly, or through secondary "spin-off" development.
- To offset increased costs of redevelopment (e.g. contaminated site clean-up), over and above those costs that a developer would incur in normal urban and suburban development.

- To facilitate the development process and to achieve development on sites which would not be developed without this assistance.
- To meet other uses of public policy, as adopted by the Council from time to time, including promotion of quality urban design, quality architectural design, energy conservation, decreasing the capital and operating costs of local government, etc.

### **III. COSTS WHICH MAY QUALIFY FOR TAX INCREMENT FINANCING ASSISTANCE:**

**This list is provided as an example of costs which may qualify for tax increment financing assistance. The City may determine to not reimburse costs that are included on this list and to include other costs not listed here that may be eligible under the TIF Act.**

- Project Design fees including: utilities, landscape, architectural and engineering design.
- Site related work, including: permits for site work, earthwork/excavation, soil correction, landscaping, utilities, streets and roads, street/parking lot paving, street/parking lot lighting, curb and gutter, sidewalks
- Land acquisition
- Special assessments
- Legal fees (acquisition, finance, closing)
- Soil tests
- Environmental studies
- Surveys
- Interest rate write downs
- Relocation assistance
- Replacement or clean-up of contaminated soils which would otherwise preclude redevelopment
- Rehabilitation
- Any other costs allowable by the TIF Act

### **IV. PROJECTS WHICH MAY QUALIFY FOR TAX INCREMENT FINANCING ASSISTANCE**

All new TIF projects considered by the City of Big Lake must meet each of the following minimum qualifications and will also be evaluated based on their ability to meet the desired qualifications for assistance. However, it should not be presumed that a project meeting any of the qualifications will automatically be approved. Meeting the qualifications create no contractual rights on the part of any potential developer to have its project approved.

#### **MINIMUM QUALIFICATIONS**

- A. The project should meet one or more of the Tax Increment Financing Objectives outlined in Section 2. But at a minimum shall:

- Remove blight and/or encourage redevelopment in the commercial and industrial areas of the City in order to encourage high quality development or redevelopment and private reinvestment in those areas.
  - To facilitate the development process and to achieve development on sites which would not be developed without this assistance.
- B. The developer must demonstrate that the project is not financially feasible "but-for" the use of tax increment financing.
- C. The project must be consistent with the City's Comprehensive Plan and Zoning Ordinances, or required changes to the plan and ordinances must be under active consideration by the City at the time of TIF application submittal.
- D. Prior to approval of a TIF financing plan, the developer shall provide any requested market and financial feasibility studies, appraisals, soil boring, private lender commitment, and/or other information the City or its financial consultants may require in order to proceed with an independent underwriting of the proposal.
- E. Any developer requesting TIF assistance should be able to demonstrate past successful general development capability as well as specific capability in the type and size of development proposed. TIF will not be used when the developer's credentials, in the sole judgment of the City, are inadequate due to past track record relating to: completion of projects, general reputation and/or bankruptcy, or other problems or issues considered relevant by the City.
- F. The level of TIF funding should be reduced to the lowest possible level by maximizing the use of private debt and equity financing first, and then using other funding sources or income-producing vehicles that can be structured into the project financing, prior to using additional TIF funding.
- G. Development financing will be made available only on a Pay-As-You-Go (PAYGO) basis. Look back provisions may be utilized by the City to determine developer's ability to share revenue with the City.
- H. The level of assistance provided to developer will be determined on a case-by case basis. When determining the level of assistance, the City will consider the quality of the proposed development and/or the quality of the employment opportunities that might be generated.

#### DESIRED QUALIFICATIONS

- A. TIF proposals creating a higher ratio of property taxes paid before and after redevelopment will receive priority consideration. Given the different assessment circumstances in the City, this ratio will vary widely. A 1:2 ratio of taxes paid before and after redevelopment is desired.
- B. TIF proposals should normally not be used to support speculative industrial, commercial, office or housing projects. In general, the developer should be able to provide market data,

tenant letters of commitment or finance statements which support the market potential/demand for the proposed project.

- C. TIF will normally not be used in a project that involves an excessive land and/or property price. This will normally be where the acquisition price is more than 20% in excess of market value as determined by an independent appraisal of the property.
- D. TIF will not be used in projects that would give a significant competitive financial advantage over similar projects in the area due to the use of tax increment subsidies. Developers should provide information to support that TIF assistance will not create such a competitive advantage. Priority consideration will be given to projects that fill an unmet market need.
- E. TIF will not be used to support projects that place extraordinary demands on City services. Preference will be given to projects that do not place extraordinary demands on City services.
- F. TIF will not normally be used for projects that would generate significant environmental problems in the opinion of the local, state, or federal governments. Priority will be given to projects that aim to clean-up existing contaminated sites and would facilitate the location of an industry or business which has an environmentally sound track record, or meet a housing need in the City.
- G. Preference will be given to projects that meet good public policy criteria as determined by the City Council, including:
  - High project quality (e.g. sound architectural design, quality construction and materials)
  - Projects that are in accord with the Comprehensive Plan, Zoning Ordinance, Strategic Plan, and other redevelopment plans of the City
  - Projects that provide significant improvement to surrounding land uses, the neighborhood, and/or the City
  - Projects that provide a significant increase in tax base
  - Projects that provide significant new, or retained, employment
  - Projects that meet financial feasibility criteria established by the City; and
  - Projects that provide the highest and best desired use for the property

## **V. TAX INCREMENT PROJECT EVALUATION PROCESS**

The following five methods of analysis for all TIF proposals will be used:

1. Consideration of project meeting minimum qualifications.
2. Consideration of project meeting desired qualifications.
3. Project meets "but-for" analysis and statutory qualifications
4. Project Summary Report Card (Exhibit A)

*Please note that the evaluation methodology is intended to provide a balanced review. Each area will be evaluated individually and collectively and in no case shall one area outweigh another in terms of importance to determining the level of TIF assistance.*

## **VI. APPLICATION FOR TIF ASSISTANCE FOR ALL TIF DISTRICTS AND PROJECT AREAS**

The City of Big Lake will require a non-refundable application fee in the amount of \$500.00 for its processing of the application. The application fee shall be paid to the City at the time the TIF application is submitted.

At the time a TIF application is submitted, the applicant shall also deposit \$10,000 with the City to cover its attorney's and consultant's costs incurred as part of amending or establishing a TIF district, drafting and negotiating a development agreement, and conducting any fiscal analysis that may be required to meet the requirements of utilizing TIF. *If additional expenses are incurred beyond the \$10,000, prior to the execution of a development agreement, the City shall notify the applicant in writing and the applicant will be required to deposit additional funds upon notice.*

If the project is approved and the applicant proceeds with the project, the City shall reimburse the applicant any unused portion of the deposit as of the date of execution of the development agreement. If the applicant does not proceed with the project, the City shall reimburse the applicant for the unused portion of the deposit as of the date that the City is notified in writing that the applicant desires to withdraw its application.

## **VII. APPLICATION PROCESS:**

The application process must be completed in accordance with the TIF application procedures (Exhibit B). The purpose of this approach is to give an applicant the opportunity to discuss a development proposal without expending a great deal of money and time in pursuing a development that may conflict with the City's goals and objectives.

## **VIII. OTHER POLICY ISSUES**

### **Public Use of Tax Increment**

The City shall follow applicable state laws in terms of potential public improvement financing with TIF. It shall be the general policy of the City to identify public improvements at the time of adoption or amendment of the TIF Plan.

# Tax Abatement Policy

Revision Dates  
*September 28, 2005*  
*February 25, 2015*  
*March 8, 2017*  
*February 12, 2018*

## I. General Purpose

The purpose of this policy is to establish the City of Big Lake's ("the City") position as it relates to the use of Property Tax Abatements ("Abatements") for private development. This type of abatement is allowed pursuant to Minnesota Statutes, Sections 469.1812 through 469.1815, as amended (the "Abatement Law"). It is the City's intent to coordinate the use of Tax Abatement with other local jurisdictions to the extent that it is possible to do so.

Tax Abatement shall be defined as the City's share of the property taxes derived from the increase in market value over the current year market value of property within the project area resulting from development. For purposes of this definition, current year is the year in which an application for request for assistance is received.

The City of Big Lake recognizes the importance of this development tool which may be used by the City to satisfy its economic development goals and objectives. These general goals include the following:

- A. Broaden and diversify the tax base;
- B. Create and or retain an employment base;
- C. Strengthen and enhance the commercial-industrial areas of the community;
- D. Promote a high quality of construction or site design.

This policy shall be used as a guide in the processing and review of applications requesting tax abatement assistance. The fundamental purpose of Tax Abatement in the City of Big Lake is to encourage desirable development or redevelopment that would not otherwise occur but for the assistance provided through Tax Abatement.

## II. Types of Projects and Uses Eligible for Assistance

In order to meet the stated goals and objectives of the City, Abatements will be used to assist private developments in those instances where the proposed project demonstrates one or more of the following objectives or conditions:

### *Public Financing is needed to...*

1. Retain local jobs and/or increase the number and diversity of jobs that offer stable employment and/or attractive wages and benefits.
2. Enhance and diversify the City's economic base.
3. Encourage additional unsubsidized private development in the area, either directly or indirectly through "spin-off" development.

4. Offset increased costs of redevelopment (i.e. contaminated site clean-up) over and above costs normally incurred in development.
5. Contribute to the implementation of other public policies as adopted by the City from time-to-time, such as the promotion of quality urban or architectural design energy conservation and decreasing capital and/or operating costs of local government.
6. Promote a high quality of construction and/or site design.
7. Aid in the development or implementation of an environmentally sound practice, production or product.
8. Improve the condition of existing commercial or industrial buildings, including but not limited to, accessibility requirements, exterior façade improvements and energy upgrades.
9. Complete specific enhancements, including but not limited to signage, landscaping and lighting (within private property or adjacent to public property).
10. Fill a defined financing gap that is associated with a pedestrian public improvement project in commercial areas, including but not limited to, access control, pedestrian systems and parking improvements.
11. Facilitate the development process and achieve development of sites that would not be developed without Tax Abatement assistance (general “but for” test).
12. Finance or provide public infrastructure pursuant to the Abatement Law.

### **III. Eligible Expenditures**

Abatements may be used to pay for expenditures related to eligible project costs. Eligible expenditures may include land acquisition and conveyance, building improvements, site improvements and public streets/utilities. Ineligible expenditures are non-fixed assets including equipment and working capital.

### **IV. Financing Structure**

The City will structure Abatements as a direct annual or semi-annual payment (corresponding to the City’s portion of the property taxes only) to the property owner based on the terms and conditions stated in an agreement between the City and the property owner. The property owner is subject to changes in the taxes that may result in payments lower than the original estimated amount.

### **V. Specific Policies for the Use of Tax Abatement**

1. Tax Abatement will be provided to the developer upon receipt of taxes as a pay-as-you-go method. All taxes on the subject parcel need to be paid to date before a rebate payment will be made. Requests for up-front financing (bonds) will be considered on a case-by-case basis.

2. Developer shall be able to demonstrate a need for a proposed project.
3. Tax Abatement shall not be used for projects or businesses that would place extraordinary demands on city services considering the benefit to the City.
4. The developer must enter into an abatement agreement to ensure compliance with the City policies and requirements.
5. The developer shall demonstrate his or her ability (via past experience, credit history and corporate or personal financial statements) to complete the project in an adequate and timely manner, and also at the option of the City, shall provide financial guarantees to ensure completion of the project that include but are not limited to: assessment agreements, letters of credit and personal guarantees.
6. The developer/business shall provide information necessary for the City to make a determination on the project.
7. The City will view projects having a county/school district tax abatement commitment more favorably.
8. The project supports and furthers the City's Comprehensive Plan and/or other public policies, as adopted by the City.
9. Tax Abatement may be used to phase in a property tax increase on a parcel that will increase in estimated market value of 50 percent or greater when the increase is not attributable to an abatement project.
10. The business subsidy funding for any project shall be the lowest amount feasible for the shortest period of time. Business/developers shall exhaust all possible forms of non-business subsidy funding, i.e. private debt and equity financing prior to using business subsidy finding.
11. Any receipt of Tax Abatement assistance will be required to provide an equity investment in the project.
12. Tax Abatement will not be used in circumstances where land and or property price is in excess of fair market value.
13. Tax Abatement will not be utilized in cases where it would create an unfair competitive financial advantage over other projects or businesses in the area.
14. No abatement of taxes will be granted on property in a TIF District.
15. The project shall comply with all provisions set forth in the state Abatement Law.
16. Abatement can only be granted, if it benefits the City to a level equal to or greater than the abatement cost to the City.

17. In any year, the total amount of property taxes abated by the City may not exceed ten percent (10%) of the net tax capacity of the City or \$200,000, whichever is greater. This is consistent with the Abatement Law.
18. No tax abatement period shall exceed 15 years from the date of approval by the City Council unless the county or school district has declined to participate in the abatement. In this event, the City may approve an abatement period that is up to 20 years in length.
19. The City Council may change and modify the application of these specific policies as it deems necessary and appropriate.

## **VI. Decision Guidelines or Project Requirements**

The following guidelines will be used by the City in order to determine whether a financing proposal is warranted which will become the basis for findings in the resolution of Abatement approval.

- A. The proposed project does not fit well within the City's and the Economic Development Authority's Tax Abatement Policy or is subject to other state statute restrictions.
- B. The proposed project addresses an identified need within the community, including but not limited to, improved maintenance or expansion of public utilities, reuse of underutilized property, or development of property with site constraints, installation of design enhancements, compliance with safety or accessibility codes, and financing within a targeted improvement area.
- C. The proposed project cannot be completed without public financing due to identified costs that are greater than normal or due to an identifiable financing gap.
- D. The proposed project can be assisted with a private-to-public leverage, which results in minimal impact to the statutory limit for the City's use of Abatements. In addition, the amount of Abatement should not exceed the level of private equity from the project owner(s).
- E. The project is consistent with the City's Comprehensive Plan, Land Use Plan and Zoning Ordinances.
- F. The project meets one or more of the following public purposes:
  - Creation of new jobs
  - Increase in the tax base
  - Enhancement or diversification of the City's economic base
  - Development or redevelopment that will spur additional private sector investment in the area
  - Fulfillment of defined City objectives such as those identified in the City's Comprehensive Plan
  - Removal of slum and blight or the redevelopment of a high profile site.

## **VII. Procedure for Application:**

- A. A completed application with the application fee in accordance with the current City of Big Lake Fee Schedule shall be submitted to the City. The application will be reviewed by the City staff and the Economic Development Authority.
- B. After review and recommendation for approval by the Economic Development Authority (the review body for the City), the City Council shall publish a notice and hold a public hearing on the proposed Abatement.
- C. The City Council holds a public hearing concerning the Abatement. It must approve the Abatement by resolution.
- D. If the City approves the Abatement by resolution, its staff and/or consultants will draft a development contract.

## **SAC Fee Subsidy Policy for Lake Shopping Center Development**

The City of Big Lake and its Big Lake Economic Development Authority (BLEDA) strive to promote growth in the community. The intention of this policy is to stimulate an increase in tax base and offset the rise in construction costs.

Fourteen (14) SAC Credits were provided to the BLEDA on April 25, 2007 due to a former laundromat that burned down, which was never rebuilt and the redevelopment of the Lake Shopping Center. The intention of the 14 SAC Credits were for the BLEDA to award them to an economic development project(s) within the Lake Shopping Center area.

The 14 SAC Credits fit the legal definition of a business subsidy of \$25,000 or more. This prompts a need for a policy that sets performance standards with specific minimum requirements that projects must meet in order to be eligible to receive the SAC fee business subsidy.

This SAC Fee Business Subsidy Policy will dissolve three (3) years after the 14 credits have been awarded to a project(s) and waived. A vesting of three (3) years is to assure the intended purpose and hedge against a use change to a less intensive water/sewer user.

Minimum performance requirements are as follows:

- Waiving the SAC fee will be approved by the Big Lake City Council following a recommendation of approval by the BLEDA.
- The SAC Credits will be issued on a first come, first served basis until the Credits are extinguished.
- Projects that receive SAC Credits must create at least two (2) jobs and pay at least the current minimum wage

- Jobs created must empower and support adults with disabilities to work in the mainstream of community life
- The Developer must agree to promptly pay all other fees and charges imposed by the City in conjunction with construction and shall not otherwise be delinquent of City fees and charges.
- SAC Credits will only be awarded to commercial/retail projects within the Lake Shopping Center area.
- The SAC connection fee will be waived at the time the building permit is issued and construction must begin within 365 days of receiving the SAC waiver.
- Any SAC connection fee waiver will be documented in a written agreement signed by the City and the Developer.
- This policy will dissolve three (3) years after the 14 Credits have been waived.

# FEDERAL GRANT POLICIES AND PROCEDURES

## **Purpose**

The purpose of the Federal Grant Policies and Procedures Manual is to administer Federal funds pursuant to *Title 2 of the Code of Regulations (2 CFR) part 200* which took effect on December 26, 2014.

The manual contains the internal controls and grant management standards used by the City to ensure that all Federal funds are lawfully expended. It describes in details cash management procedures, procurement policies, inventory management, procedures to determine the allowability of Federal expenditures, time-and-effort reporting, record retention and monitoring responsibilities. All Grant Managers of the City are expected to review this manual to gain familiarity and understanding of the rules and to comply with all requirements.

## **Grant Award Procedures**

### **Preparation and Review of Proposals**

Individual departments are responsible for preparing proposals for projects that the department intends to pursue. However, all proposals shall be reviewed by the Finance Director and no grant application will be prepared and submitted unless authorized by the City Administrator prior to submission to government agencies or other funding sources. Final proposals shall be reviewed and approved in writing by the City Administrator.

### **Post-Award Procedures**

After an award has been made, the following steps shall be taken:

- A. Verify the specifications of the grant or contract. The Finance Director shall review the terms, time periods, award amounts and expected expenditures associated with the award. A *Catalog of Federal Domestic Assistance* (CFDA) number shall be determined for each award. All reporting requirements under the contract or award shall be summarized.
- B. The Finance Director will set up new project codes and account numbers for grants. New accounts shall be established for the receipt and expenditure categories in line with the grant or contract budget.
- C. Gather documentation. A file is established for each grant or contract. The following documents should be included in the grant file:
  1. Grant proposal and/or application
  2. Final signed grant award letter/executed agreement
  3. Grant release checklist and terms of award
  4. All modifications to the grant award i.e. continuations, supplements
  5. Council agenda items and resolutions
  6. Budget amendments/transfers

7. Payment authorizations and expenditure documentation
8. Subcontracts (if applicable)
9. Reimbursement request
10. All technical, progress and final reports submitted to Federal agency
11. Property records and disposal records if applicable
12. All written documentation pertaining to the grant, including correspondence, emails, notes, etc.

### **Compliance with Laws, Regulations and Provisions of Awards**

The City of Big Lake recognizes that as a recipient of Federal funds, it is responsible for compliance with all applicable laws, regulations, and provisions of contracts and grants. To ensure that the City of Big Lake meets this responsibility, the following policies apply with respect to every grant or contract received directly or indirectly from a Federal agency:

- A. For each Federal award, an employee within the department responsible for administering the award will be designated as "Grant Manager" (GM).
- B. Each Grant Manager is expected to review the *Federal Grant Policies and Procedures Manual* to gain familiarity and understanding of the rules and practices to comply with all of the requirements prior to beginning their role as a Grant Manager (or as early in their functioning as a Grant Manager as practical).
- C. The Grant Manager shall take the following steps to identify all applicable laws, regulations, and provisions of each grant and contract:
  1. Read each award and prepare a summary of key compliance requirements and references to specific laws and regulations.
  2. Review the "Appendix XI to Part 200 – Compliance Supplement" (updated annually) published by the Office of Management and Budget (OMB) for compliance requirements unique to the award and for compliance requirements common to all Federal awards.
  3. Review the section of the *Catalog of Federal Domestic Assistance* applicable to the award.
- D. The Grant Manager will be responsible for submitting any required reports to the agency that provided the grant. The Grant Manager will ensure that the funds are being expended in accordance with the provisions of the grant and request for Federal funds are based on the actual costs incurred for allowable expenditures; and are reviewed and approved by management or someone else that is familiar with the grant prior to submission. That person must sign off on each grant reimbursement request. The Finance Director will receive copies of all financial reports submitted along with copies of the supporting documentation. The Finance Director is responsible for reviewing all information submitted by the Grant Manager for financial accuracy and preparing the Schedule of Expenditures of Federal Awards.

- E. The Grant Manager will assist the Finance Director in ensuring that all regulations are met. Any changes to the grant award will be submitted to the Federal agency for proper approval and authorization. The Grant Manager is responsible for maintaining all documents related to those changes.
- F. The Grant Manager and/or the Finance Department shall identify and communicate any special changes in policies and procedures necessitated by Federal awards as a result of the review of each award.
- G. The Grant Manager shall take all reasonable steps necessary to identify applicable changes in laws, regulations, and provisions of contracts and grants. Steps taken in this regard shall include, but not be limited to, reviewing subsequent grant and contract renewals, reviewing annual revisions to the "Appendix XI to Part 200 – Compliance Supplement", and communications with Federal Awarding Agency personnel.
- H. The General Manager shall cooperate with the Independent Auditors by informing the CPA firm as to applicable laws, regulations, and provisions of contracts and grants and communicating known instances of noncompliance with laws, regulations, and provisions of contracts and grants to the auditors.

#### **Close Out of Federal Awards**

The City of Big Lake shall follow the “Close Out Procedures” described in “2 CFR Part §200.343”, and in the grant agreements as specified by the Federal Awarding Agency or pass-through entity:

- A. The City of Big Lake will submit, no later than 90 calendar days after the end date of the period of performance, all financial, performance and other reports as required by or the terms and conditions of the Federal award, unless an extension is approved.
- B. The City of Big Lake will liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award, unless the Federal Awarding Agency or pass-through entity authorizes an extension.
- C. The City of Big Lake will promptly refund any balances of unobligated cash that the Federal Awarding Agency or pass-through entity paid in advance or paid and that is not authorized to be retained by the City of Big Lake for use in other projects.
- D. The City of Big Lake will account for any real and personal property acquired with Federal funds or received from the Federal government.

#### **Financial Management System Policy**

In accordance with “2 CFR Part §200.302 Financial Management”, it is the policy of the City of Big Lake to maintain a financial management system that provides for the following:

- A. Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal

award identification includes the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.

- B. Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in “§200.327 Financial Reporting” and “§200.328 Monitoring and Reporting Program Performance”. (See Monitoring and Reporting Policy)
- C. Records that identify adequately the source and application of funds for federally-funded activities. These records will contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
- D. Effective control over, and accountability for, all funds, property, and other assets. The City of Big Lake will adequately safeguard all assets and assure that they are used solely for authorized purposes.
- E. Comparison of expenditures with budget amounts for each Federal award.
- F. Written procedures to implement the requirements of “§200.305 Payment”. (See Payment and Billing Policy)
- G. Written procedures for determining the allowability of costs in accordance with “Subpart E—Cost Principles” of this part and the terms and conditions of the Federal award. (See Charging of Costs Policy)

### **Budget and Program Revisions Policy**

In accordance with “2 CFR Part §200.308 Revisions of Budget and Program Plans”, it is the policy of the City of Big Lake to report deviations from budget or project scope or objective. It is also the policy of the City of Big Lake to request prior approval from Federal Awarding Agencies for any of the following program or budget revisions:

- A. Change in the scope or the objective of the project or program (even if there is no associated budget revision requiring prior written approval).
- B. Change in a key person specified in the application for the Federal award.
- C. The disengagement from the project for more than three months, or a 25 percent reduction in time devoted to the project, by the approved project director.
- D. The inclusion, unless waived by the Federal Awarding Agency, of costs that require prior approval in accordance with “Subpart E—Cost Principles”.
- E. The transfer of funds budgeted for participant support costs to other categories of expenses.
- F. The sub-awarding, transferring or contracting out of any work under a Federal award, unless described in the application and funded in the approved Federal

awards. This does not apply to the acquisition of supplies, materials, equipment or general support services.

- G. Changes in the amount of approved cost-sharing or matching provided by the City of Big Lake. No other prior approval requirements for specific items may be imposed unless a deviation has been approved by Office of Management and Budget.
- H. For Federal construction awards, prior written approval will be requested promptly from the Federal Awarding Agency for budget revisions whenever:
  - 1. The revision results from changes in the scope or the objective of the project or program.
  - 2. The need arises for additional Federal funds to complete the project.
  - 3. A revision is desired which involves specific costs for which prior written approval requirements may be imposed consistent with applicable Office of Management and Budget cost principles listed in “Subpart E—Cost Principles”.

## **Charging of Costs to Federal Awards**

### **Overview**

It is the policy of the City of Big Lake that only costs that are reasonable, allowable and allocable to a Federal award shall be charged to that award directly or indirectly. All unallowable costs shall be appropriately segregated from allowable costs in the general ledger in order to assure that unallowable costs are not charged to Federal awards.

### **Segregating Unallowable From Allowable Costs**

The following steps shall be taken to identify and segregate costs that are allowable and unallowable with respect to each Federal award:

- A. The budget and grant or contract for each award shall be reviewed for costs specifically allowable or unallowable.
- B. Accounting personnel and Departmental Grants Manager shall be familiar with the allowability of costs provisions of “2 CFR Part 200 Subpart E—Cost Principles” particularly:
  - 1. The list of specifically unallowable costs, such as alcoholic beverages, bad debts, contributions, fines and penalties, lobbying, etc.
  - 2. Those costs requiring advance approval from Federal agencies in order to be allowable in accordance with “2 CFR §200.407—Prior Written Approval (Prior Approval)”.

- C. No costs shall be charged directly to any Federal award until the cost has been determined to be allowable under the terms of the award and/or “2 CFR Part 200 Subpart E—Cost Principles”.
- D. For each Federal award, an appropriate set of general ledger accounts shall be established by the City of Big Lake to reflect the categories of allowable costs identified in the award or the award budget.
- E. All items of miscellaneous income or credits, including the subsequent write-offs of uncashed checks, rebates, refunds, and similar items, shall be reflected for grant accounting purposes as reductions in allowable expenditures if the credit relates to charges that were originally charged to a Federal award or to activity associated with a Federal award. The reduction in expenditures shall be reflected in the year in which the credit is received (i.e. if the purchase that results in the credit took place in a prior period, the prior period shall not be amended for the credit).

### **Criteria for Allowability**

It is the policy of the City of Big Lake that all costs must meet the following criteria in order to be treated as allowable direct or indirect costs under a Federal award:

- A. The cost must be "reasonable" for the performance of the award, considering the following factors:
  - 1. Whether the cost is of a type that is generally considered as being necessary for the operation of the organization or the performance of the award;
  - 2. Restraints imposed by such factors as generally accepted sound business practices, arm's length bargaining, Federal and State laws and regulations, and the terms and conditions of the award;
  - 3. Whether the individuals concerned acted with prudence in the circumstances;
  - 4. Consistency with established policies and procedures of the Organization, deviations from which could unjustifiably increase the costs of the award.
- B. The cost must be "allowable" to an award by meeting one of the following criteria:
  - 1. The cost is incurred specifically for a Federal award;
  - 2. The cost benefits both the Federal award and other work, and can be distributed in reasonable proportion to the benefits received; or
  - 3. The cost is necessary to the overall operation of the Organization, but, where a direct relationship to any particular program or group of programs cannot be demonstrated.
- C. The cost must conform to any limitations or exclusions of “2 CFR Part 200” or the Federal award itself.

- D. Treatment of costs must be consistent with policies and procedures that apply to both Federally-financed activities and other activities of the Organization.
- E. Costs must be consistently treated over time.
- F. The cost must be determined in accordance with generally accepted accounting principles.
- G. Costs may not be included as a cost of any other Federally-financed program in the current or prior periods.
- H. The cost must be adequately documented.

### **Direct Costs**

Direct costs include those costs that are incurred specifically for one award or non-Federal function. The City of Big Lake identifies and charges these cost exclusively to each award or program. Each invoice shall be coded with the appropriate account number reflecting which program received direct benefit from the expenditure. Invoices are approved by the appropriate Department Head and reviewed by the Finance Director.

Charges to Federal awards for salaries and wages will be based on records that accurately reflect the work performed. These records are:

- A. Supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- B. Incorporated into the official records of the non-Federal entity;
- C. Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities;
- D. Encompass both Federally assisted and all other activities compensated by the City of Big Lake;
- E. Comply with other established accounting policies and practices of the City of Big Lake;
- F. Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity;
- G. Records may reflect categories of activities expressed as a percentage distribution of total activities.

Budget estimates (estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes. These

estimates produce reasonable approximations of the activity actually performed. Any significant changes in the corresponding work activity are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term. After-the-fact interim charges made to a Federal award based on budget estimates will be reviewed. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.

Time sheets or personnel activity reports are also submitted on a regular basis reflecting employees' work and which programs directly benefited from their effort. Time sheets or personnel activity reports shall serve as the basis for charging salaries directly to Federal awards and non-Federal functions.

Equipment purchased for exclusive use on a Federal award and reimbursed by a Federal agency shall be accounted for as a direct cost of that award.

### **Indirect Costs**

Indirect costs are those costs that either benefit more than one award (overhead costs) or non-Federal function or that are necessary for the overall operation of the City of Big Lake (management and general costs).

If the City decides to include indirect costs, the City of Big Lake chooses to use the de minimis rate of 10% on its Federal awards rather than negotiate an approved indirect cost rate.

### **Accounting for Specific Elements of Cost**

The City of Big Lake shall utilize the following methods of charging specific elements of cost to Federal awards as direct or indirect costs:

**Salaries and Wages** – Salaries and wages shall be charged directly based on the functions performed by each employee, as documented on each employee's timesheet, as follows:

**Direct Costs** - The majority of the employees charge their time directly since their work is specifically identifiable to specific grants or other (non-Federal) programs or functions of the organization.

Compensated absences (vacation leave earned, sick leave used, and holiday pay) are considered part of salary costs. The payroll/accounting system of the City of Big Lake records salaries associated with compensated absences as a direct cost in the same manner that salary costs are recorded.

**Employee Benefits** – The City of Big Lake incurs costs for the following statutory and non-statutory employee benefits:

- FICA
- Unemployment insurance
- Worker's compensation
- Health and Dental insurance

Life Insurance  
Short-Term/Long-Term disability insurance  
Contributions to pension plan

Since the payroll/accounting system tracks employee benefit costs by individual employee, each such benefit cost shall be charged directly in the same proportion as each individual's salary.

**Occupancy Expenses** – Monthly rent expense and related pass-through expenses shall be allocated directly based on approximate square footage of space utilized, as follows:

**Direct Costs** - The cost of space occupied by staff whose salaries are directly charged to Federal awards is charged directly to those same awards.

**Utilities** – Utilities costs incurred include electricity and water. Such utilities costs shall be charged directly in the same proportion as occupancy costs.

**Supplies and Materials** – To the maximum extent possible, office supplies and materials are charged directly to the grant or program/function that uses the supplies or materials, based on the completion of a supplies usage form.

**Postage and Shipping** – To the maximum extent possible, postage and shipping costs shall be charged directly to the grant or program/function that benefits from the postage or shipping costs, based on the postage log kept near the postage machine and the UPS/FedEx shipping logs.

**Photocopying and Printing** – Photocopying costs include all paper and copy supplies, copier maintenance charges and the actual lease cost of the copier. Photocopying costs shall be charged directly based on the user codes input into the copier prior to making photocopies.

All printing costs are charged directly to the benefiting grant or program/function.

**Communications** – Communications costs include the costs of telephone service, facsimile transmissions, and Internet connections. Telephone service costs are charged directly based upon the number of telephone units assigned to the City of Big Lake. Each telephone unit is identified to a direct phone line and/or employee. No telephone units shall be charged as mixed-use units due to the immateriality of the costs involved. For example, if the City of Big Lake has 33 telephone units and two of those units are assigned to employees who work directly on a particular grant, 6 percent of each month's local telephone service costs shall be allocated to that grant.

**Outside Services** – The City of Big Lake incurs outside service costs for its annual audit, legal fees, and for staff development specialists. Outside service costs shall be charged as follows:

**Audit Fees** – Cost of the financial statement audit and preparation of Form 990 shall be charged as an indirect cost. Additional audit costs associated with that portion of the audit associated with a single audit shall be charged directly to the audited programs, based on estimates received from the independent CPA firm.

**Legal Fees** – Legal fees shall be charged directly to the program/function that benefits from the services. Legal fees that are not identifiable with specific direct grants or programs shall be charged indirectly.

**Staff Development Specialists** – Costs associated with staff development specialists shall be charged directly to the program/function that benefits from the services. Fees that are not identifiable with specific direct grants or programs shall be charged indirectly.

**Insurance** – To the extent that insurance premiums are associated with insurance coverage for specific grants or programs, those premium costs shall be charged directly. All insurance costs that are not identifiable with specific direct grants or programs (such as the Organization's general liability coverage) shall be charged indirectly.

**Credits** – The applicable portion of any credits resulting from cash discounts, volume discounts, refunds, write-off of stale outstanding checks, trade-ins, scrap sales or similar credits shall be credited directly or indirectly in the same manner as the purchase that resulted in the credit.

### **Cost Sharing and Matching Policy**

Any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must be accepted as part of the City of Big Lake's cost sharing or matching when such contributions meet all of the following criteria:

- A. They are verifiable from the City of Big Lake's records;
- B. They are not included as contributions for any other Federal award;
- C. They are necessary and reasonable for accomplishment of project or program objectives;
- D. They are allowable under "2 CFR Part 200 Subpart E – Cost Principles";
- E. They are not paid by the Federal Government under another Federal award, except where authorized by Federal Statute to be used for cost sharing or matching;
- F. They are provided for in the approved budget when required by the Federal Awarding Agency;
- G. They conform to all other provisions "2 CFR Part 200".

Unrecovered indirect costs, including indirect costs on cost sharing or matching may be included as part of cost sharing or matching only if prior approval of the Federal Awarding Agency is obtained.

It is the policy of the City of Big Lake to value contributed services and property that are to be used to meet a cost sharing or matching requirement at their fair market values at the time of contribution, unless award documents or Federal agency regulations identify specific values to be used. The value of donated space will not exceed the fair rental value of comparable space as

established by an independent appraisal of comparable space and facilities in a privately-owned building in the same locality.

Contributed volunteers' services furnished by third-party professional and technical personnel, consultants, and other skilled and unskilled labor used for cost sharing or matching purposes shall be valued at rates consistent with those rates paid for similar work in the organization (match up experience and skill level), including an estimate of reasonable fringe benefits. In cases in which the required skills are not found in the Organization, rates used shall be consistent with those paid for similar work in the labor market in which the City of Big Lake competes. It is the policy of the City of Big Lake to require volunteers to document and account for their contributed time in a manner similar to the time-keeping system followed by internal employees.

When a third-party organization furnishes the services of an employee, the City of Big Lake will value these services at the employee's regular rate of pay plus an amount of fringe benefits that is reasonable, necessary, allocable, and otherwise allowable, provided these services employ the same skill(s) for which the employee is normally paid.

### **Program Income Policy**

Program income earned during the project period shall be retained by City of Big Lake and, in accordance with Federal Awarding Agency regulations or the terms and conditions of the award, shall be used in one or more of the ways:

- A. Added to funds committed to the project by the Federal Awarding Agency and recipient and used to further eligible project or program objectives;
- B. Used to finance the non-Federal share of the project or program;
- C. Deducted from the total project or program allowable cost in determining the net allowable costs on which the Federal share of costs is based. (When an agency authorizes the disposition of program income as in A or B, program income in excess of any limits stipulated shall be used this way.)

In the event that the Federal Awarding Agency does not specify in its regulations or the terms and conditions of the award how program income is to be used, paragraph C shall apply automatically to all projects or programs.

Unless Federal Awarding Agency regulations or the terms and conditions of the award provide otherwise, the City of Big Lake shall have no obligation to the Federal Government regarding program income earned after the end of the project period.

With prior approval of the Federal Awarding Agency, program income may be used to meet the cost sharing or matching requirement of the Federal award.

If authorized by Federal Awarding Agency regulations or the terms and conditions of the award, costs incident to the generation of program income may be deducted from gross income to determine program income, provided these costs have not been charged to the award.

## **Payment and Billing Policy**

In accordance with “2 CFR Part §200.305 – Payment”, it is the policy of the City of Big Lake to maintain written payment and billing procedures. The following policies shall apply to the preparation and submission of billings to Federal Awarding Agencies under awards made to the City of Big Lake:

- A. It is the policy of the City of Big Lake to request reimbursement after expenditures have been incurred, unless an award specifies another method.
- B. Each award normally specifies a particular billing cycle; therefore, a schedule is established for each grant and contract to ensure that reimbursement is made on a timely basis along with any other reporting that is required.
- C. Requests for reimbursement of award expenditures will use the actual amounts as posted to the general ledger as the source for all invoice amounts.

To the extent the City of Big Lake’s year-end audit results in adjustments to amounts previously reported to Federal agencies, revised reports shall be prepared and filed in accordance with the terms of each Federal award. The City of Big Lake shall maintain separate billing records in addition to the official general ledger accounting records. Billing records shall be reconciled to the general ledger on a monthly basis.

## **Procurement Standards Policy**

### **Conflicts of Interest**

No employee, officer, or agent of the City of Big Lake will participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract. The officers, employees, and agents of the City of Big Lake must neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts, unless the financial interest is not substantial or the gift is an unsolicited item of nominal value. Disciplinary actions will be applied for violations of such standards by officers, employees, or agents of the City Big Lake.

Due to relationships with a parent company, affiliate, or subsidiary organization, if the City of Big Lake is unable or appears to be unable to be impartial in conducting a procurement action involving a related organization it will not procure with those organizations.

### **Procurement under Federal Awards**

Procurement of goods and services whose costs are charged to Federal awards received by the City of Big Lake are subject to all of the specific purchasing policies of the Organization. In addition, procurements associated with Federal awards are subject to the following supplemental policies:

- A. The City of Big Lake will avoid acquisition of unnecessary or duplicative items. Consideration will be given to consolidating or breaking out procurements to obtain a more economical purchase.
- B. Where appropriate, an analysis will be made of lease versus purchase alternatives, and any other appropriate analysis to determine the most economical approach.
- C. The City of Big Lake will consider entering into state and local intergovernmental agreements or inter-entity agreements where appropriate for procurement or use of common or shared goods and services, and using Federal excess and surplus property in lieu of purchasing new equipment and property whenever such use is feasible and reduces project costs.
- D. The City of Big Lake will award contracts only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. Consideration will be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.
- E. The City of Big Lake will maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.
- F. All procurement transactions will be conducted in a manner providing full and open competition. All prequalified lists of persons, firms, or products which are used in acquiring goods and services will be current and include enough qualified sources to ensure maximum open and free competition. Potential bidders will not be precluded from qualifying during the solicitation period.
- G. All solicitations will incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. Such description must not, in competitive procurements, contain features which unduly restrict competition. The description may include a statement of the qualitative nature of the material, product or service to be procured and, when necessary, must set forth those minimum essential characteristics and standards to which it must conform if it is to satisfy its intended use. Detailed product specifications should be avoided if at all possible. When it is impractical or uneconomical to make a clear and accurate description of the technical requirements, a “brand name or equivalent” description may be used as a means to define the performance or other salient requirements of procurement. The specific features of the named brand which must be met by offers must be clearly stated. All solicitations will also identify all requirements which the offers’ must fulfill and all other factors to be used in evaluating bids or proposals.
- H. All necessary affirmative steps will be taken to assure that minority businesses, women's business enterprises, and labor surplus area firms are used when possible.

- I. A cost or price analysis will be performed in connection with every procurement action in excess of the Simplified Acquisition Threshold (\$150,000) including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the City of Big Lake will make independent estimates before receiving bids or proposals.
- J. All procurement files will be made available for inspection upon request by a Federal Awarding Agency.
- K. All contracts will require the contractor to certify in writing that it has not been suspended or disbarred from doing business with any Federal agency.

### **Methods of Procurement**

The City of Big Lake will use one of the following methods of procurement.

- A. Procurement by micro-purchases. Procurement by micro-purchase is the acquisition of supplies or services, the aggregate dollar amount of which does not exceed \$3,500 (or \$2,000 in the case of acquisitions for construction subject to the Davis-Bacon Act). To the extent practicable, the non-Federal entity must distribute micro-purchases equitably among qualified suppliers. Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable.
- B. Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources.
- C. Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm fixed price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming to all material terms and conditions of the invitation for bids, is the lowest in price.
- D. All purchases of at least \$25,000, but less than \$175,000 shall be made by obtaining written quotations from at least three responsible vendors. All purchases of, \$175,000 or more shall be made by obtaining competitive proposals from at least four responsible vendors. Sealed bids shall be utilized when required by the Federal Awarding Agency.
- E. In order for sealed bidding to be feasible, the following conditions will be present:
  - 1. A complete, adequate, and realistic specification or purchase description is available;
  - 2. Two or more responsible bidders are willing and able to compete effectively for the business;

3. The procurement lends itself to a firm fixed price contract and the selection of the successful bidder can be made principally on the basis of price.

**If sealed bids are used, the following requirements apply:**

1. The invitation for bids will be publicly advertised and bids must be solicited from an adequate number of known suppliers, providing them sufficient response time prior to the date set for opening the bids;
2. The invitation for bids, which will include any specifications and pertinent attachments, must define the items or services in order for the bidder to properly respond;
3. All bids will be publicly opened at the time and place prescribed in the invitation for bids;
4. A firm fixed price contract award will be made in writing to the lowest responsive and responsible bidder. Where specified in bidding documents, factors such as discounts, transportation cost, and life cycle costs must be considered in determining which bid is lowest. Payment discounts will only be used to determine the low bid when prior experience indicates that such discounts are usually taken advantage of; and
5. Any or all bids may be rejected if there is a sound documented reason.

**Procurement by competitive proposals.** The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply:

1. Requests for proposals must be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals must be considered to the maximum extent practical;
2. Proposals must be solicited from an adequate number of qualified sources;
3. The non-Federal entity must have a written method for conducting technical evaluations of the proposals received and for selecting recipients;
4. Contracts must be awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and
5. Competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of architectural/engineering professional services. It cannot be

used to purchase other types of services though architectural/engineering firms are a potential source to perform the proposed effort.

**Procurement by noncompetitive proposals.** Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source and may be used only when one or more of the following circumstances apply:

1. The item is available only from a single source;
2. The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
3. The Federal Awarding Agency or pass-through entity expressly authorizes noncompetitive proposals in response to a written request from the non-Federal entity; or
4. After solicitation of a number of sources, competition is determined inadequate.

### **Suspension and Debarment**

The City of Big Lake will review all grant purchases to verify that purchases will not be made against contractors that are on the Debarment or Suspension list supplied by the Government. The Grant Manager will review all requisition requests submitted for all grant accounts to make sure the contractor is not on the Debarment list. This list is available at - <https://www.sam.gov/>. If a match is found, the Grant Manager should not process the requisition. All results of searches will be attached to the filed paperwork for verification of search.

### **Provisions Included in all Contracts**

It is the policy of the City of Big Lake to include all of the following provisions, as applicable, in all contracts (including small purchases) with contractors and sub-awards:

- A. Remedies: All contracts in excess of the small purchase threshold fixed at 41 U.S.C. 403(11) (currently \$150,000) shall contain contractual provisions or conditions that allow for administrative, contractual, or legal remedies in instances in which a contractor violates or breaches the contract terms.
- B. Termination: All contracts in excess of \$10,000 shall contain suitable provisions for termination by the City of Big Lake, including the manner by which termination shall be effected and the basis for settlement. In addition, such contracts shall describe the conditions under which the contract may be terminated for default as well as conditions where the contract may be terminated due to circumstances beyond the control of the contractor.
- C. Equal Employment Opportunity: All contracts shall contain a provision requiring compliance with "Equal Employment Opportunity (E.O.) 11246", as amended by "Equal Employment Opportunity 11375— Amending Executive Order 11246, Relating to Equal Employment Opportunity", and as supplemented by regulations

“Title 41—CFR Part 60, Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor”.

- D. Davis-Bacon Act, as Amended (40 U.S.C. 3141-3148): If included in the Federal agency's grant program legislation, all construction contracts of more than \$2,000 awarded by the City of Big Lake and its sub-recipients shall include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 276a to a-7) and as supplemented by Department of Labor Regulations “Title 29—CFR Part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction”. Under this Act, contractors are required to pay wages to laborers and mechanics at a rate not less than the minimum wages specified in a wage determination made by the Secretary of Labor. In addition, contractors shall be required to pay wages not less than once a week. It is the policy of the City of Big Lake to place a copy of the current prevailing wage determination issued by the Department of Labor in each solicitation and the award of a contract shall be conditioned upon the acceptance of the wage determination. The City of Big Lake shall also obtain reports from contractors on a weekly basis in order to monitor compliance with the Davis-Bacon Act. The City of Big Lake shall report all suspected or reported violations to the Federal Awarding Agency.
- E. Contract Work Hours and Safety Standards Act (40 U.S.C. 327-333): [Where applicable] All contracts awarded by the City of Big Lake in excess of \$100,000 for contracts that involve the employment of mechanics or laborers shall include a provision for compliance with 40 U.S.C. 3702 and 3704, as supplemented by Department of Labor Regulations “Title 29—CFR Part 5”. Under 40 U.S.C. 3702 of the Act, each contractor must be required to compute the wages of every mechanic and laborer on the basis of a standard work week of 40 hours. Work in excess of the standard work week is permissible provided that the worker is compensated at a rate of not less than one and a half times the basic rate of pay for all hours worked in excess of 40 hours in the work week. The requirements of 40 U.S.C. 3704 are applicable to construction work and provide that no laborer or mechanic must be required to work in surroundings or under working conditions which are unsanitary, hazardous or dangerous. These requirements do not apply to the purchases of supplies or materials or articles ordinarily available on the open market, or contracts for transportation or transmission of intelligence.
- F. Rights to Inventions Made Under a Contract or Agreement: Contracts or agreements for the performance of experimental, developmental, or research work shall provide for the rights of the Federal Government and the City of St. Cloud in any resulting invention in accordance with “Title 37—CFR Part 401 Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Grants, Contracts and Cooperative Agreements”, and any implementing regulations issued by the awarding agency.
- G. Clean Air Act (42 U.S.C. 7401-7671) and the Federal Water Pollution Control Act (33 U.S.C. 1251 -1387), as Amended: Contracts and sub-awards of amounts in excess of \$150,000 shall contain a provision that requires the recipient to agree to comply with all applicable standards, orders or regulations issued pursuant to the

Clean Air Act (42 U.S.C. 7401 et seq.) and the Federal Water Pollution Control Act, as amended (33 U.S.C. 1251 et seq.). Violations shall be reported to the Federal Awarding Agency and the Regional Office of the Environmental Protection Agency (EPA).

- H. Debarment and Suspension (Executive Order Numbers 12549 and 12689): For all contracts, the City of Big Lake shall obtain from the contractor a certification that neither the contractor nor any of its principal employees are listed on the Excluded Parties List System in System for Award Management (SAM).
- I. Byrd Anti-Lobbying Amendment (31 U.S.C. 1352): For all contracts or Sub-grants of \$100,000 or more, the City of Big Lake shall obtain from the contractor or sub-grantee a certification that it will not and has not used Federal appropriated funds to pay any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any Federal contract, grant or any other award covered by 31 U.S.C. 1352. Likewise, since each tier provides such certifications to the tier above it, the City of Big Lake shall provide such certifications in all situations in which it acts as a sub-recipient of a sub-grant of \$100,000 or more.

### **Equipment Standards Policy**

The City of Big Lake may occasionally purchase equipment and furniture that will be used exclusively on a program funded by a Federal agency. In addition to the general property and equipment policies of the City of Big Lake, equipment and furniture charged to Federal awards will be subject to certain additional policies as described below.

For purposes of Federal award accounting and administration, "equipment" shall include all assets with a unit cost equal to the lesser of \$5,000 or the capitalization threshold utilized by the City of Big Lake.

All purchases of "equipment" with Federal funds shall be approved in advance in writing by the Federal Awarding Agency. In addition, the following policies shall apply regarding equipment purchased and charged to Federal awards:

- A. Any equipment that is owned by the Federal government and given to the City of Big Lake for use in a program shall be marked as such,
- B. Adequate insurance coverage will be maintained with respect to equipment and furniture charged to Federal awards,
- C. Equipment will be used in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by the Federal award, and the City of Big Lake will not encumber the property without prior approval of the Federal Awarding Agency.
- D. Property records will be maintained that include the following:

1. A description of the property
  2. A serial number or other identification number
  3. The source of funding for the property (including the FAIN)
  4. Who holds title
  5. The acquisition date
  6. Cost of the property
  7. Percentage of Federal participation in the project costs for the Federal award under which the property was acquired
  8. The location, use and condition of the property
  9. Any ultimate disposition data including the date of disposal and sale price of the property
- E. A physical inventory of the property will be taken and the results reconciled with the property records at least once a year.
- F. A control system will be in effect to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.
- G. Maintenance procedures will be in effect to keep the property in good condition.
- H. When no longer needed for the original program or project, equipment may be used in other activities supported by the Federal Awarding Agency, in the following order of priority:
1. Activities under a Federal award from the Federal Awarding Agency which funded the original program or project; then
  2. Activities under Federal awards from other Federal Awarding Agencies. This includes consolidated equipment for information technology systems.
- A. When equipment is no longer needed, the City of Big Lake will request disposition instructions from the Federal Awarding Agency if required by the terms and conditions of the Federal award. Disposition of the equipment will be made as follows, in accordance with Federal Awarding Agency disposition instructions:
1. Items of equipment with a current per unit fair market value of \$5,000 or less may be retained, sold or otherwise disposed of with no further obligation to the Federal Awarding Agency.
  2. Items of equipment with a current per-unit fair-market value in excess of \$5,000 may be retained or sold. The Federal Awarding Agency is entitled to an amount calculated by multiplying the current market value or proceeds from sale by the Federal Awarding Agency's percentage of participation in the cost of the original purchase. If the equipment is sold, the Federal Awarding Agency may permit the City of Big Lake to deduct and retain from the Federal share \$500 or ten percent of the proceeds, whichever is less, for its selling and handling expenses.

## **Record Retention Policy**

In accordance with “2 CFR Part §200.333 – Retention Requirements for Records”, financial records, supporting documents, statistical records, and all other records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as reported to the Federal Awarding Agency or pass-through entity. The only exceptions are the following:

- A. If any litigation, claim, or audit is started before the expiration of the three-year period, the records must be retained until all litigation, claims, or audit findings involving the records have been resolved and final action taken.
- B. When the City of Big Lake is notified in writing by the Federal Awarding Agency, cognizant agency for audit, oversight agency for audit, cognizant agency for indirect costs, or pass-through entity to extend the retention period.
- C. Records for real property and equipment acquired with Federal funds must be retained for three years after final disposition.
- D. When records are transferred to or maintained by the Federal Awarding Agency or pass-through entity.
- E. Records for program income transactions after the period of performance. In some cases, program income must be reported after the period of performance. Where there is such a requirement, the retention period for the records pertaining to the earning of the program income starts from the end of the non-Federal entity's fiscal year in which the program income is earned.
- F. Indirect cost rate proposals and cost allocations plans (indirect cost rate computations or proposals, cost allocation plans, and any similar accounting computations of the rate at which a particular group of costs is chargeable):
  - 1. If the proposal, plan, or other computation is required to be submitted to the Federal Government (or to the pass-through entity) to form the basis for negotiation of the rate, then the three-year retention period for its supporting records starts from the date of such submission.
  - 2. If the proposal, plan, or other computation is not required to be submitted to the Federal Government (or to the pass-through entity) for negotiation purposes, then the three-year retention period for the proposal, plan, or computation and its supporting records starts from the end of the fiscal year (or other accounting period) covered by the proposal, plan, or other computation.

## **Monitoring and Reporting Policy**

### **Financial Reporting**

The City of Big Lake strives to provide management, staff and funding sources with timely and accurate financial reports applicable to Federal awards. Preparation of these reports shall be the responsibility of Grant Manager, subject to review by the Finance Director. The City of Big Lake shall prepare and submit financial reports as specified by the financial reporting clause of each grant or contract award document. Information will be collected with the frequency required by the terms and conditions of the Federal award, but no less frequently than annually nor more frequently than quarterly except in unusual circumstances (as specified in the grant agreement).

### **Monitoring and Reporting Program Performance**

The City of Big Lake is responsible for oversight of the operations of the Federal award supported activities. It is the policy of the City of Big Lake to monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved. Monitoring must cover each program, function or activity. Performance reports will be submitted at the interval required by the Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity.

Intervals must be no less frequent than annually nor more frequent than quarterly except in unusual circumstances (as specified in the grant agreement).

- A. Annual reports will be submitted within 90 calendar days after the reporting period.
- B. Quarterly or semiannual reports will be submitted within 30 calendar days after the reporting period.
- C. Final performance report will be submitted within 90 calendar days after the period of performance end date, unless there is a justified request submitted.

Reports will contain, for each Federal award, brief information on the following:

- A. A comparison of actual accomplishments to the objectives of the Federal award established for the period. Where the accomplishments of the Federal award can be quantified, a computation of the cost (for example, related to units of accomplishment) will be included.
- B. The reasons why established goals were not met, if appropriate.
- C. Additional pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

# FINANCIAL MANAGEMENT POLICIES ADOPTION

The Financial Management Policies shall be adopted by the City Council. The policies shall be reviewed by the Finance Department staff on an ongoing basis and any modifications made thereto must be approved by the City Council.

Financial Policies Adopted by City Council July 10, 2002

Revisions: June 14, 2006  
August 9, 2006  
November 28, 2007  
May 24, 2017  
September 27, 2017  
May 23, 2018  
August 8, 2018  
August 22, 2018  
October 10, 2018  
January 09, 2019  
March 13, 2019  
January 8, 2020

Economic Development Financial Policies Adopted by BLEDA May 12, 2014; Adopted by City Council May 28, 2014

Revisions: February 8, 2017  
February 12, 2018  
December 9, 2019

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