GOODHUE COUNTY MINNESOTA

TO EFFECTIVELY PROMOTE THE SAFETY, HEALTH, AND WELL-BEING OF OUR RESIDENTS

COMMITTEE OF THE WHOLE AGENDA

COUNTY BOARD ROOM
GOVERNMENT CENTER
RED WING, MN

JANUARY 22, 2019
9:45 A.M.

1. 2019 Investment Report & Outlook

   Documents:

   2019 Investment Report Outlook.pdf

2. 2019 Finance Policies Review

   Documents:

   2019 Finance Policies Review.pdf

Brian J. Anderson
Director of Finance and Tax Payer Services
Goodhue County Finance & Taxpayer Services
Brian.anderson@co.goodhue.mn.us
509 W. Fifth St.
Red Wing, MN 55066

TO: Goodhue County Board

FROM: Brian J. Anderson, Finance Director

DATE: January 22nd, 2019

SUBJECT: 2019 Investment Report and Outlook

Historically, state and local governments have relied exclusively on their broker-dealers and financial institutions (banks) with broker-dealer subsidiaries for access to the securities markets and executing trades. Government investors also depended on their broker-dealer relationships for information on economic and financial market conditions and for broad assistance with investing. Recent developments in technology, especially the emergence of the Internet, have transformed not only investing, but the broker-dealer industry. Technology advances have resulted in complementary as well as competitive methods for accessing the markets as well as sourcing information.

Although broker-dealer relationships are still extremely common, government investors who choose to use broker-dealers must remember that their fiduciary responsibility to protect the funds in their care extends to relationships with broker-dealers. In such relationships, governments must protect their funds from risks such as defaults, unreasonable price markups, and unsuitable investments.

With that, I believe there is an opportunity to take advantage of such technologies in an effort to improve the Goodhue's investment position, terms, and options while improving our yield and liquidity. I have begun to move away from the broker-dealer relationship model and have been more active in directly investing in securities that offer better options and often slightly higher yields, as many other finance directors have.

New Investment Strategies

Some of the new strategies that have been implemented going into 2019 include the following:

1. Buying CD's directly from other banks versus going through a broker.
    - Allows for cheaper penalties for early withdrawal, in order to cash in or trade up.
    - Often offers slightly higher yields.
    - County could have traded up to earn an additional $100,000 in 2019 and $25,000 in 2020.
2. Opening an account on QuickRate to shop and compare CD and bond rates.
    - All banks that participate are FDIC insured.
    - Allows for access to over 230 banks and their CD rates.

- o We uploaded all our securities to better manage our portfolio.
- o Helps prevent doubling up on securities and allows for easier reporting.
- o Used as a negotiating tool to trade up one of our local CD's to earn an additional $19,700 over one year.

3. Utilizing the MAGIC Fund more often for short term investments.
   - o This money market is established for counties and allows for daily transfers with no fees, which is beneficial during settlement time!
   - o Allows us to move money from local money markets to this fund, which is at a considerably higher rate.
   - o County earned $70,000 in investment earnings during the 4th quarter (one settlement).
4. Analyze market fluctuations and other investment opportunities such as:
   - o Negotiable bonds, which are extremely liquid in the secondary bond market.
   - o Resist buying callables through a brokerage firm.

County's Current Positon

Morgan Stanley got out of the municipal broker business as of November 2018 so the County opened up an account with RBC Wealth Management and had all those assets transferred over to them. The County has cash and investment balances of just under $44 million earning a weighted average of 2.119% with $32.14 million invested in CD's earning approximately 2.177%. The County has $9.38m invested in the MAGIC money market fund earning 2.35% and is to be used for cash flow purposes until our next settlement in May.

Interest earnings have risen considerably for 2018 to approximately $658,000, up from $162,950 due to the positive trends in the economy along with the new investment strategies being implemented. Another positive note is that the audited Investment Returns to Cash Balance has significantly increased from 0.41% in 2017 to a projected 1.55% for 2019 (depending on market trends), with 2.0% being the benchmark.

	2019	**2018**	**2017**	**2016**
• Interest Earnings:	$720,000	$658,000	$162,950	$235,490
• Weighted Interest Rate:	2.18%	1.90%	n/a	n/a
• Investment Returns to Cash Balances:	1.55%	1.45%	0.41%	0.61%

Goodhue County, January 2019

Investments & Depositories by Type and Lender

Investment Type	Amount	Return	Wt. Ret.	Totals	Totals
Checking/Savings through Wells Fargo	2,277,772	0.00%	0.000%		
Money Markets through MAGIC	9,376,373	2.35%	0.502%		
Money Markets through Local Banks	25,764	0.30%	0.000%		
Money Markets through RBC	50,422	1.60%	0.002%		
Money Markets through Wells Fargo	14,037	1.77%	0.001%	11,744,367	
CD's through Direct Purchase	2,940,000	3.36%	0.225%		
CD's through First Farmers & Merchants	1,500,000	1.50%	0.051%		
CD's through Merchants Bank	2,000,000	2.30%	0.105%		
CD's through Morgan Stanley	200,000	1.80%	0.008%		
CD's through RBC	19,792,000	2.14%	0.965%		
CD's through Wells Fargo	4,655,000	1.75%	0.185%	31,087,000	31,087,000
Bonds through RBC	500,000	2.61%	0.030%		
Bonds through Wells Fargo	553,968	3.69%	0.047%	1,053,968	1,053,968
Totals	**43,885,335**		**2.121%**	**$ 43,885,335**	**$ 32,140,968**

*Please see attached Investment Maturity Summary Graph for additional investment positions.

Goodhue County

2019 Investment Summary Report

Investments by Year and Quarter	2019		2020		2021		2022		2023		2024		Total
	Principal	Qtly %	Principal	Qtly %	Principal	Qtly %	Principal	Qtly %	Principal	Qtly %	Principal	Qtly %	
1st Quarter Maturity	1,725,000	1.51%	2,360,000	1.67%	980,000	1.88%	2,222,660	2.41%	245,000	2.25%	-	0.00%	7,532,660
2nd Quarter Maturity	1,225,000	1.50%	1,470,000	1.70%	2,695,000	2.17%	1,852,000	2.36%	735,000	2.73%	613,333	2.89%	8,590,333
3rd Quarter Maturity	1,470,000	1.66%	735,000	1.72%	735,000	2.62%	1,225,000	2.20%	490,000	3.23%	505,025	2.40%	5,160,025
4th Quarter Maturity	3,490,000	2.05%	2,205,000	1.84%	1,725,000	2.58%	1,225,000	2.84%	1,715,000	3.48%	500,000	2.58%	10,860,000
Annual Total	**7,910,000**	**1.78%**	**6,770,000**	**1.74%**	**6,135,000**	**2.29%**	**6,524,660**	**2.44%**	**3,185,000**	**3.17%**	**1,618,358**	**2.65%**	**32,143,018**
Weighted Return on Investments													**2.18%**
2019 Quarterly Activity Plan													
Total Year End 2018	**$ 7,910,000**		**$ 6,770,000**		**$ 6,135,000**		**$ 6,524,660**		**$ 3,185,000**		**$ 1,618,358**		**$ 33,603,017**
Investments from 1st Qtr. 2019	(1,725,000)				490,000				1,235,000				
Total End 1Q 2019	6,185,000		6,770,000		6,625,000		6,524,660		4,420,000		1,618,358		32,143,017
Investments from 2nd Qtr. 2019	(1,225,000)								980,000		245,000		
Total End 2Q 2019	4,960,000		6,770,000		6,625,000		6,524,660		5,400,000		1,863,358		32,143,017
Investments from 3rd Qtr. 2019	(1,470,000)						245,000		980,000		245,000		
Total End 3Q 2019	3,490,000		6,770,000		6,625,000		6,769,660		6,380,000		2,108,358		32,143,017
Investments from 4th Qtr. 2019	(1,715,000)										1,715,000		
Total Year End 2019	**$ 1,775,000**		**$ 6,770,000**		**$ 6,625,000**		**$ 6,769,660**		**$ 6,380,000**		**$ 3,823,358**		**$ 32,143,017**

DATE: January 2, 2019

Daily RECEIPT AND DISBURSEMENT SUMMARIES

	RECEIPTS	DISBURSEMENTS
BALANCE FORWARD		
DAILY AMOUNT ADDED	66,436.82	
GRAND TOTAL	$ 66,436.82	$ -

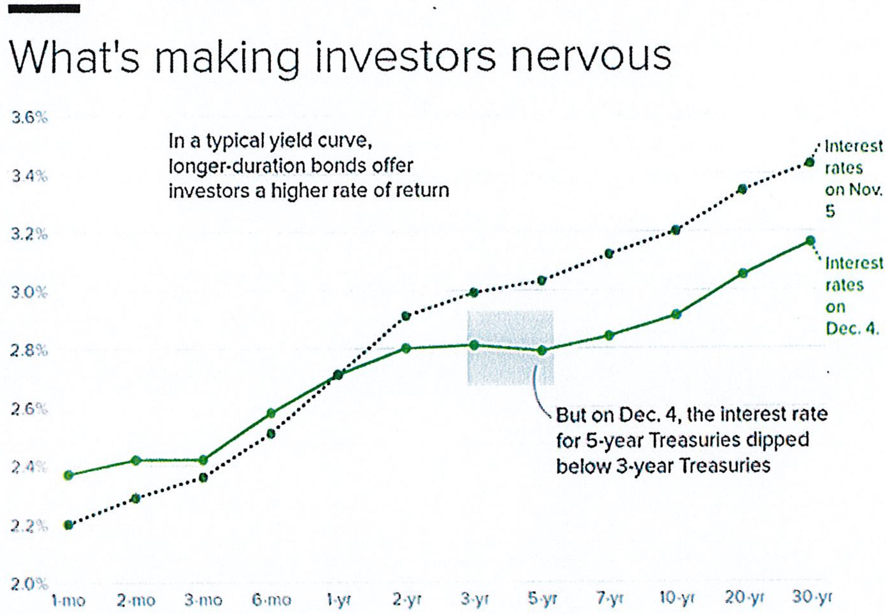
BANK ACTIVITY - DETAIL

NAME OF INSTITUTION	TYPE OF ACCOUNT	ACCOUNT #	BALANCE	DEPOSITED	WITHDRAWN	BALANCE
Wells Fargo, Red Wing	Checking (Main)		$ 2,162,123.72	$ 63,339.74		$ 2,225,463.46
Wells Fargo, Red Wing	Checking (Payroll)		$ 52,308.24			$ 52,308.24
Merchants Bank, Red Wing	CD 12/12/19		$ 2,000,000.00			$ 2,000,000.00
First Farmers and Merchants Bank	CD 12/8/19		$ 500,000.00			$ 500,000.00
First Farmers and Merchants Bank	CD 12/8/19		$ 500,000.00			$ 500,000.00
First Farmers and Merchants Bank	CD 3/18/19		$ 500,000.00			$ 500,000.00
Direct Purchase CD's	CD		$ 2,940,000.00			$ 2,940,000.00
RBC	Money Market		$ 47,324.73	3,097.08		$ 50,421.81
RBC	CDs		$ 19,792,000.00			$ 19,792,000.00
RBC	Govt Agencies		$ 500,000.00			$ 500,000.00
Security State Bank, Wanamingo	Money Market		$ 11,199.47			$ 11,199.47
Wells Fargo, Minneapolis	Govt Money Market Funds		$ 14,037.20			$ 14,037.20
Wells Fargo, Minneapolis	Agency Securities		$ 500,000.00			$ 500,000.00
Wells Fargo, Minneapolis	CD's		$ 4,655,000.00			$ 4,655,000.00
Morgan Stanley	CD's		$ 200,000.00			$ 200,000.00
Morgan Stanley	Govt Money Market Funds		$ -			$ -
U.S. Government Agencies (SBA's)	Securities		$ 38,942.77			$ 38,942.77
Magic Fund, Cash Management Funds	Securities		$ 9,376,372.78			$ 9,376,372.78
Bank of Zumbrota, Missing Heirs	Money Market		$ 14,564.27			$ 14,564.27
Goodhue County, County Owned	Series EE Bonds		$ 4,025.00			$ 4,025.00
Goodhue County, Missing Heirs	Series EE Bonds		$ 11,000.00			$ 11,000.00
			$ 43,818,898.18	$ 66,436.82	$ -	$ 43,885,335.00

Receipt & Disbursement Summaries	$ 66,436.82
Bank Activity-Detail	$ 66,436.82
(Addition Check - Should be zero!)	$ (0.00)

Market Trends and Outlook

As 2018 came to a close fixed income investors are dealing with a changing landscape within the market. While underlying economic conditions in the U.S. remains favorable, the ongoing trade war with China brings about a slowing economy along with increasing inflation expectations and the Fed is still expected to continue to tighten monetary policy. Five year Treasury yields continue to hover around their highest level in eight years and the ten year Treasury yield has hit its highest level since December of 2013. Yield curve inverted between two and five year maturities in early December for the first time since 2006, which is potentially a warning that a recession may be on the horizon.



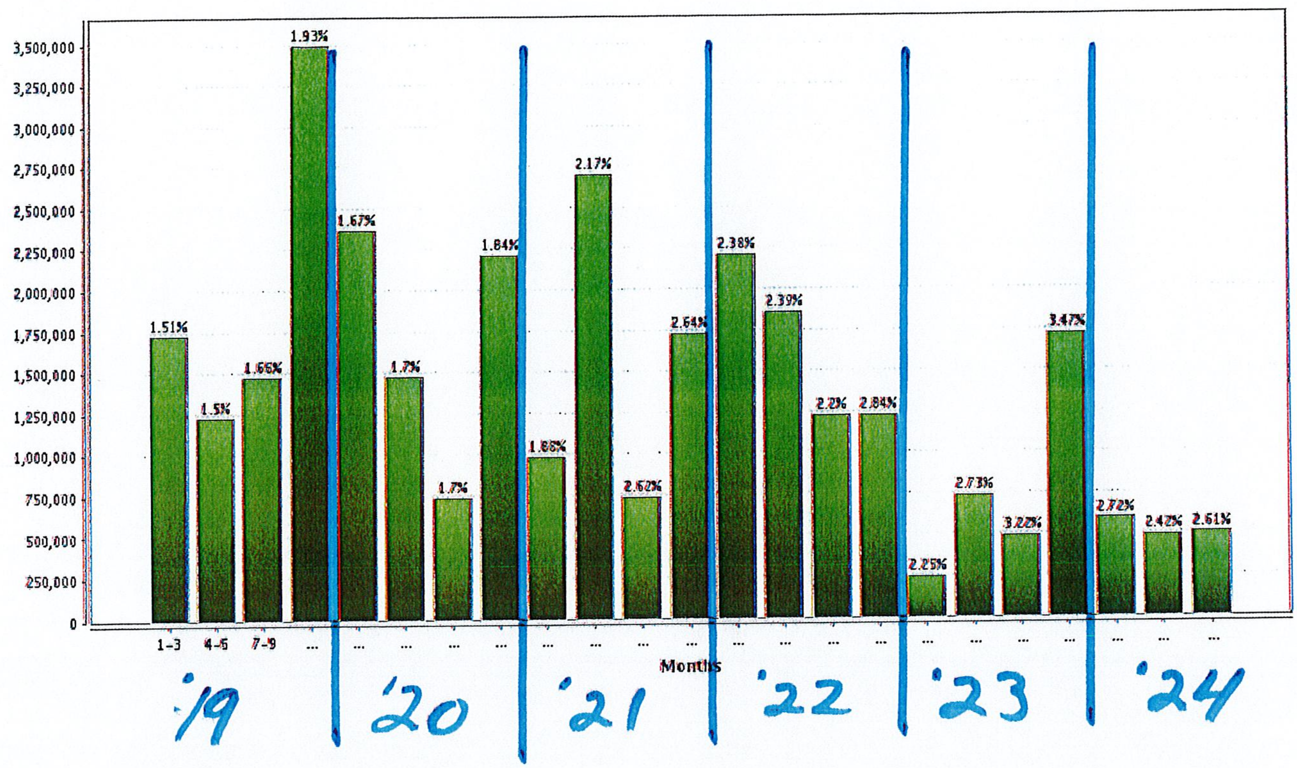
Source: Department of the Treasury

CDs and bonds can both be attractive to investors for different reasons but whether to invest in one over the other often hinges on what's happening in the broader market. When interest rates rise, for instance, bonds may lose some of their luster, while CDs grow more appealing. On the other hand, if you're investing in short-term bonds, they may offer greater liquidity than a CD, while still producing solid yields. Weighing the advantages and disadvantages of both against the backdrop of where the market is currently – and where it's headed – can help you decide where to put your investment dollars. For more information please see the attached Monthly Market Review.

Investment Maturity Summary Graph
Goodhue County, MN

Investments Maturing Between 01/01/2019 and 12/31/2024

Portfolio: All **Report As Of:** 01/02/2019



	Num of Investments	Avg Rem Term	Total Invested	Average Rate	Weighted Avg Rate
1-3 Months	6	80	1,725,000.00	1.5083	1.5071
4-6 Months	5	134	1,225,000.00	1.5000	1.5000
7-9 Months	6	264	1,470,000.00	1.6583	1.6583
10-12 Months	5	332	3,490,000.00	1.9300	2.0532
13-15 Months	10	421	2,360,000.00	1.6700	1.6660
16-18 Months	6	516	1,470,000.00	1.7000	1.7000
19-21 Months	3	610	735,000.00	1.7000	1.7000
22-24 Months	9	697	2,205,000.00	1.8389	1.8389
25-27 Months	4	791	980,000.00	1.8750	1.8750
28-30 Months	11	875	2,695,000.00	2.1727	2.1727
31-33 Months	3	956	735,000.00	2.6167	2.6167
34-36 Months	6	1035	1,725,000.00	2.6417	2.5838
37-39 Months	9	1142	2,205,000.00	2.3833	2.3833

Investment Maturity Summary Graph
Goodhue County, MN

Investments Maturing Between 01/01/2019 and 12/31/2024

Portfolio: All

Report As Of: 01/02/2019

40-42 Months	8	1253	1,852,000.00	2.3938	2.3573
43-45 Months	5	1341	1,225,000.00	2.2000	2.2000
46-48 Months	5	1419	1,225,000.00	2.8402	2.8402
49-51 Months	1	1471	245,000.00	2.2500	2.2500
52-54 Months	3	1607	735,000.00	2.7333	2.7333
55-57 Months	2	1665	490,000.00	3.2250	3.2250
58-60 Months	7	1765	1,715,000.00	3.4703	3.4703
64-66 Months	3	1973	590,000.00	2.7167	2.7822
67-69 Months	2	2063	490,000.00	2.4250	2.4250
70-72 Months	1	2108	500,000.00	2.6100	2.6100
Grand Totals	**120**	**916**	**32,087,000.00**	**2.1867**	**2.1775**

MAGIC Fund
Minnesota Association of Governments Investing for Counties

Monthly Market Review

Oh for the halcyon days of summer when stocks hit record highs, corporate profits surged, the U.S. economy was firing on all cylinders and the path for interest rates seemed clear.

Economic Highlights

- While underlying economic conditions in the U.S. remain favorable, a combination of uncertainties – U.S. politics, the ongoing trade war with China and a wavering U.S. central bank, slowing global growth, failing Brexit implementation and protests on the streets of Paris – have resulted in a significant stock market correction, surging credit spreads and a partial yield curve inversion.
- Volatility hit the bond markets as U.S. Treasury yields ranged over 40 basis points (bps) (0.4%) in November, and the yield curve inverted between two- and five-year maturities in early December for the first time since 2006. This curve dynamic is potentially an ominous warning sign amid slowing global growth. The question remains: Is a recession on the horizon?
- Federal Reserve (Fed) Chairman Jerome Powell's November speech at the Economic Club of New York took a dovish tone. With an unemployment rate of 3.7% and inflation near the Fed's 2% target, Powell opined that the U.S. economy is close to the Fed's dual objectives of "promoting maximum employment and price stability." Most notably though, he commented that "Interest rates . . . remain just below the broad range of estimates of the level that would be neutral for the economy." This was a significant change from his comments in October that the Fed was "a long way from neutral," and hinted that the pace of future Fed rate hikes may slow in the coming quarters.
- The outlook for economic expansion, measured by gross domestic product, has softened globally. Yet the U.S. labor market remains strong, adding 155,000 new jobs in November (well below expectations), the unemployment rate unchanged at 3.7%, wage growth steady at 3.1% year over year (YoY) and forward inflation rates at or near the Fed's 2% target.

Bond Markets

- The flattening of the U.S. Treasury yield curve is driven by the continued rise in short-term yields (driven by the expectation for near-term Fed tightening), while longer yields declined (will the economy slow to the point of recession?). For example, the yield on three- to 12-month Treasury bills increased less than 5 bps over the month. Meanwhile, yields on Treasury maturities beyond two years declined between 10 and 15 bps.
- As a result, longer-duration fixed-income indices generated solid performance relative to their shorter counterparts. Two-year Treasury benchmarks returned 2.79%; 10-year benchmarks returned 2.99% for the month. Nevertheless, the return on the broad Bloomberg Barclays U.S. Aggregate bond index is still negative for the year.

Equity Markets

- From its record closing high of 2,931 on September 20, the S&P 500 Index (S&P) closed out November at 2,760 – a decline of 5.8%. Further declines ensued in early December.
- Non-U.S. equity markets, represented by the MSCI ACWI ex-U.S. Index, ended the month up 0.95%. Developed markets, represented by the MSCI EAFE Index, finished down -0.13%, while emerging markets (EM), represented by the MSCI Emerging Markets Index, returned 4.12% in November.

PFM Outlook

- Many investors now think that the Fed is close to the end of its tightening strategy, implying that portfolio durations could be lengthened. On the other hand, the drag of widening credit spreads is amplified in long-duration investments, and U.S. economic fundamentals point to continued slow expansion. All of this leads us to maintain a modestly defensive duration position, at least for the near term.
- In the face of global risk-off sentiment, corporate debt battled a second consecutive month of significant spread widening – now at the widest spread levels since 2016. As a result, it was the worst-performing sector for the month. As corporate debt is expected to remain under pressure in the near term – mostly due to global growth concerns, lower oil prices, and looming tariff impacts – we plan to remain modestly defensive, reducing allocations and shortening durations in the sector. At the same time, wider spreads may present opportunities on an issuer-specific basis.
- Mortgage-backed securities (MBS) returns for most of the year have been underwhelming. Preference for shorter-term collateral and mid- to high-coupon structures helps combat extension and interest rate risks. With Fed balance sheet holdings in MBS set for more significant reduction over the next quarter, new purchases will be limited and selective.
- AAA-rated asset-backed securities (ABS) were not immune to the general risk-related spread widening over the month, though the change was less than for other credit sectors. Despite the modest spread widening, the ABS sector generated positive excess returns and continues to offer incremental yields with a defensive bias. We plan to continue to overweight ABS.
- With yields over 2%, money market funds and ultra-short-term fixed-income investments have been among the best performers year to date (YTD). Following a nearly six-month narrowing of commercial paper spreads, recent upticks in three-month LIBOR have pushed short-term credit spreads wider and presented good investment opportunities for short-term investors.

U.S. Treasury Yields				
Maturity	Nov 30, 2017	Oct 31, 2018	Nov 30, 2018	Monthly Change
3-Month	1.26%	2.33%	2.35%	0.02%
6-Month	1.44%	2.49%	2.52%	0.03%
2-Year	1.78%	2.87%	2.79%	-0.08%
5-Year	2.14%	2.98%	2.81%	-0.17%
10-Year	2.41%	3.14%	2.99%	-0.15%
30-Year	2.83%	3.39%	3.29%	-0.10%

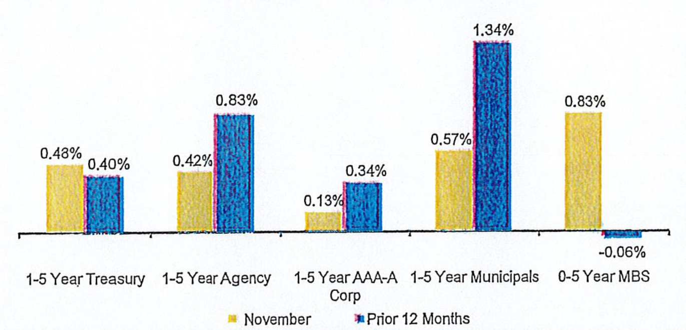
Yields by Sector and Maturity as of November 30, 2018				
Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3-Month	2.35%	2.35%	2.80%	-
6-Month	2.52%	2.49%	2.87%	-
2-Year	2.79%	2.87%	3.29%	1.90%
5-Year	2.81%	2.99%	3.56%	2.19%
10-Year	2.99%	3.30%	3.96%	2.64%
30-Year	3.29%	3.61%	4.51%	3.28%

Spot Prices and Benchmark Rates				
Index	Nov 30, 2017	Oct 31, 2018	Nov 30, 2018	Monthly Change
1-Month LIBOR	1.37%	2.31%	2.35%	0.04%
3-Month LIBOR	1.49%	2.56%	2.74%	0.18%
Effective Fed Funds Rate	1.07%	2.20%	2.20%	0.00%
Fed Funds Target Rate	1.25%	2.25%	2.25%	0.00%
Gold ($/oz)	$1,273	$1,215	$1,220	$5
Crude Oil ($/Barrel)	$57.40	$65.31	$50.93	-$14.38
U.S. Dollars per Euro	$1.19	$1.13	$1.13	$0.00

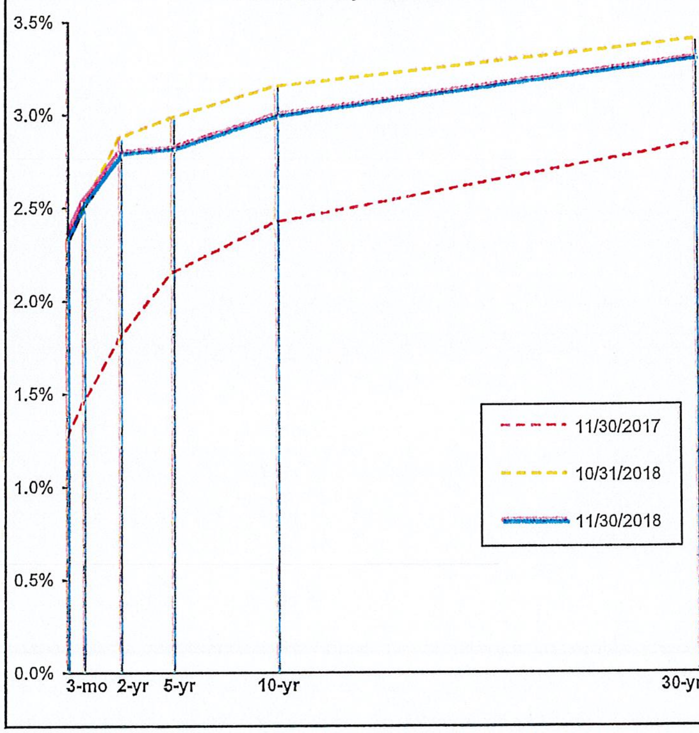
Economic Indicators				
Indicator	Release Date	Period	Actual	Survey (Median)
Nonfarm Payrolls	7-Dec	Nov	155k	198k
CPI ExFood&Energy YoY	14-Nov	Oct	2.1%	2.2%
Retail Sales MoM	15-Nov	Oct	0.8%	0.5%
Consumer Confidence	27-Nov	Nov	135.7	135.7
GDP Annualized QoQ	28-Nov	3Q Sec	3.5%	3.5%
New Home Sales MoM	28-Nov	Oct	-8.9%	4.0%
FOMC Rate Dec. (Upper)	8-Nov	Nov	2.25%	2.25%

ICE BAML Fixed Income Index Returns

For the period ended November 30, 2018

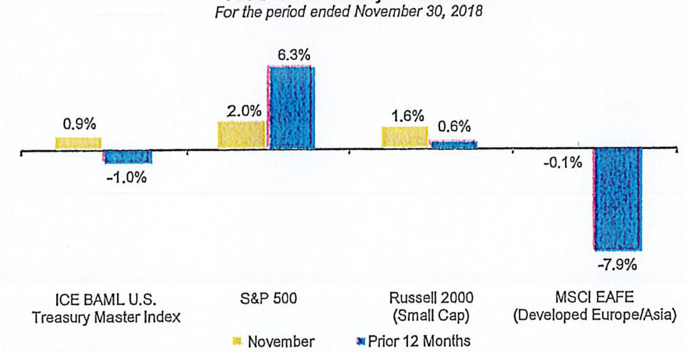


U.S. Treasury Yield Curve

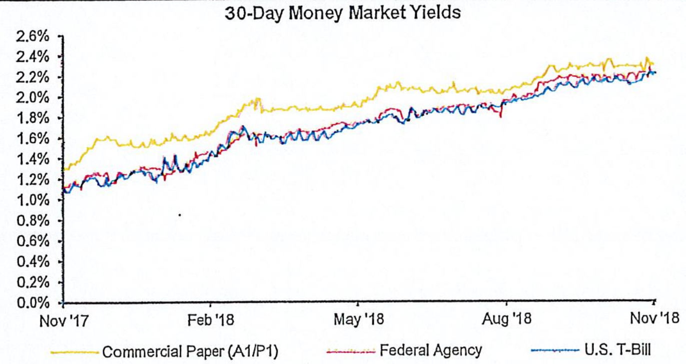


Total Return of Major Indices

For the period ended November 30, 2018



30-Day Money Market Yields



Source: Bloomberg. Data as of November 30, 2018, unless otherwise noted.

Brian J. Anderson
Director of Finance and Tax Payer Services

Goodhue County Finance & Taxpayer Services
Brian.anderson@co.goodhue.mn.us
509 W. Fifth St.
Red Wing, MN 55066

To: Goodhue County Board of Commissioners
Scott Arneson, County Administrator

From: Brian Anderson, Director of Finance and Tax Payer Services

Date: January 22nd, 2019

Regarding: 2019 Finance Polices Review

Background:

The Goodhue County Board and County staff understand the importance of continually reviewing, updating, and adhering to a complete set of financial policies. At the Committee of the Whole, staff would like to hear the concerns of the current policies and discuss a process for updating the essential parts of the policies in order to have them adopted in time for the 2019 budget process.

Discussion:

Financial policies are central to a strategic, long-term approach to financial management. Some of the most powerful arguments in favor of adopting formal, written financial policies include their ability to help governments:

1. Institutionalize good financial management practices. Formal policies usually outlive their creators, and, thus, promote stability and continuity. They also prevent the need to re-invent responses to recurring issues.

2. Clarify and crystallize strategic intent for financial management. Financial policies define a shared understanding of how the organization will develop its financial practices and manage its resources to provide the best value to the community.

3. Define boundaries. Financial policies define limits on the actions staff may take. The policy framework provides the boundaries within which staff can innovate in order to realize the organization's strategic intent.

4. Support good bond ratings and thereby reduce the cost of borrowing.

5. Promote long-term and strategic thinking. The strategic intent articulated by many financial policies necessarily demands a long-term perspective from the organization.

6. Manage risks to financial condition. A key component of governance accountability is not to incur excessive risk in the pursuit of public goals. Financial policies identify important risks to financial condition.

To meet these objectives, the Government Finance Officers Association (GFOA) recommends policies in the following categories, many of which Goodhue current has:

- Fund balance reserves – all funds
- Debt
- Accounting/financial reporting
- Investments
- Budgeting and longer-term financial planning
- Risk management and internal controls
- Capital
- Revenues and Expenditures
- Procurement
- Economic Development
- Grants

Recommendation:

In order to review and update our current set of financial policies, staff is recommending the following schedule:

1. Compare existing policies to the best practice categories and actual in-place policies of other local governments (cities, counties, etc.) to determine potential missing policies
2. Compare existing County policy details to information included in specific GFOA practice documents and specific existing policies of other local governments to determine where revisions/additions are needed
3. Determine if there are any unique situations in the county that would warrant a policy other than one listed in best practices and common in other government entities
4. Based on this review, as well as board feedback, by the end of the 1st quarter, develop a more detailed development plan – showing which policies need new development, which existing policies need revision, and which of these items will take the highest priority
5. By the end of the 2nd quarter, have the majority of the policies as newly revised/developed ready for board review, approval, and implementation.
6. Note any concerns throughout the year and bring back any amendments to the financial policies within the first quarter of 2020.
7. Review, discuss, and approve the financial policies every two years, so it coincides with the implementation of newly elected Board members.

Please find below a copy of:

- **Goodhue County Fiscal Policies**, Approved: October 2005
- **Purchasing Policy,** Approved: June 2011
- **Operating Fund Balance Policy**, Approved: April 2011
- **Capital Replacement Guidelines**, Approved: March 2006

Approved 10-4-05

Goodhue County Fiscal Policies

I. Introduction

The following set of fiscal policies provides a framework to guide the County's budget and financial planning. Each policy includes a Purpose and a Policy section. The Purpose section describes the intent of the policy and the Policy section describes the policy itself.

All policies are written to include the latest Minnesota and Federal Statutes. Any statutory changes made will supersede the Goodhue County policy.

The policies are separated into two distinct categories:

County Operational Policies - These policies apply to general directions and methods, which may not be specific to the budget, but do have an impact on the process since the budget is a reflection of the Board's goals and priorities.

Financial Policies - These policies are directly related to budgeting guidelines and specific details and are subject to review at the annual County Board meeting.

II. Operational Policies

A. Open Government and Fiscal Disclosure Policies

Purpose

The County has always had the policy of openness and disclosure. To ensure that County related groups such as commissions, committees, associations, and joint powers organizations are aware and reflect this openness, it is understood that any policy-making which directly impacts the fiscal health of the County is expected to be disclosed properly and timely to the public. This policy includes disclosure in both the spirit of openness and within the requirements of the appropriate state statutes.

Policy

Coverage

1) The County will conduct the governmental fiscal and budgetary policy deliberations in a public space, preferably either in the County Board room, or another designated location in the County and in a space which is accessible.
2) The proceedings are to be broadcast or recorded in either video or voice mode.
3) The County will prepare and provide summaries of proposed and final documents related to fiscal issues, which will be presented and discussed in an open meeting setting as described above.
4) All County committees, commissions, joint power organizations on which any member of the County Board is either requested or is required to serve and which approves fiscal policies regarding County Funds, will adhere to the same open government procedures and process outlined above.
5) A Truth In Taxation hearing will be held when required. When not required, the County Board shall decide on or before September 15 if they intend to hold an optional hearing

Proceedings of Required Groups

- Copies of County Board Meeting minutes and either a video or audio tape of fiscal policy deliberations shall be kept on file at County Administrator's office.

III. Financial Policies

A. Accounting, Auditing, and Financial Reporting Policies

Purpose

To ensure accurate and consistent accounting practices that conform to generally accepted accounting principles and governmental accounting standards and to ensure public confidence in and ensure the integrity of the County's financial system.

Policy

1) The County will establish and maintain a high standard of accounting practices.
2) The accounting system will maintain records on a basis consistent with accepted standards for local government accounting as established by State law (MS § 6.47 and §6.48), Minnesota County Financial & Accounting Reporting Standards (COFARS), GAAP,and GAAFR.
3) Regular monthly, quarterly and annual financial reports will present a summary of financial activity by major types of funds.
4) Where possible, the reporting system will also provide monthly information on the total cost of specific services by type of expenditure and, if necessary, by fund.
5) Quarterly reports will be presented to the Budget Committee for their review and comments.
6) Annually the Administrative Department will prepare an Annual Budget report. This report will be made available to elected officials, County management, bond rating agencies, creditors and citizens.
7) The State Auditor or an independent public accounting firm shall be engaged to perform an annual audit of all accounts, funds, and activities, and will publicly issue a financial opinion.
8) The Administration, along with the Auditor/Treasurers office shall establish a system of internal controls which shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. Establishment and implementation of this system will be approved and amended by the County board.

B. Revenue Policies

Purpose

1) To provide a diversified and strong set of revenues to ensure a stable revenue system for the County.
2) To match similar sources and uses of revenues and thus strive to ensure adequate funding for the various County services and programs over the long-term.
3) To ensure equitable funding among County programs and services.
4) To acknowledge there are various fund types of Revenue, some of which are available for general operations of the County and others accessible for stated purposes only.

Policy

1) The County will try to maintain a diversified and stable revenue system and to shelter it from short run fluctuations in any one revenue source.
2) The County will periodically review fees and charges in order to keep pace with the cost of provided that service or that percentage of the total cost deemed appropriate by the County, and will conduct a public hearing, as required by law, prior to setting fees or charges.
3) The County will acknowledge that the unallocated fund balance is not an annual source of revenue.
4) The County will allocate program state aid as appropriate to its major operational and/or capital funds which provide services to the entire County.
5) Any cash proceeds from the sale of Capital assets will be deposited in the Capital Fund.

C. Operating Budget Policies

Purpose

To ensure the County's annual operating expenditures are based on a stable stream of revenues. The policies are designed to encourage a long-term perspective to avoid pursuing short-term benefits at the expense of future problems. The policies will strive to enable a stable level of services, expenditures, and property tax levies.

Scope

These policies apply most critically to those programs funded through the property tax, because it is most difficult to deal with fluctuations in this revenue source. The Board and management must be cognizant that Federal, State and County tax revenues are collected and disbursed using different cycles (calendars).

Policy

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 resources to fund the budget will include all revenues that can reasonably be anticipated from all sources and the entire amount of fund balance estimated to be carried forward at the beginning of the fiscal year.
2) The County will attempt to minimize budgetary procedures that include postponing expenditures, rolling over of short-term debt, issuing Tax or Aid Anticipation Notes, and using reserves to balance the operating budget.
3) Any County enterprise operations, current or future, are to be self-supporting, i.e., current revenues will cover current expenditures, including capital improvements and depreciation. The enterprise operations are to be reviewed annually for self sufficiency.
4) The budget will provide for adequate maintenance of capital plant and equipment, and for their orderly replacement.

5) The County will coordinate development of the capital budget with the development of the annual operating budget. Each capital project or purchase over $5,000 is reviewed for such things as its impact on the operating budget in terms of revenue generation, additional personnel required and additional operating expenses.
6) A request for a program or service expansion or reduction must be supported by an analysis of public policy implications of the change.
7) A request for additional personnel shall be supported by an analysis demonstrating the need for the position based on workload measures, comparative staffing levels, and department priorities. The funding mechanism for the position must be noted with the ability to sustain the position given consideration. External requirements such as state and federal laws as well as County ordinances should also be noted if appropriate.
8) Reduction in the level of long term service and/or personnel shall also be supported by an analysis demonstrating the impact of other workloads, services and finances including net savings. It must be noted if this is to be considered a long term or short term change. External requirements such as state and federal laws as well as County ordinances should also be considered if applicable.
9) Replacement of employees presently filling a position is addressed in the County Personnel Policies.

Process

The County shall budget to maintain fund balances at adequate levels to ensure sufficient resources are available for current and future expenditures with consideration given to unforeseen circumstances as well as cash flow and other statutory requirements.

1) The County will maintain a budgetary control system to ensure adherence to the budget.
2) The County will budget to maintain an unreserved fund balance for cash flow for each operating fund, to support operations until current tax revenues are received.
3) The County will budget to maintain a portion of the unreserved General Fund balance as contingency in order to finance unforeseen items and events that occur during the course of the year. It is not necessary for each fund to hold its own contingency.
4) Section F, Operating Fund Reserve Policies, addresses reserve thresholds and other designations.
5) The Administration Department will prepare regular reports comparing actual expenditures to budgeted amounts as part of the budgetary control system. Appropriations will be monitored at the major account code level, (i.e. public assistance, personal services, service and charges, supplies and materials, capital outlay, other expenses, and transfers) within each program. The initial budget presentation to the County Commissioners will include an Executive Summary.

Department heads shall be primarily responsible for maintaining expenditures within approved budget guidelines that are consistent with approved financial policies.

D. Capital Expenditure Policies

Purpose

1) To ensure that capital expenditures are well planned and enable the County to add or replace capital items when needed, without requiring significant fluctuations in property tax levy.
2) To ensure a smooth process for asset management.

Scope

All departments and funds are included in the Five-Year Capital Plan (CP). The CP identifies the timing and financing of all capital items including such things as building repairs, remodeling and replacement, bridges and infrastructure, furniture, fixtures and equipment, vehicles and technology. The CP does not replace the Capital Fund but rather incorporates that fund along with all other potential revenue streams in order to establish a cohesive asset management plan.

Policy

1) All capital expenditures shall be made in accordance with an adopted Capital Plan which includes all capital expenditures of $5,000 and a life expectancy of five years or more.
2) The County will develop a Five-Year Plan for capital equipment and improvements and update it annually. As resources are available, the most current year of the Capital Plan will be incorporated into the current year operating budget. Years two through five are for planning purposes only.
3) The County will coordinate development of the capital budget with development of the operating budget. Preference would be to address the Capital Plan prior to the adoption of the General and Capital Budgets in order to meet delivery times for certain acquisitions. Future operational costs associated with new capital items will be projected and included in operating budget forecasts.
4) The County will enact an annual capital budget based on the multi-year Capital Plan. Future capital expenditures necessitated by changes in population, changes in real estate development, or changes in economic base will be identified and included in capital budget projections.
5) The County will maintain its physical assets in a manner which is adequate to protect the County's capital investment and to minimize future maintenance and replacement costs. The County will provide for maintenance and replacement from current revenues where possible.
6) The County will identify the estimated costs and potential funding sources for each capital expenditure proposal before it is submitted to Board for approval. The operating costs to maintain capital items shall be considered prior to the decision to undertake the capital expenditure.
7) Capital expenditures will receive a higher priority if they meet some or most of the following criteria:
   a) Mandatory Project
   b) Maintenance project (approved replacement schedules)
   c) Project improves efficiency
   d) Broad extent of usage
   e) Length of expected useful life
   f) Positive effect on operating and maintenance costs
   g) Availability of state/federal grants
   h) Elimination of hazards (improves public safety)
   i) Prior commitments
   j) Replacement due to disaster or loss
   k) Do not duplicate other public and/or private services or facilities
   l) Project provides a new service
8) The CP will be presented by the Management Team for review and recommendation to the Board by the Budget Committee. Any substantive change to the CP after approval must be reviewed by the Budget Committee and recommended to the County Board for approval.

E. Replacement Policies

Purpose

1) To set in place a stable funding mechanism for much of the County's infrastructure. The intent of the Board in having Replacement Policies is to provide for easing the burden on both present and future taxpayers and to assure the replacement of the County's infrastructure as it is found necessary and in a manner that is both fiscally and operationally prudent.
2) To have specific resources set aside on a periodic basis, to create funding for the major equipment and infrastructure needs of the County, without encountering major tax increases for maintenance and replacement.
3) To assist with property management of the County's capital assets.

It is not the intent of the County Board to fund major new facilities which have not had the original funding established either through tax increment, general taxes or other such sources. The replacement funds are expected to be only for replacement purposes.

The following replacement accounts will be part of the County's General fund and will be considered designated monies. Dollars from these accounts will periodically be used to finance purchases and noted as the revenue source in the Capital Plan.

Policy

1) The County will establish a General Vehicle Replacement Account to provide for timely replacement of vehicles. The County will appropriate funds to the account annually based on the annual depreciation amount. Once established the account shall be maintained at an amount equal to the accumulated depreciation to support the regular rotation of vehicle replacement.
2) The County will establish a General Equipment Replacement Account to provide for non-vehicular equipment replacement; i.e., graders, mowers, tools, etc. which require substantial assets to be purchased. The County will appropriate funds to the account annually based on the annual depreciation amount of large non-real estate equipment. Once established the account shall be maintained at an amount equal to the accumulated depreciation to support the planned replacement of these large dollar items
3) The County will establish a Property Management Account, and will appropriate funds to it annually to provide for timely maintenance of all buildings and plants supported by general governmental funding. The funding should equal the accumulated depreciation recorded on all general governmental buildings.
4) From time to time the County Board shall establish additional replacement funds as the need and funding ability becomes available.
5) The Board will approve criteria to determine a reasonable replacement cycle for these funds. Included would be such things as the life cycle of the item and replacement times and values considered for risk management.

Dividends received from the insurance carrier which relate to County assets shall be reasonably allocated and deposited in the replacement funds.

F. Operating Fund Balance Policies

Purpose

1) To provide a cushion against unexpected revenue and income interruptions.
2) To provide working capital by ensuring sufficient cash flow to meet the County's needs throughout the year.
3) To provide cash flow funds to assist with operations for those times in the year when cash is not received from taxes or other revenue sources.
4) To finance unforeseen items and events that occur during the course of the year.

The County has faced uncertainty with governmental aid in recent years. This is added to the concern of local property tax as a form of stable revenue. One way to deal with this instability is to develop sufficient fund balances and contingency funds that can be used if local governmental aids are significantly reduced without adequate notice.

Definitions:

A fund is segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations (COFARS).

- **Reserves** are legally binding commitments on the fund balance and are not controlled by the County,

- **Committed Money** is the portion of the fund balance encumbered by contracts or purchase orders as of a given date.

- **Designations** are amounts for which the County has future plans within a reasonable amount of time. They are establish by County Board resolution and reviewed annually.

- **Contingency** is a portion of the unreserved, undesignated balance the can be drawn upon by approval of the Budget Committee for unforeseen circumstances which cause a department budget to exceed the originally approved budget.

Unreserved, undesignated fund balance is the remaining fund balance after deduction of reserves, and designations which is to be set aside to meet the purposes stated above. For the calculation of available cash flow, committed money would also be deducted.

Policy

1) The County will strive to maintain a December 31 unreserved, undesignated General Fund Balance 42%* of the general fund's total annual operating budget. Any surplus beyond the required general fund reserve may be transferred to another fund, reserve or designation with a funding shortfall. The percentage reflects that fact that 5/12 of the budget year passes before the first share of property taxes is received. 10% should be considered contingency with the remainder to be classified as unreserved, undesignated. **The 2003 State Auditors recommendation is "35%-50% of fund operating revenues or no less than five months of operating expenditures." Moody's states Minnesota average is 36.5%.*
2) The County will strive to create an unreserved, undesignated fund balance in the other major operating funds, other than the General Fund, to equal 25% of the annual operating budget as of year-end after settlement. This fund balance will provide a cash flow cushion and reduce the need for potential interfund borrowing. Because of more frequent cash inflows, a 25% unreserved, undesignated fund balance reserve will be adequate to support the daily cash needs of the fund. Guidelines issued by Minnesota State agencies and State statute will be reviewed for compliance
3) County enterprise funds shall have operating cash fund balance sufficient to provide for monthly cash flow, and for a reasonable level of equipment and infrastructure replacement. Major reconstruction or system upgrades may need to be funded from enterprise revenue bonds. The Board will, on an occasional basis, ensure the fund is self-supporting.
4) All other funds are expected to operate with positive unreserved, undesignated fund balances. However, as many of these funds are for a short duration or are supporting specific projects, those balances may be above or below that limit in any given year. Each of these other funds shall be reviewed on an annual basis to assure the fund balance is in line with the fund's objectives.
5) The County Board at its own discretion may designate a portion of a fund balance for a specific purpose to be spent in future years (designations). Programs will budget for the use of the designated fund balance during the annual budget process. All budget adjustments utilizing designated fund balance require County Board approval.
6) The County will also recognize there are occasions beyond the County's control when it may be required to set aside reserves or designations for certain expenditures based on grant requirements, government statutes, or other specific requirements.
7) The County may utilize unspent operating budget from current and previous years to purchase capital expenditures, requested and approved during the annual budget process, which are "one-time" in nature. The one-time capital expenditures are items which occur on an infrequent basis and would cause an abnormal spike in the base operating budget. The identified unspent budget in the unreserved/undesignated fund balance of the General Fund or Special Revenue Funds is transferred to the Capital Projects Funds to purchase the one-time capital expenditures.
8) All fund balances shall be reviewed each year at the time of the annual budget preparation and also after year-end balances are available. Budgets shall be prepared in a format so that the County Board can readily discern the current and projected management of all fund balances.

G. Debt Policies

Purpose

To provide guidelines for debt decisions. There are no absolute rules or formulas in determine the level of County debt. Each situation requires a thorough review of the County's debt positions, financial health and economic forecast. In addition, the policy is to:

1) Define the role of debt in the County's total financial strategy to avoid using debt in a way that weakens other parts of the financial structure of the County.
2) Provide for limits on debt to avoid potential pitfalls in servicing the debt.
3) Maintain a credit rating of A1 or higher.

Policy

1) The County will not use short-term borrowing to finance operating needs except in the case of an extreme financial emergencies which is beyond the County's control or reasonable ability to forecast.
2) The County may only use long-term debt financing when all of the following conditions exist:
   a) When non-recurring capital improvements are desired, and
   b) When it can be determined the future citizens will receive a benefit from the improvement, and
   c) When the cost benefit of the expenditure, including interest cost, is positive.
3) The issuance of long-term debt is generally limited to capital expenditures that cannot be financed from current revenues or resources. Exceptions will usually involve an unforeseen liability such as the Landfill Closure. For purposes of this policy, current resources are defined as that portion of fund balance in excess of appropriate required reserves and designations.
4) Every effort will be made to limit the payback period of the bonds or notes for capital related borrowing to the estimate useful life of the capital asset constructed or purchased.
5) The County will try to keep the average maturity of general obligation bonds at or below ten years.
6) Total general obligation debt shall not exceed two percent (2%) of the market value of taxable property as called for by State law.
7) The County Auditor/Treasurer will inform the Board of potential debt refinancing which may become possible due to such things as market changes or legislative decisions.
8) The County will follow a policy of full disclosure in the annual Financial Statements and official statement.
9) The maintenance of the best possible credit rating shall be a major factor in all financial decisions.
10) The County will maintain good communications about its financial condition with credit rating agencies.
11) In considering a total debt load beyond $20,000,000 (adjusted annually with the Consumer Price Index) the County will have a financial analysis performed prior to approving the debt.

H. Investment Policies

Purpose

To ensure the most efficient use of the County's funds not immediately necessary for operational services, and to ensure the best return on these funds while making only those investments allowed by law, including deposits and investments of refunds deposited in interest bearing accounts.

From time to time Goodhue County has cash balances in various fund accounts which, though allocated for a specific purpose, are temporarily not needed for immediate use. In such event, it is the policy of the County that any fund account with a cash balance which it is reasonable anticipated will not be used or expended for a reasonable period of time, will be invested as set forth in this Investment Policy.

Primary guidelines are Minnesota Statute 118A, the Goodhue County Investment Policy, and the most recent Legal Compliance Guide authored by the Minnesota Office of the State Auditor.

Scope

The investment policy covers the following matters and principles:

1. Safety of principal
2. Delegation of Authority
3. Consultants
4. Collateralization
5. Authorized investments
6. Other Contracts and Agreements
7. Prohibited investments
8. Maximum investment
9. Pooling of investments
10. Liquidity
11. Local investments
12. Maximum interest earnings (Yield)
13. Annual review

Policy

1.) The County will make a cash flow analysis of all funds on a regular basis. Disbursement, collection, and deposit of all funds will be scheduled to ensure maximum cash availability.

2.) The County will invest only in those investment instruments authorized by Minnesota Statues, Chapter 118A. To ensure safety, it is the policy of the County that when considering an investment, all depositories under consideration be cross-checked against existing investments to ensure that no deposits of funds are made in an institution in excess of federal deposit insurance limits unless the excess funds are collateralized as provided in this Investment Policy.

3.) The chief investment officer will be the County Auditor/Treasurer who will ensure compliance with this Investment Policy and further develop and maintain adequate controls, procedures and methods for the safe and accurate accounting of the County funds on a day-to-day basis, with the review and approval of Investment Committee. In the absence of the County Auditor/Treasurer, this responsibility will be assumed by the Chief Deputy Auditor-Treasurer.

4.) The County will establish an internal Investment Work Group that would meet periodically with the Auditor Treasurer to review investments and assure that there is not deviation from the Investment Policy. Annually the Investment Committee would review investments and submit a report to the Board.

5.) The Investment Committee shall meet annually prior to the end of the year, review the Investment Policy and make recommendations to the Board of Commissioners.

6.) The County Auditor/Treasurer and the Investment Committee will keep the County Commissioners fully informed regarding any changes, problems or irregularities which may occur with respect to the investment of County funds in order to ensure the proper handling of them. The accounting system will provide regular information concerning cash position and investment performance.

6.) The investment officer will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments and will adjust the portfolio accordingly.

7.) The County includes interest earnings and investment summaries as part of the Years Financial Statement.

8.) The hiring or retention of financial consultants, money managers, etc. may be made only with the express authorization and consent of the County Commissioners after recommendation by the Investment Committee and the County Administrator.

9.) The County Board shall annually consider a resolution designating its depositories and also designating those (generally the Auditor/Treasurer and either the Administrator or County Board) who shall have authority to open and/or close accounts.

10). After first considering safety and liquidity. The County will obtain the best possible return on all cash investments. Such investments will only be those legally permissible under Minnesota law. County funds shall be deposited in financial intuitions which provide maximum federal deposit insurance protection. The County shall not deposit funds in excess of the amount protected by federal deposit insurance in any one financial institution unless such excess funds are (a) covered by a corporate surety bond executed by a company authorized to do business in Minnesota or (b) collateralized with pledged securities as set forth in the "Authorized Collateral" section below.

<u>Authorized Collateral</u>

The following are authorized forms of collateral security which are acceptable in lieu of a corporate surety bond:

1. U.S. government treasury bills, treasury notes and treasury bonds;
2. Issues of U.S. government agencies and instrumentalities as quoted by a recognized industry quotation service available to the County;
3. General obligation securities of any state or local government with taxing powers which is rate "A: or better by a national bond rating services, or revenue obligation securities of any state or local government with taxing powers which is rate "AA" or better by a national bond rating services;
4. Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
5. Time deposits that are fully insured by the Federal Deposit Insurance Corporation.

<u>Amount of Collateral</u>

The total market value of the collateral shall be at least ten percent (10%) more than the amount of the County's funds on deposit plus accrued interest on the amount deposited. The financial institution may furnish both a surety bond and collateral aggregating the required amount.

10). Any public funds not presently needed or restricted for other purposes may be invested by the County as provided in this section. Public funds may be invested in the following:

a. Government bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities) and other securities, which are direct obligations or are guaranteed or insured issues of the United States, it agencies, instrumentalities, or organizations created by an act of Congress.
b. Any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service.
c. Any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating services;
d. A general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota is rated "A" or better by a national bond rating agency.
e. Commercial paper issued by U.S. corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and mature in 270 days or less.

f. Time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of U.S. banks.
g. High-risk mortgage-backed securities as provided in Minnesota Statues, Section 118A.04, Subd 6.
h. Temporary general obligation bonds of the County issued under Minnesota Statues, Section 429.091, Subd 7, Section 469.178, Subd 5, or Section 475.61, Subd 6.

11) County funds held in a debt service fund may be used to purchase any general or special obligation of an issue which is payable from the fund, at such price (which may include a premium) as shall be agreed to by the holder, or may be used to redeem any obligation of such as issue prior to maturity in accordance with its terms. The securities representing any such investment may be sold by the County at any time, but the money received shall remain part of the fund until used for the purpose for which the fund was created. Funds held for future capital projects (i.e. bond proceeds) shall be invested to produce enough income to offset increases in construction costs due to inflation. Where possible, prepayment funds for long-term debt service shall be invested to ensure a rate of return at least equal to the interest being paid on the bonds

12) Prior to completing a transaction with any broker, the County shall provide the broker with an annual written statement of investment restrictions which shall contain a provision that all future investments are to be made in accordance with the Minnesota Statues governing the investment of public funds. The broker must annually provide the County written acknowledgement of the receipt of the investment restrictions and of its agreement to handle the County's account in accordance with those restrictions. The uniform forms prepared by the Minnesota State Auditor shall be used for this purpose.

13**)** The County may enter into repurchase agreements, securities lending agreements (including custody agreements), guaranteed investment contracts, and agreements for the purchase of shares of a Minnesota joint powers investment trust, a short-term investment fund, a money market fund of an investment company registered under the Federal Investment Company Act of 1940, and shares of an investment company registered under the Federal Investment Company Act of 1940, and the Federal Securities Act of 1933 only as provided in Minnesota Statues, Section 118A.05.

15.) The County shall not invest in futures contracts, options on futures contracts, or option agreements to buy or sell securities.

16) The County shall determine its cash balance on a frequent basis for the purpose of investing excess funds.

17) For purposes of making the maximum amount of funds available for investment, the cash from all County funds shall be pooled in one investment account. The investment account may be invested in different instruments for purposes of staggering maturity dates, diversifying the portfolio, or securing maximum interest rates for a portion of the portfolio.

18) The County's investment portfolio shall be invested in very liquid funds so that the funds will be readily available for the payment of expenses as needed.

19) After security, liquidity needs and scheduled maturity requirements are satisfied, the balance of the funds available for investment shall be deposited with financial institutions that offer the greatest degree of safety and the highest rate of return consistent with the scheduled maturity requirements determined

by the County and the provisions of the Investment Policy. Telephone bids or quotations shall be obtained for all investments of the County funds, whether short or long term.

20) Interest earnings shall be annually allocated as required by Statute and the Office of the State Auditor. Great consideration should be given to allocating a portion of the earnings, particularly if over budgeted expectations, to assist with the growth of the Capital and Replacement Accounts.

IV. Implementation

These policies will become effective upon formal approval of the County Board of Commissioners and shall be in force and considered as part of the County's fiscal policies.

PURCHASING POLICY

PURPOSE:

The Purchasing Policy has been developed to define the purchasing limits and requirements for Goodhue County. The uniform Purchasing Policy ensures adequate control over budgets and expenditures, and adherence to legal and ethical procurement procedures.

SCOPE:

The Purchasing Policy applies to all employees and officials of Goodhue County and relates to the procurement of services and/or goods, unless specifically exempted in this policy.

Goals and Objectives:

- To institute and maintain an effective and economical system for purchasing goods and services which utilizes the latest purchasing techniques and automated processes.
- To obtain needed equipment, materials, supplies and services at favorable prices in keeping with appropriate quality and service requirements.
- To assure compliance with State of Minnesota statutes and County policies in all purchases of goods and services
- To maintain accurate records and reports as they relate to purchasing and payment of transactions.
- To assure proper cash flow availability.

POLICY:

MN Statute 471.345, as set forth in Appendix A applies to the purchasing or lease of materials, equipment or services. Direct negotiation, formal quotes and/or bid requirements are to follow the dollar ranges stated.

Under no condition shall an order be divided into two or more smaller orders in an attempt to circumvent the necessity to obtain sealed bids.

Purchases made using State of Minnesota's Cooperative Purchasing Venture satisfy the requirements for the competitive bid process. Refer to the Finance Department on the **Intranet** [hyper link form] for a listing of all the County, State and U.S. Communities contracts in use by the county.

Classification of Expenditures:

Goodhue County will classify expenditures in accounts according to Minnesota County Financial Accounting and Reporting Standards (COFARS) to provide uniformity and consistency for all financial information.

Purchasing Guidelines:

The County Board has authority to authorize expenditures of County funds. The Board has delegated purchasing thresholds authority for budgeted items as follows:

<$10,000	Department head (or designee) signs invoices for processing.
$10,000 to $40,000*	Must be coordinated/reviewed with the Finance Director prior to ordering unless indicated otherwise.
>$40,000*	Must be reviewed by the Finance Director and approved by the County Administrator and may be approved by County Board prior to ordering. All contracts over $100,000 must be board approved.

*Before spending any grant revenue > $25,000, www.epls.gov should be checked to verify approved use of federal funds.

These purchasing thresholds apply to all categories (A-I) listed below and relate to cost prior to any trade-in credits. The thresholds on contractual agreements are to be applied based on the full cost of the contract or purchase. Supporting documents of bids and/or quotes are to be attached when submitting requests. Additional purchasing authority and/or requirements are noted below.

The County Administrator or designee can approve change orders on approved contracts.

On January 1 of each year the Public Works Departments will file with the Finance Office a list of the designees who can approve bulk purchases, change orders and amend contracts that have immediacy and are in the best interest of the county.

PURCHASING CATEGORIES:

A. Operational Costs (Non-capital costs necessary to offer departmental services)

Department Heads can authorize budgeted operational costs after receiving competitive quotes *if feasible or reasonable*. Those items further described in Sections B through I of this policy may have additional requirements as noted.

Department Heads (or designees) are responsible for acknowledging receipt of goods and services, verifying the invoice charges and then authorizing the bill for payment.

The Finance Department will coordinate with the Departments regarding account coding in accordance with COFARS.

Annually Fund Balance classifications will be reviewed for the previous year. When costs have been incurred which should have been paid out of the Restricted, Committed, or Unassigned classifications the applicable account will be reduced accordingly. This will be addressed by the Budget Committee and considered at a subsequent County Board meeting.

B. Technology (Cell phone, Computer Equipment and Systems)

Cell phones, computers, and networking software and hardware equipment must be reviewed and approved by the IT department prior to purchase to assure they are in compliance with the Technology User and Cellular Device Policies.

C. Capital Purchases

> **Definition: Building repairs, remodeling and replacement, bridges and infrastructure, furniture, fixtures and equipment, vehicles and technology costing more than $5,000 which have an extended life and will be recorded as capital.**

After following the threshold amounts listed above and upon purchase of any item with a value in excess of $5,000, the department receiving the asset shall complete an Asset Addition Form [hyper link form] (available on the intranet) and forward the completed form, along with the invoice, to the Finance Department and the Risk Manager's office. Infrastructure information is forwarded to the Finance Department on an annual basis.

An asset can be sold according to the Electronic Sale of Surplus Property [hyper link needed] and Vehicles Policy [hyper link needed], traded in or otherwise disposed of. The Disposal Asset Form [hyper link needed], is to be completed at that time and sent to the Finance and Risk Manager's Office.

D. Leases

Goodhue County may enter into annual contracts for goods and/or services that contain a one-year term with a renewable option not to exceed seven years. Leases or lease/purchase agreements may be for more than three years with the decision for time determination based on that which best serves the interest of the County.

According to MN Statute 465.71 each lease should contain a statement that the county "must have the right to terminate a lease-purchase agreement at the end of any fiscal year during its term."

Capital Rentals/Leases:

Definition: the lessee *assumes some of the risks of ownership* and enjoys some of the benefits. If any one of the following four criteria is met, the item must be considered an asset with the related lease payments shown as a liability and the item depreciated.

A. the lease contains an option to purchase the property for less than fair market value

OR;

B. the lease term is greater than 75% of the property's estimated economic life

OR;

C. ownership of the property is transferred to the lessee at the end of the lease term;

OR;

D. the present value of the lease payments exceeds 90% of the fair market value of the property.

All capital leases must be reviewed by the Finance Department.

Operating leases:

Definition: the lessee has *only the right to use the property*. At the end of the lease period, the lessee returns the property to the lessor. Lease payments appear as an operating expense in the department's budget. The following are general criteria for operating leases:

- Stated portion of time – usually less than the useful life
- No ownership occurs from the relationship
- Rental costs are not directly associated with the acquisition cost of the asset
- Assets are returned to the lessor and financial obligation normally ends

These agreements can be for more than one year thus the total cost of the agreement determines the threshold review process.

E. CONSULTANTS, PROFESSIONALS AND/OR SPECIALTY SERVICES

During the course of operations, Goodhue County has situations where knowledge and/or technical skills are needed that cannot be supplied by regular staff or outside specialty services (i.e. residential treatment) would be more cost effective. Consultants and other professionals are considered as one alternative for providing these necessary services. The services to be provided will be carefully planned consistent with current budgets and related contractual procedures.

All arrangements (including a signed agreement) must be made prior to the date of the service. The cost of the contract over its life determines the signature threshold requirements.

The consultants and professional services do not require a competitive bid or proposal. "Specialty services" may require a competitive bid or proposal. However, it is suggested that a written request for proposal/request for quotation process is conducted whenever practicable and is in the best interest of the county.

Outside Agencies.

In addition to what are considered traditional consultants and professionals, the County may obtain services with outside agencies through annual budget allocations. An Appropriation Request Form [hyper link form] provided by the county is to accompany any funding application.

F. MAINTENANCE AGREEMENTS

Definition: formal contracts for a specific service between the county and a third party which require specific performance of repairing, cleaning, altering or improving tangible personal

property on a regular or irregular basis to ensure the product's continued satisfactory operation in exchange for a fee.

Terms and conditions of the agreement must clearly define the responsibilities of each party entering into the agreement. Items to include are such things as scheduling, licensure, insurance and bonding requirements, performance and inspection requirements, consequences of failure to maintain, renewal and cancellation information.

These agreements can be for more than one year thus the total cost of the agreement determines the threshold review process.

G. BULK PURCHASES

The County encourages buying products in large quantities at a lower price per item, or unit price, than is available for smaller quantities when in the County's best interest. Examples of bulk purchasing are fuel, copy paper and toner.

H. EMERGENCY PURCHASES

If an emergency occurs due to breakage, damage or decay, or when the public interest and safety would suffer by delay, you **MUST** refer the situation to the County Administrator or responsible official to determine whether an emergency purchase applies. If the emergency purchase is $50,000 or more, a Request for Board Action/Resolution **MUST** be submitted to the County Board at its next meeting for ratification.

I. UNBUDGETED ITEMS

If the department head finds the need to purchase a capital or operating item that has not been previously budgeted every effort will be made to stay within budget constraints.

1. For items less than $10,000 a department head can make the purchase if they have adequate funding within their budget and this unbudgeted purchased does not create excess expenditures over their approved budget.
2. If between $10,000 and $25,000 must be approved by the Finance Director prior to ordering.
3. If between $25,000 and $40,000 must be approved by the County Administrator prior to ordering.
4. If over $40,000 must be approved by County Board prior to ordering.
5. The County Board designates their authority to the County Administrator for unbudgeted items in the Recorder Compliance Fund up to $40,000 providing sufficient resources are available. Board will be informed of any unbudgeted approvals.

J. GRANTS

Because grants may include purchases of either product, staff or other services all grants are brought to the County Board for acceptance. In order to be included on the board agenda a copy of the grant and the county Grant Form [hyper link form] is to be sent to Administration.

K. MONTHLY EXPENDITURES (Utilities, etc)

These expenditures are not part of the county Purchasing Policy; however it is understood all employees will use due diligence when using/purchasing these services.

L. SALES TAX and OUT OF STATE PURCHASES

Sales tax is part of the total cost of an item. For purchases made out of state that have been invoiced without tax the County is required to submit use tax to the State of Minnesota. When purchases occur without this tax please notify Accounts Payable in order to include the required payment with the quarterly paperwork required.

M. PAYMENTS FOR PURCHASES

The County uses various methods to purchase goods and services including a voucher system for payment of invoices and a purchasing card system using a number of unique controls. Refer to the full Credit Card Purchasing Policy included in the Personnel Policies.

Date Approved: __Board approved --effective 6-21-11

Date Revised: ___________

Appendixes (also see on Intranet under _____)

A. MN Statute 471.345 on purchased quote and bid requirements and Goodhue County bidding procedures.
B. Sample RFP/RFQ (to be added)
C. Asset Addition Form
D. Asset Disposal Form
E. Grant Form
F. Contract for Consultant Services (to be added)
G. Appropriation Request Form (Outside Agencies)

APPENDIX A

2010 Minnesota Statutes

471.345 UNIFORM MUNICIPAL CONTRACTING LAW.

Subdivision 1.**Municipality defined.**

For purposes of this section, "municipality" means a county, town, city, school district or other municipal corporation or political subdivision of the state authorized by law to enter into contracts.

Subd. 2.**Contract defined.**

A "contract" means an agreement entered into by a municipality for the sale or purchase of supplies, materials, equipment or the rental thereof, or the construction, alteration, repair or maintenance of real or personal property.

Subd. 3.**Contracts over $100,000.**

If the amount of the contract is estimated to exceed $100,000, sealed bids shall be solicited by public notice in the manner and subject to the requirements of the law governing contracts by the particular municipality or class thereof. With regard to repairs and maintenance of ditches, the provisions of section 103E.705, subdivisions 5, 6, and 7, apply.

Subd. 3a.**Contracts over $100,000; best value alternative.**

As an alternative to the procurement method described in subdivision 3, municipalities may award a contract for construction, alteration, repair, or maintenance work to the vendor or contractor offering the best value under a request for proposals as described in section 16C.28, subdivision 1, paragraph (a), clause (2), and paragraph (c).

Subd. 4.**Contracts exceeding $25,000 but not $100,000.**

If the amount of the contract is estimated to exceed $25,000 but not to exceed $100,000, the contract may be made either upon sealed bids or by direct negotiation, by obtaining two or more quotations for the purchase or sale when possible, and without advertising for bids or otherwise complying with the requirements of competitive bidding. All quotations obtained shall be kept on file for a period of at least one year after receipt thereof.

Subd. 4a.**Contracts exceeding $25,000 but not $100,000; best value alternative.**

As an alternative to the procurement method described in subdivision 4, municipalities may award a contract for construction, alteration, repair, or maintenance work to the vendor or contractor offering the best value under a request for proposals as described in section 16C.28, subdivision 1, paragraph (a), clause (2), and paragraph (c).

Subd. 5.**Contracts $25,000 or less.**

If the amount of the contract is estimated to be $25,000 or less, the contract may be made either upon quotation or in the open market, in the discretion of the governing body. If the contract is made upon quotation it shall be based, so far as practicable, on at least two quotations which shall be kept on file for a period of at least one year after their receipt. Alternatively, municipalities may award a contract for construction, alteration, repair, or maintenance work to the vendor or contractor offering the best value under a request for proposals as described in section 16C.28, subdivision 1, paragraph (a), clause (2), and paragraph (c).

Subd. 5a.**County or town rental contracts.**

If the amount of a county or town contract for the rental of equipment is estimated to be $60,000 or less, the contract may, in the discretion of the county or town board, be made by direct negotiation by obtaining two or more quotations for the rental when possible and without advertising for bids or otherwise complying with the requirements of competitive bidding. All quotations shall be kept on file for a period of at least one year after their receipt.

Bidding Guidelines:

When a bid is necessary the following steps and responsibilities are to be addressed by the originating department:

1. The requestor must first ensure that funds have been appropriated for the contract.
2. Plans and specifications for local improvements/special assessment projects must be placed on the County Board Agenda for approval as required by MN Statute 429.041. County Board approval must be obtained before advertising for bids for purchases in this category.
3. To ensure compliance with the Purchasing Policy, the Bid or Proposal Specifications and/or Scope of Work must be reviewed by the County Administrator or designee and approved before it is sent to be advertised or to any perspective contractors. The Department making the purchase is responsible to ensure that the Bids and/or Proposals are listed on the County web site and advertised as required.
4. Specifications must be distributed and any bidder questions must be answered.
5. Sealed bids must be opened at an appropriate time and place, and then tabulated.
6. The contract shall be awarded to the lowest, responsible bidder.
7. A performance bond must be filed for public work contracts per the requirements of MN Statute 574.26.
8. The County has a legal mandate to award contracts to the lowest responsible bidder. Equally important are the responsiveness of the vendor. Responsiveness means that the bidder offered to sell the product that you requested in your specification. A bid that offers something other than what you asked for may be considered non-responsive. A bid may also be considered non-responsive if the vendor has failed to follow the specified procedures (i.e., not including a requested bond or submitting the bid after the deadline.) Small deviations such as a typographical error would not be sufficient reason to declare a bid non-responsive.
9. The Chairman of the County Board and the Finance Director or County Administrator shall sign the contract.

OPERATING FUND BALANCE POLICIES

PURPOSE

1) To provide assistance with unexpected revenue and income interruptions
2) To provide working capital by ensuring sufficient cash flow to meet the County's needs throughout the year
3) To provide cash flow funds to assist with operations for those times in the year when cash is not received from taxes or other revenue sources. This protects against cash flow shortfalls related to timing of projected revenue receipts and to maintain a stabilized budget. The percentage reflects that fact that 5/12 of the budget year passes before the first share of property taxes is received.
4) To finance unforeseen items and events which occur during the course of the year.
5) To ensure compliance with ongoing GASB reporting requirements (specifically GASB 54 issued February 2009 effective for fiscal years beginning after June 15, 2010).

DEFINITIONS

Fund Types: A fund type is segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, Restrictions or limitations (COFARS and GASB 54).

The following are Fund Types that can be found within Goodhue County:

General Fund: Principle operating fund used to account for all financial resources not accounted for and reported in another fund. This includes what Goodhue County considers the Capital Equipment Fund as well as the ISTS and EDA Funds.

Special Revenue Funds: Used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service of capital projects.

Capital Projects Funds: Used to account for all financial resources restricted, committed or assigned to expenditure for capital outlays, including acquisition or construction of capital facilities and other capital assets.

Debt Service Funds: Used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

Permanent Funds: Used to account for resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the County's programs. (i.e., endowments and similar arrangements)

Fund Balance: The difference between assets and liabilities reported in the governmental funds.

Fund balances are reported within the following categories:

Nonspendable: Amounts that cannot be spent because they are either not in a spendable form (i.e. inventory, prepaids, long-term receivables) or there is a legal or contractual requirement to be maintained intact (principal of an endowment fund)

Restricted: Amounts constrained to be used for a specific purpose by:

- External parties (i.e. creditors, grantors, contributors, or laws or regulations of other governments OR
- Imposed by law through constitutional provisions or enabling legislation

Examples: Restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants.

Committed: Amounts that reflect constraints the County has imposed upon itself to be used for specific purposes as determined by formal action of the County Board. This restraint must be imposed prior to the end of the year but the amount can be determined at a later date. Formal action must be taken by the County Board to remove or change the specified use.

Assigned: Amounts that are intended to be used by the by the County for specific purposes, but are neither restricted nor committed. Intent can be expressed by the governing body itself or by a body (i.e. budget committee) or official (i.e. Administrator or Finance Director) to whom the governing body has delegated the authority to assign amounts to be used for specific purposes.

Unassigned: The remaining balance for the General Fund. It represents the fund balance that has not been assigned to other funds and has not been restricted, committed or assigned to specific purposes within the General Fund. The General Fund is the only fund that can report a positive unassigned fund balance. In other governmental funds, if expenditure incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

POLICY

Procedures to commit, assign and use fund balance as well as the review and analysis of appropriate fund levels will be handled as follows:

1) Committing Fund Balance

   Commitments will only be used for specific detailed purposes pursuant to a formal action of the Board of Commissioners. Specific purpose can mean such things as roofs, flood repairs, and planned projects. A majority vote is required to approve a commitment as well as to rescind a commitment. The action taken to commit the funds must be taken prior to the end of the fiscal year, but the specific amount may be determined in the subsequent period.

   In addition to dollars committed per action of the Board of Commissioners, they shall also commit funds for emergencies that could arise from natural, technological and human caused hazards.

2) Assigning Fund Balance

The Board of Commissioners delegates to the Administrator, Finance Director, and their designees the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. The action taken to assign fund balance may be made after year end. In funds other than the general fund, the assignment must follow the government's intent for the specific purpose of the individual funds. Therefore, all remaining positive fund balances in the special revenue, debt service, and capital projects funds are classified as assigned.

Assignments should never cause a deficit in unassigned fund balance to occur. Deficits in fund balances of other governmental funds are reported as unassigned.

3) Prioritization of Fund Balance Use

When expenditures occur for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the County to consider using restricted balances first.

When expenditures occur for which restricted amounts are unavailable but any of the remaining three unrestricted fund balances are available, it shall be the policy of the County to consider using them in the following order: committed, assigned and then unassigned (if applicable).

4) Categorizing General Fund at year end:
   - any remaining balance in the capital equipment fund (County Fund 34) shall be considered committed for capital equipment or capital project needs
   - any remaining balance in the EDA fund (County Fund 25) shall be considered committed for economic development needs
   - County Fund 21, ISTS, is completely restricted
   - The County will strive to maintain a December 31st minimum unassigned fund balance in its General Fund ranging from 35 percent to 45 percent of the subsequent year's budgeted expenditures and outgoing transfers

5) The Debt service fund includes the levy collected or the current principal and interest payment. Minnesota requires the actual levy to be 105% of that amount to assure that even with delinquent taxes, or non-paid taxes, there is sufficient to meet the obligation. Therefore, Debt Service fund balances at the end of each year are to be categorized as follows:
   i. Any escrows held with a third party are restricted
   ii. The following year principal and interest payments along with the next years February 1 payments are to be committed
   iii. Any remaining balances is to be assigned to future debt service reduction

6) All other funds will have some restricted, committed or assigned balances. Assignments should include 30% to 40% of subsequent year budgeted expenditures. The Administrator, Finance Director and designees are to make the assignments. Based on the projects slated for the upcoming year, the Public Works fund balance may fall outside the range. Analysis will be performed to determine if this is an area of concern.

7) All fund balances shall be reviewed each year at the time of the annual budget preparation and also after year-end balances are available.

8) Replenishing Deficiencies -

When General Fund and/or Special Revenue Fund balances falls below the minimum 35% (general fund) and 30% (special funds) range, the County will replenish shortages/deficiencies using the budget strategies and timeframes described below.

Strategies:

- The County will reduce recurring expenditures to eliminate any structural deficit or,
- The County will increase revenues or pursue other funding sources, or,
- Some combination of the two options above

Time frame – General Fund:

- Deficiency resulting in a minimum fund balance between 30 percent and 35 percent shall be replenished over a period not to exceed one year
- Deficiency resulting in a minimum fund balance between 25 percent and 30 percent shall be replenished over a period not to exceed three years
- Deficiency resulting in a minimum fund balance of less than 25 percent shall be replenished over a period not to exceed five years

Time frame – Special Funds:

- Deficiency resulting in a minimum fund balance between 25 percent and 30 percent shall be replenished over a period not to exceed one year
- Deficiency resulting in a minimum fund balance between 20 percent and 25 percent shall be replenished over a period not to exceed three years
- Deficiency resulting in a minimum fund balance of less than 20 percent shall be replenished over a period not to exceed five years

9) Surplus Fund Balance

Should unassigned fund balance of the General Fund ever exceed the maximum 45 percent, the County will consider such fund balance surpluses for one time expenditures that are nonrecurring in nature and which will not require additional future expense outlays for maintenance, additional staffing or other recurring expenditures.

10) Implementation and Review

Upon adoption of this policy the Board of Commissioners authorizes the Administrator, Finance Department and designees to establish any standards and procedures which may be necessary for its implementation. This group shall review this policy at least annually, update the Management Team, and make any recommendations for changes to the Board of Commissioners.

Board Approved: October 4, 2011

Board Approved 3-21-06

Goodhue County

Asset Type Non-Infrastructure	Life Cycle		
	Years	Miles/Hours	Type
Motor Vehicles			
Automobiles	3-5	100,000 miles	Gas
Squad Cars	4	100,000 miles	Diesel
Other Vehicles	5		
Pickups	10		
		100,000 miles	Gas
		100,000 miles	Diesel
Two Wheel Drive Trucks		100,000 miles	Gas
Less than 14,630 lbs		100,000 miles	Diesel
Two Wheel Drive Trucks		100,000 miles	Gas
14,630 lbs to 27,650		100,000 miles	Diesel
Two Wheel Drive Trucks			
Over 27,650 lbs		150,000 miles	
Buildings			
Maintenance Facilities/Garages/Shops/Barns	30		
Storage Sheds/Shelters	30		
Concrete Buildings	50		
Wood Framed Construction	20		
Office Buildings	20-50		
Building Improvements – determined on a case by case basis	20-50		
HVAC Systems – heating, ventilation, air conditioning	10-20		
Roofing	10-20		
Carpet Replacement	5 or 7		
Electrical/Plumbing	30		
Furniture	5-10		
Office Equipment – copiers, faxes, postage meters	5-10		
Computers	1-5		
Kitchen Equipment – appliances	10		
Radio, Communications Equipment – mobile, portable radios	5-20		
Telephone Equipment	5-20		
Law Library Books	10		
Custodial Equipment – sweeper, floor scrubbers, vacuums, etc.	12		
Grounds Equipment – mowers, tractors, snow blowers and attachments	7 or 10		
Other Equipment	15		
Boats	12		
Heavy Equipment – other	8-15		
Motor Grader	15	8000 hours	
Tandum/ Snowplow Trucks	15	150,000 Miles	
Bulldozer	15	3000 hours	
Loader	15	4000 hours	
Backhoe	15	4000 hours	
Crawler Dozer	15	2000-3000 hours	
Excavator	15	3000 hours	
Skidder	15	2000 hours	
Mowing Tractor	15	3000 hours	
Land Improvements			
Fencing	5-20		
Landscaping	10		
Lighting	10		
Parking Lots	10		
Curbs, sidewalks, gutters	10		
Other Land Improvements	10		

Infrastructure		
Roads	+ or - 50	
Bridges	+ or - 75	