



By the Book:

A Guide to Financial Policies

Today's Session



Writing Effective Policies

- Best Practices
- Tips & Tricks

Policies & Examples

- Public Purpose Expenditures
- Professional Ethics
- Fund Balances
- Debt Management
- Utility Refunds
- Procurement
- Capital Assets

Financial Polices: Why Are They Important?

Central to strategic, long-term approach to financial management

Promote stability & continuity

Support bond ratings

Help ensure compliance with statutory requirements

Types of Regulations & Policies

Statutory & Charter

Establishes the organization

Creates legal parameters

Approval by the State or public

Governing Body

Establishes vision & mission

Creates strategic values & goals

Approval by the governing board

Administrative

Establishes & directs daily operations

Creates policies & procedures

Approval by the CAO or governing board

Local Control

Where To Begin?

- Review & potentially revise on a regular basis
 - ✓ Changes in applicable laws & regulations
 - ✓ Consider a “policy inventory”
- Consider training staff on policy development & process improvement
 - ✓ Use branding & templates



What Should it Include?

Purpose
& Policy
Statement

Definitions

Statutory or
Governing Policy
References

Clear & Concise
Policy
Statements

Step-by-Step
Procedures
& Forms
(if needed)

Primary
Contact(s)

Adoption &
Revision Dates

Approving
Authority

Some Tips & Tricks!

Instead of this...	Try this...
“Approved by City staff..”	“Approved by the Finance Director..”
“Staff will respond shortly”	“In five [business/calendar] days”
“According State law”	“Pursuant to M.S., Section XXX.XX”
“Greater than \$175,000.00”	“Greater than \$175,000”
“At least \$1,000,000”	“At least \$1 million”
“An additional three precent”	“An additional 3.0%”
“Completed annually”	“Completed annually by April 1”

When possible, use charts, tables & figures!

Public Purpose Expenditures Policy

Policy considerations:

- Permitted & prohibited expenditures
- Acceptable uses of assets
- Documentation requirements
- Expenditures & outlays provide a public benefit

Per MN Supreme Court, public purposes activities must:

- Must be authorized explicitly or implicated by Statute or Charter
- Primarily benefit the community as a whole
- Be directly related to functions of government
- Does not have as its primary objective the benefit of a private interest

Public Purpose Expenditure Policy Areas

Meals & Refreshments

- Sponsored events
- “Meal-hour” meetings
- Uninterrupted work

Staff Recognition

- Recognition events & items
- General gifts & appreciation

Memberships & Dues

- Professional organizations
- Certificates & licensures
- Local organizations

Use of Public Assets

- Borrowing equipment
- Personal storage
- Public technology

Professional Ethics Policy

Purpose

- To help guide behavior & decision-making
- To create expectations of acceptable conduct for officials & staff
- To promote confidence & integrity in public processes

Resources

- AMC General Ethics Guide
- GFOA Code of Ethics
- ICMA Code of Ethics
- LMC Integrity & Ethics Toolbox

Professional Ethics Policy: GFOA



Personal Standards

Uphold honor, integrity, and professionalism



Accountability

Prudently manage funds and transactions
Address public needs, ensure quality performance, comply with legal standards



Competence & Growth

Responsibility to maintain knowledge & expertise
Encourage new talent & career growth

Professional Ethics Policy, Continued...



Reliable Information

Provide accurate financial reports

Protect confidential information



Professional Relationships

Act with fairness, integrity & respect

Promote safe & healthy work environments



Avoid Conflicts of Interest

Avoid personal or financial conflicts of interest

Refrain from using public resources for personal gain

Act without favor

Fund Balance Policies

Purpose

- Allow the organization to operate seamlessly
- Protect the financial position of the organization
- Comply with specific commitments & restrictions

Scope

- Include General, Capital Project, Special Revenue, Enterprise & Debt Service Funds
- Consider cashflows & restrictions for the specific fund

Fund Balance Guidelines



Define clear policy on level of unassigned fund balance



Include process for adjusting fund balance over time



Define conditions & occasions for use



Consider & plan for replenishment after use

Recommended Fund Balance Requirements

Fund	Description	Requirement	Measurement	Basis
General	Small Governments	>\$500,000	Credit Rating Agency Req.	Fund Balance
	All Others	35%-50%	Subsequent Year Expenditures	
Special	Property Tax Supported	25%-50%	Subsequent Year Expenditures	
	Other Revenues	0%-50%		
Capital	Equip. & Improvements	25%-35%	Five-Year Rolling Average	
Enterprise	Public Utility	Varies	Six-Months Operating + Debt Service + Capital Projects	
	Other			

Debt Management Policy

Purpose

- Establishes parameters for issuing debt
- Helps manage the debt portfolio
- Promotes financial sustainability

Scope

- Types & terms of debt the community may issue
- Debt limits & metrics
- Issuance of private activity or conduit bonds

Debt Management Policy

- Term: less than or equal to the useful life of project
- Type:
 - ✓ General obligation versus “pure” revenue bonds
 - ✓ Allowable statutory authorities & uses
- Structure & limits
 - ✓ Retire a certain amount of principal
 - ✓ Limit debt to a specific amount or metric
- Reserves & refundings
- Debt monitoring & reporting

Conduit Bond Fees

Local governments often asked to issue conduit bonds on behalf of private development projects.

100% supported by private development

- No recourse to city
- No risk to credit rating

You can charge a fee

- Often up to 1% of bond amount, but should be reasonable
- Fee can be used for any governmental purpose

Utility Financial Policies



Adjustments



Billing Errors



Deposits

Utility Policy: Billing Adjustments

- Authorization levels to adjust or write-off uncollectible amounts
 - ✓ Management approval
 - ✓ Sufficient controls to prevent unilateral changes
- Appeals process
 - ✓ Timeline
 - ✓ Finalize at the administrative level (i.e., city administrator)
- Water leak credits policy
 - ✓ Adjustment qualifications & procedure
 - ✓ Credit limits



Utility Policy: Billing Errors

Undercharges

- **Six-Year** lookback period for billing errors that result in undercharges
- **MN Stat 216B.098:** Payment agreement for a period equal to the time the undercharge or mutually agreeable

Overcharges

- Must be returned with interest
- Best practice: Lookback period should be consistent with undercharges

Utility Policy: Deposits

Deposits

- Municipalities have authority to require reasonable deposits

325E.02 MN Statutes:

- Interest must be paid annually on deposits greater than \$20
- Interest must be set annually and be equal to average yield of 1-year US Treasury securities
- Deposit must be returned to customer within 45 days of termination of service

Procurement Policies



Purchasing Policy



**Procurement
Cards Policy**



**Travel, Training, &
Reimbursement
Policy**

Purchasing Policy

Purpose

- ✓ Ensure accountability & transparency in spending public funds
- ✓ Promote fair & open competition
- ✓ Protect government entities from legal liabilities

Minnesota Statutes:

- ✓ **375.21: Contracts of County Boards** - work or labor, or to purchase furniture, fixtures, other property, or to construct or repair roads, bridges, or buildings
- ✓ **471.345: Uniform Municipal Contracting Law** - sale or purchase of supplies, materials, equipment or rental thereof, or construction, alteration, repair or maintenance of real or personal property

Purchasing Policy

Policy should...

- Define staff roles & responsibilities
- Establish approval levels
- Address acceptable procurement methods
- Include any exceptions

Key topics covered

- Acquisition of goods & services
- Emergency purchases & exceptions
- Bid protest procedures
- Conflicts of interest & ethical standards

Example: Budgeted Purpose

Up to \$5,000

Open Market

Optional Quotes



Between \$5,001 & \$25,000

Review CPVs Optional

Two Quotes Needed



Between \$25,001 & \$175,000

Review CPVs Required

Two Quotes Needed & City Council Approval



\$175,001 & Greater

Sealed Bids Required or CPVs

City Council Approval

Procurement Cards (P-Cards) Policy

- Establish cardholder responsibilities
 - ✓ Identify business cases for use
 - ✓ Collect written policy acknowledgments
- Identify allowable purchases & authorization levels
- Supporting documentation requirement
 - ✓ Itemized invoices & receipts
 - ✓ Monthly submissions
- Do not provide P-Cards simply to maximize rebate potential

P-Cards Policy

Staff Level/Position	Transactions		Approval
	Per	Total (Monthly)	
Non-Management	\$500	\$3,000	Division Manager
Division Manager	\$1,000	\$5,000	Department Director
Department Director	\$2,000	\$10,000	City Administrator
City Manager	\$5,000	\$25,000	Finance Director
Accounts Payable	\$10,000	\$50,000	Finance Director

- Establish limits by user type
- Create a review & approval process
 - ✓ Ensure another party reviews purchases made by the City Administrator

Travel, Training & Reimbursement Policy

Purpose

- Provide clear guidelines for travel, training & reimbursement processes
- Promote organizational accountability & compliance

Scope

- Applies to employees, officers & elected officials
- Covers in-state and out-of-state travel

Travel, Training & Reimbursement Policy

- Employee expectations & guidelines
 - ✓ Cost-effective & appropriate arrangements
 - Meals and incidental expenditures
 - In-town vs. out-of-town training
 - Personal vs. business travel
 - ✓ Prohibited expenditures
 - ✓ Documentation & authorization

Per Diem Resource
U.S. General Services
Administration (GSA)
[https://www.gsa.gov/travel/
plan-book/per-diem-rates](https://www.gsa.gov/travel/plan-book/per-diem-rates)

Amount	Review	Approval
Up to \$1,999	Division Manager	Department Director
\$2,000 or more	Department Director	City Manager

Capital Asset Policy

Purpose

- Ensure accurate accounting & reporting of assets
- Maintain compliance with accounting standards

Policy should...

- Define a capital asset & minimum useful life
- Establish minimum capitalization thresholds
- Establish depreciation guidelines & ranges
- Consider appropriate disposal methods

Asset Capitalization Table Example

Depreciation Threshold by Asset Class	
Classification	Value
Land	\$1
Vehicles	\$10,000
Machinery & equipment	\$10,000
Furniture & office equipment	\$10,000
Recreation equipment	\$10,000
Building & building improvements	\$25,000
Land improvements	\$25,000
Infrastructure	\$50,000
Bulk Purchases*	\$50,000

Depreciation Terms by Asset Class	
Classification (Selected)	Term
Land	N/A
Land Improvements	
Athletic fields & playfields	15 years
Fencing	15 years
Irrigation systems & lighting	15 years
Retaining walls	10 years
Parking lots	20 years
Landscaping	10-15 years
Easements	N/A
Buildings & Building Improvements	
Buildings	25-40 years
Park shelters	20 years
Roofing, electrical & plumbing	20 years
HVAC systems	15 years
Cabinetry & furnishings	10 years
Well rehab. & reconstruction	5-20 Years

Helpful Guides & Resources

Legal Requirements

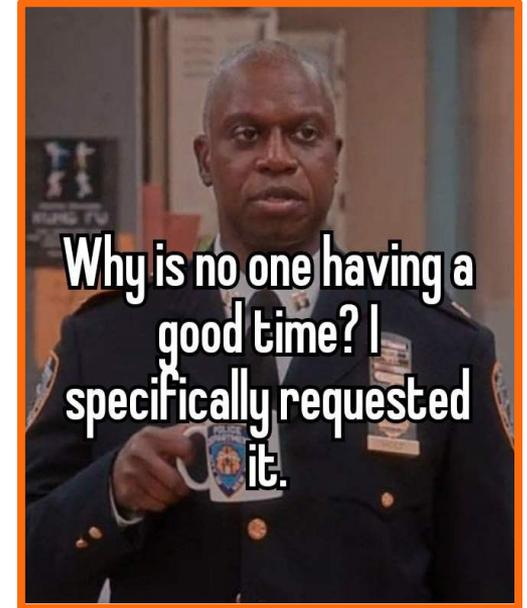
- Federal regulations
- State statutes
- Office of the State Auditor
- City Attorney
- Consultants

Examples & Best Practices

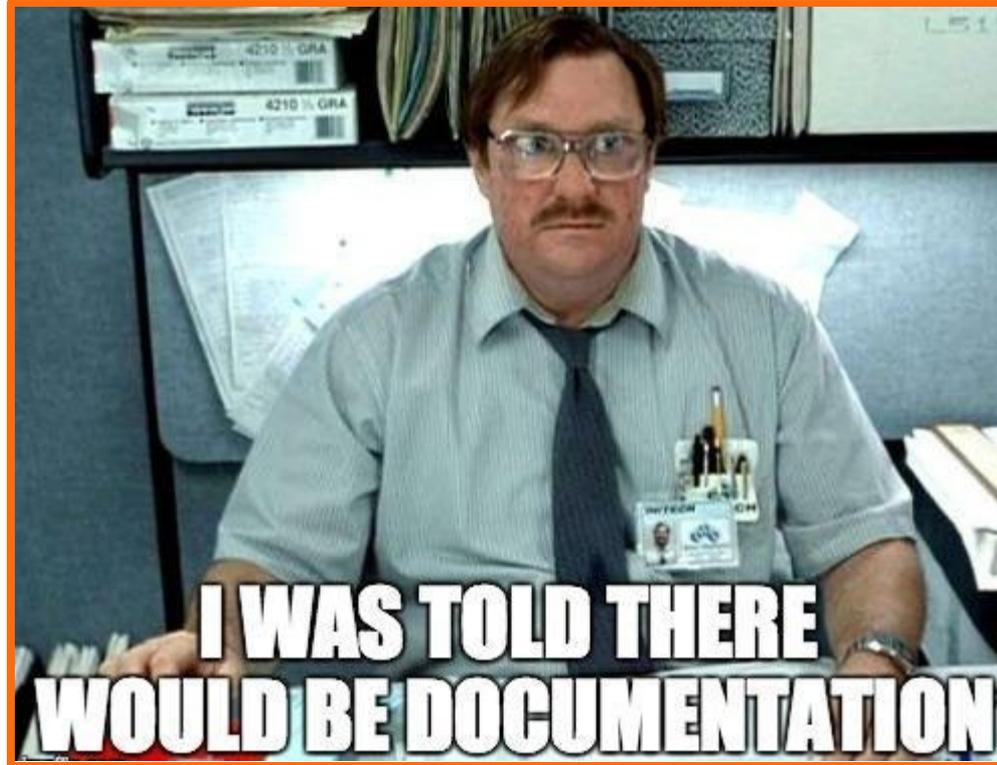
- Government Finance Officers Association (GFOA)
- League of Minnesota Cities
- Association of Minnesota Counties
- Your peers & similar organizations

Always Remember...

- **Rules Are Your Friend**
They are not red tape; they are your parachute
- **Plan Like a Pro**
Failing to plan is planning to explain yourself later
- **Write It Down**
If you do not write it down, it does not exist
- **Don't Be "That Person"**
No conflicts, no shortcuts, no awkward headlines



Let's Talk!



Download the Presentation



Your Presenters



April Weller
Senior Municipal Advisor
aweller@ehlers-inc.com
(651) 697-8542



Dan Tienter
Municipal Advisor
dtienter@ehlers-inc.com
(651) 697-8537

Important Disclosures

Ehlers is the joint marketing name of the following affiliated businesses (collectively, the “Affiliates”): Ehlers & Associates, Inc. (“EA”), a municipal advisor registered with the Municipal Securities Rulemaking Board (“MSRB”) and the Securities and Exchange Commission (“SEC”); Ehlers Investment Partners, LLC (“EIP”), an SEC registered investment adviser; and Bond Trust Services Corporation (“BTS”), a holder of a limited banking charter issued by the State of Minnesota.

Where an activity requires registration as a municipal advisor pursuant to Section 15B of the Exchange Act of 1934 (Financial Management Planning and Debt Issuance & Management), such activity is or will be performed by EA; where an activity requires registration as an investment adviser pursuant to the Investment Advisers Act of 1940 (Investments and Treasury Management), such activity is or will be performed by EIP; and where an activity requires licensing as a bank pursuant to applicable state law (paying agent services shown under Debt Issuance & Management), such activity is or will be performed by BTS. Activities not requiring registration may be performed by any Affiliate.

This communication does not constitute an offer or solicitation for the purchase or sale of any investment (including without limitation, any municipal financial product, municipal security, or other security) or agreement with respect to any investment strategy or program. This communication is offered without charge to clients, friends, and prospective clients of the Affiliates as a source of general information about the services Ehlers provides. This communication is neither advice nor a recommendation by any Affiliate to any person with respect to any municipal financial product, municipal security, or other security, as such terms are defined pursuant to Section 15B of the Exchange Act of 1934 and rules of the MSRB. This communication does not constitute investment advice by any Affiliate that purports to meet the objectives or needs of any person pursuant to the Investment Advisers Act of 1940 or applicable state law.