



CITY OF CHANHASSEN

Financial Management Policies

Revision Adopted - January 8, 2024
Original Adoption - February 13, 2023

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FINANCIAL MANAGEMENT POLICIES OVERVIEW

The City of Chanhassen has an important responsibility to its citizens to plan the adequate funding of services desired by the public, to manage the municipal finances wisely, and to carefully account for public funds. The City strives to ensure that it is capable of adequately funding and providing local government services needed by the community. The City will maintain or improve its infrastructure on a systematic basis to ensure the maintenance of quality neighborhoods for its citizens.

To achieve these goals, this plan has the following strategies for the City's fiscal performance:

1. To be proactive, rather than reactive, in the City's policy-making efforts to ensure that important decisions are not controlled by financial problems or emergencies.
2. To enhance the City's Council's policy-making ability by providing accurate financial information related to the various authority or service levels provided by the City.
3. To assist in sound management of the City government by providing accurate and timely information on financial condition.
4. To provide sound principles to guide the City Council with decisions that will have significant financial impact on the City.
5. To set forth operational principles that maximize efficiency and effectiveness, to the extent consistent with services desired by the public and minimize financial risk.
6. To utilize revenue policies and forecasting tools to prevent undue or unbalanced reliance on certain revenues and that also distribute the cost of municipal services fairly and provide adequate funds to operate desired programs.
7. To provide essential public facilities and prevent deterioration of the City's infrastructure and various facilities.
8. To protect and enhance the City's credit rating and prevent default on municipal debts.
9. To ensure the legal use and protection of City funds through a good system of financial and accounting controls.
10. To record expenditures in a manner that allocates to current taxpayers or users the full cost of providing current services.
11. To adopt a balanced budget in the General Fund that will ensure an adequate, stable fund balance.
12. To adopt budgets in other City funds that ensure an adequate, stable fund balance.

To achieve these strategies the following fiscal policies have been adopted by the City Council to guide the City's budgeting and financial planning process. Each fiscal policy section includes a statement of purpose and a description of the policy.

REVENUE MANAGEMENT POLICY

It is essential to responsibly manage the City's revenue sources to provide maximum service value to the community. The most important revenue policy guidelines established by the City Council are for the two major sources of City revenue: property taxes and fees/charges.

A. Purpose

The purpose of the is policy is to establish broad goals to assist the City in managing its revenue. These goals will consider diversification and stabilization, equity, economic development, and collections.

1) Diversification

The City will strive to maintain a diversified revenue base to prevent fluctuations in revenue. Property taxes add stability to the revenue base but should not be the sole source of revenue. When possible, the City will seek our new sources of revenue to diversify the tax base. This could include long-term solutions, such as franchise fees or additional fees or charges. Short-term solutions should also be considered, such as a one-time sale of assets.

2) Equity

The City will strive to ensure that funding is derived from a fair, equitable, and adequate resource base. Services having a citywide benefit shall be financed with revenue sources generated from a broad base, such as property taxes and state aids. Services where the customer determines the use should be financed with user fees, charges, and assessments related to the level of service provided.

3) Economic Development

The City's revenue sources should not unduly reduce the City's economic competitiveness or negatively impact individual choices in the local economy.

The City's overall revenue structure should be designed to recapture some of the financial benefits resulting from economic and community development investments. The City will strive to keep a total revenue mix that encourages growth and keeps the City economically competitive.

4) Collections

City staff should engage in vigilant collections of outstanding balances due to the City. However, the cost of collections should not exceed the marginal extra revenue obtained or absorb a large percentage of the amount collected. City staff may write off accounts receivable in amounts of \$100.00 or less without Council approval.

B. Property Taxes

When possible, property tax increases should accommodate incremental adjustments versus large changes from year to year. Further, when discussing property taxes, the City should simultaneously explore other revenue and expenditure alternatives that will maximize the City's future financial flexibility and ability to provide services. This may include considering options such as debt management, fees and charges, cost allocation, use of reserves, and expenditure cuts.

Possible factors for considering an increase in property tax include:

- Maintenance of City services, including inflationary impacts
- Long-term protection of the City's infrastructure
- Meeting legal mandates imposed by outside agencies
- Maintaining adequate fund balance and reserve funds sufficient to maintain or improve the City's bond rating

- Funding City development and redevelopment projects that will clearly result in future tax base increases (the expenditures of development and redevelopment funds must be in accordance with a defined strategy as shown in the City’s Comprehensive Plan, Capital Improvement Plan, or other City documents)

Property tax increases to meet other purposes will be based on the following criteria:

- A clear expression of community need
- The existence of community partnerships willing to share resources

C. Service Fees and Charges

The City will consider establishing or modifying service fees and charges whenever appropriate to fairly allocate the full cost of services to the users of those services. Service fees and charges broaden the base to include tax exempt properties, which still have municipal costs associated with the property. Specifically, the City may:

- Establish utility rates sufficient to fund both the operating costs and the long-term depreciation and replacement of the utility systems
- As part of the City’s enterprise effort, evaluate City services and pursue actions to accomplish the following:
 - ✓ Find community-based partners to share in service delivery
 - ✓ Make services financially self-supporting or, in certain circumstances, profitable
- Annually review City services and identify those for which charging user fees are appropriate
 - ✓ These services will be identified as enterprise services and a process for establishing fees will be set for each
 - ✓ Part of this process may include a market analysis that compares City fees to comparable market cities or other service providers
- Waive or offer reduced fees to youth, seniors, community service groups, and other special population groups identified by the Council as requiring preferential consideration based on policy goals

Selected criteria are used to determine the specific rate to charge for a fee or service. The rate criteria can be one of five approaches:

- Market Comparison – Attempt to set fees in the upper quartile of the market
- Maximum set by External Source – Fees set by legislation or another entity
- Entrepreneurial Approach – Fees will be at the top of the market
- Recover the Cost of Service – Program will be self-supporting
- Utility Fees – A rate study will be updated or reviewed annually

D. Non-recurring and Volatile Revenues

Non-recurring revenues should be directed towards one-time uses and should not be relied on to fund ongoing programs. Several one-time revenue sources, such as intergovernmental grants or aids and insurance dividends are outside of direct City control and must be relied upon conservatively. The City Manager and Finance Director shall ensure that the budget preparation process includes an evaluation of all major non-recurring revenues, to minimize reliance on unpredictable revenues for on-going operating costs.

Volatile revenues, such as court fines, interest earnings, and building permits can produce undependable yields and should not be heavily depended on to fund ongoing programs. High yields from these sources should be treated like non-recurring revenues. Revenues can be considered volatile if they vary by more than 10% from budgetary estimates.

OPERATING BUDGET POLICY

A. Purpose

The operating budget is the annual financial plan for funding the costs of City services and programs. The operating budget will describe the goals to be achieved and the services and programs to be delivered for the level of funding. The general operating budget includes the General Fund, Special Revenue Funds, and Capital Funds. Enterprise operations are budgeted in separate Water, Sewer, and Surface Water funds.

B. Balanced Budget

The City Manager shall submit a balanced budget for the General Fund in which appropriations shall not exceed the total of the estimated revenues and available fund balance. A balanced budget is defined as a budget in which current revenues plus net operating transfers and one-time use of excess reserves will be sufficient to support budgeted expenditures. One-time reserves or use of excess reserves will not be used to fund ongoing expenditures. One-time funding sources shall only be used to fund capital improvements, equipment, one-time expenditures, or to improve fund balance. The City will provide for all current expenditures with current revenues. The City will avoid all budgetary procedures that balance current expenditures at the expense of meeting future years' budget needs, such as postponing expenditures, rolling over short-term debt, or using reserves to balance the operating budget.

C. Budget Period

The City's budget year is the calendar year. The City legally adopts an annual budget for the General Fund. Budgets for Special Revenue Funds, Debt Service Funds, Capital Project Funds, and Enterprise Funds are adopted for management purposes only.

D. Basis of Budgeting

The modified accrual basis will be used for all the Governmental Funds in the budget. The City uses the accrual basis of accounting for enterprise fund reporting. Under this basis, the receipt of bond proceeds, capital outlays, and debt service principal payments are not reported, but allocations for depreciation and amortization expense are recorded. However, when budgeting for enterprise funds the opposite is true so as to improve cash flow forecasting.

E. Level of Control, Budget Transfer and Amendment Process

The legal level of budgetary control is at the fund level, so any transfer of budget between funds (fund level) requires approval of the City Council. Department heads may make transfers of budget within their department (object level). However, budget transfers between departments (department level) requires authorization of the City Manager.

Department heads must complete a budget transfer request form for any budget transfer. The following information is to be provided on the form: budget transfer amount, accounts involved, purpose, justification, date approved by department head, and department head signature. This form is submitted to the Finance Director for approval and if necessary routed to the City Manager and/or City Council.

City Council approval is required for any overall increase or decrease in the operating budget.

F. Long-Term Financial Forecasts

The City Manager will coordinate the development of a five-year capital improvement plan budget and five-year outlook with the development of the operating budget. Operating costs associated with new capital improvements will be projected and included in future operating budget forecasts. The budget will provide for adequate maintenance of the capital plant and equipment, and for their orderly replacement. The impact on the

operating budget from any new programs or activities being proposed should be minimized by providing funding with newly created revenues whenever possible.

G. Revenues in Excess of Budget

Excess revenues from a specific fiscal year will be placed into the City's reserves in a manner consistent with the City's fund balance reserve policy.

H. Encumbrances and Budget Carryovers

All unencumbered appropriations for the City's operating budget lapse at year-end. Amounts reserved for encumbrances are classified as assigned fund balance. Budget carryovers from a prior fiscal year must be approved by the City Manager and Finance Director and will be set aside as assigned fund balance.

I. Performance Measurement

The City Manager will ensure that a budgetary control system is in place to adhere to the adopted budget. The Finance Department will provide regular monthly reports comparing actual revenues and expenditures to budgeted amounts. The City's annual budget shall be made available to citizens and the public upon request and available on the City's website. The City shall maintain transparency and accountability of its financial resources and assets.

RESERVES POLICY

A. Purpose

It is important for the financial stability of the City to maintain reserves for unanticipated expenditures or unforeseen emergencies, as well as to provide adequate working capital for current operating needs to avoid short-term borrowing. The Reserves Policy of the City is managed closely with the City's Debt Management Policy. The City may choose to consider paying cash for capital projects that can be anticipated and planned for in advance. Therefore, the City's reserve levels fluctuate, in part, based on capital project plans.

In establishing an appropriate reserve level, the City needs to consider the cash flow, capital asset purchases, need for emergency reserves, ability to manage fluctuations of major revenue sources, credit rating, and long-term fiscal health.

B. Fund Balance Classifications for Governmental Funds

Fund balances in governmental funds (versus enterprise or utility funds) are reported in classifications that disclose constraints for which amounts in those funds can be spent. The fund balance classifications are:

- Nonspendable – Consists of amounts that are not in spendable form, such as inventories and prepaid items
- Restricted – Consists of amounts related to externally imposed constraints, established by creditors, grantors, or regulatory agencies
- Committed – Consists of amounts that have internally imposed constraints, established by resolution of the City Council (committed amounts cannot be used for any other purpose unless the Council removes or changes the specified use by resolution of the City Council)
- Assigned – Consists of amounts that are intended to be used for a specific purpose and intent can be expressed by the City Council or by a delegate of the City Council
- Unassigned – Consists of the residual classification for the General Fund and also reflects negative residual amounts in other funds

C. Authorization and Use of Fund Balance

The City Council authorizes the Finance Director and/or City Manager to assign fund balance that reflects the City's intended use of the specified funds.

When both restricted and unrestricted (committed, assigned, or unassigned) resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed. When unrestricted resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned, 3) unassigned. The exception to this is the Park Development Fund, where resources are used in the following order: 1) assigned, 2) committed, and 3) restricted.

Committed fund balance items must be set in place prior to year-end, but the amount can be calculated after year-end.

D. Fund Balance Policies for Fund Types

1) General Fund

The General Fund is established to account for all revenues and expenditures which are not required to be accounted for in other funds. Revenue sources include property taxes; license and permit fees; fines and forfeits; charges for services; intergovernmental revenues; investment earnings; and transfers in. The General Fund's resources finance a wide range of functions, including the operations of general government, public safety, public works, community development, and parks and recreation.

The City’s unassigned year-end fund balance in the General Fund shall be maintained at a minimum level of 50% of the following year’s property tax levy. The General Fund is the only fund that can have positive unassigned fund balance.

The City may assign fund balance in the General Fund for purchase order encumbrances, budget carryovers, compensated absences, or other items.

The City may commit fund balance in the General Fund for revenue stabilization arrangements or other items by City Council resolution.

The General Fund may have a portion of its fund balance classified as nonspendable if there are inventories or prepaid items.

2) Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue source that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The City will maintain fund balances in special revenue funds at a level which will avoid interfund loans to meet the cash flow needs of the current operating budget.

Governmental accounting standards require that substantial inflows of revenues into a special revenue fund be either restricted or committed in order for the fund to be considered a special revenue fund.

The specific revenue source for each special revenue fund and the specific purposes for which they are restricted or committed are as follows, less any amounts that are classified as nonspendable by their nature:

Special Revenue Fund	Specific Revenue Sources	Restricted or Committed For
Charitable Gambling Contribution Fund	100% of Fund Balance	Restricted for equipment and training for the Fire Department
Cemetery Fund	100% of Fund Balance	Committed for cemetery maintenance
CATV Fund	PEG Fees from Franchise Agreements	Committed for capital costs associated with public, educational, and government (PEG) communications
Grant Fund	100% of Fund Balance	Restricted for federal and state grant funds

3) Debt Service Funds

Debt service fund balances are typically considered restricted. Fund balance may be assigned if the debt for the fund has been fully paid. The resources being accumulated in the funds are for payments of principal and interest maturing in current and future years. At year-end, fund balance in each Debt Service fund shall be at a minimum level of 100% of the debt service expense expected to be paid during the first half of the fiscal year.

4) Capital Project Funds

Capital project fund balances are considered restricted or assigned. The resources being accumulated are for current and future projects. Capital project funds are used to account for and report financial resources that are restricted or assigned to expenditures for capital assets. The fund balances in these

funds vary annually based on the timing of construction projects and bond issuance. The City will maintain reserves in the Capital Project Funds at a minimum level sufficient to provide adequate working capital for current expenditure needs. The maximum amount of reserves should include the amount necessary to pay for future capital projects. Future capital projects must be identified and quantified in the Capital Improvement Plan.

E. Enterprise (Utility) Fund Reserves

The City will maintain reserves in the Enterprise (Utility) Funds at a minimum level sufficient to provide adequate working capital for current expenditures needs. Generally, the City shall strive for a minimum of 3-months of operating cash in these funds. The maximum amount of reserves should include the amount necessary to pay for future capital needs. Future capital projects must be identified and quantified in the Capital Improvement Plan. Rates and fees in these funds will be analyzed annually for a five-year period to provide for level rate changes.

Enterprise Fund net position (equity) will be classified in one of the following categories:

- Net Investment in Capital Assets – The component of net position, which is the difference between the assets and deferred outflows of resources and the liabilities and deferred inflows of resources, that consists of capital assets less both accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of the capital assets.
- Restricted – The component of net position that consists of assets with constraints placed on their use by either external parties or through constitutional provisions or enabling legislation.
- Unrestricted – The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

CASH AND INVESTMENTS POLICY

Effective cash management is essential to good fiscal management. Investment returns on funds not immediately required can provide a significant source of revenue for the City. Investment policies must be well founded and uncompromisingly applied in their legal and administrative aspects in order to protect the City funds being invested.

A. Purpose

The purpose of this policy is to establish the City's investment objectives and establish specific guidelines that the City will use in the investment of City funds. It will be the responsibility of the Finance Director to invest City funds in order to attain a market rate of return while preserving and protecting the principal of the overall portfolio. Investments will be made based on statutory constraints in safe, low-risk instruments.

B. Scope/Funds

This policy applies to the investment of all City funds available for investment and not needed for immediate expenditure. The City will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

C. Delegation of Authority

Authority to manage the investment program is granted to the Finance Director who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director.

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

1) Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. The objective will be to minimize the risk of market fluctuations, such as credit risk and interest rate risk. Credit risk is the risk that the borrower will be unable to make their debt service payments to the investors. Interest rate risk is the risk that rates will (for example) rise while the investments you hold have lower rates. If the City were to sell these investments prior to maturity in this case, they would have to sell the investments at a loss.

2) Liquidity

The investment portfolio must remain sufficiently liquid to meet all operating costs that may be reasonably anticipated. The portfolio must be structured so that securities mature concurrent with cash needs to meet anticipated demands. Cash needs will be determined based on cash flow forecasts.

3) Diversification of Instruments

A variety of investment vehicles must be used to minimize the exposure to risk of loss. The investment portfolio must be diversified by individual financial institution, government agency, or by corporation (in the case of commercial paper) to reduce exposure to risk of loss.

4) Diversification of Maturity Dates

Investment maturity dates should vary in order to ensure that the City will have money available when needed.

5) Yield

The investment shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, considering the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

D. Oversight

The City Manager shall oversee the City's investment program. The Finance Director will maintain a more detailed and comprehensive investment strategy based on the principles established by the City Council and consistent with the most current guidelines within the public sector. On at least an annual basis, the Finance Director shall provide a status report to the City Council. Annually, the City Council shall designate depositories for investment purposes.

E. Allowable Investments

The City shall invest in the following instruments as allowed by Minnesota Statute § 118A:

- Government Securities – Direct obligations of the federal government or its agencies, with the principal fully guaranteed by the U.S. Government or its agencies
- Certificates of Deposit – A negotiable or nonnegotiable instrument issued by commercial banks or credit unions and insured up to \$250,000, or the amount set, by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA)
- State or Local Government Securities – Any security that is a General Obligation of any state or local government rated “A” or better by a national bond rating service
- Statewide Investment Pools – Statewide investment pools that invest in authorized instruments according to Minnesota Statute § 118A.04, such as the Minnesota Municipal Money Market (4M) Fund
- Money Market Mutual Funds – Money market mutual funds that invest primarily in U.S. Government and agency issues and repurchase agreements

F. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business or that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

G. Internal Controls, Audits, External Controls

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. Accordingly, compliance with City policies and procedures should be assured by the Finance Director and addressed through the annual audit process and preparation of the Annual Comprehensive Financial Report (ACFR).

H. Authorized Financial Institution and Dealer

In accordance with Minnesota Statute § 118.02, the responsibility for conducting investment transactions resides with the City Council. Also, the Council shall be responsible for designating the depositories of the funds. Depositories shall be selected through a banking services procurement process, which shall include a comprehensive review of credit characteristics and financial history by the Finance Director or reliance on selection criteria by an independent third party. In selecting depositories, the creditworthiness of the institutions under consideration shall be examined. The City Council shall designate depositories after a recommendation from staff.

Only approved security broker/dealers authorized in Minnesota Statute § 118A.06 shall be utilized for safekeeping and custody.

All financial institutions and broker/dealers must supply the following as appropriate:

- Audited financial statements
- Proof of Financial Industry Regulatory Authority (FINRA) certification
- Proof of state registration
- Completed broker/dealer questionnaire for firms who are not major regional or national firms
- Certification of having read the City's investment policy

I. Broker Representations

Cities must obtain from their brokers certain representations regarding future investments. The City will provide each broker with information regarding the City's investment restrictions. Before engaging in investment transactions with the City, the supervising officer at the securities broker/dealer shall submit a certification stating that the officer has reviewed the investment policy and objectives, as well as applicable state laws, and agrees to disclose potential conflicts of interest or risk to public funds that might arise out of business transactions between the firm and the City. All financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the City's funds.

J. Collateralization

City funds must be deposited in financial institutions that provide at least \$250,000 in government insurance protection. At no time will deposits in any one institution exceed the insured amount unless such excess amounts are protected by pledged securities. Pledged securities, computed at market value, will be limited to the following:

- United States Treasury bills, notes, or bonds that mature within five years
- Issues of United States government agencies guaranteed by the United States government
- General obligation securities of any state or local government with taxing powers rated "A" or better, or revenue obligation securities of any state or local government with taxing powers rated "AA" or better, provided no single issue exceeds \$300,000 for maturing not exceeding five years
- Irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence that the bank's public debt is rated "AA" or better
- Time deposits that are fully insured by any federal agency

In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110 percent (110%) of the market value of principal and accrued interest. Collateral shall be deposited in the name of the City, subject to release by the City's Finance Director. All certificates of deposit purchased by the City shall be held in third-party safekeeping by an institution designated as primary agent. The primary agent shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity, and other pertinent information. All deposits will be insured or collateralized in accordance with Minnesota Statute § 118. No other collateral except as designated above will be authorized for use as collateral for City funds.

K. Safekeeping and Custody

When investments purchased by the City are held in safekeeping by a broker/dealer they must provide asset protection of \$500,000 through the Securities Investor Protection Corporation (SIPC) and the current required amount of supplemental insurance protection.

L. Diversification

It is the policy of the City to diversify its investment portfolios to eliminate the risk of loss resulting from the overconcentration of assets in a specific maturity, issuer, or class of maturities.

The portfolio, as much as possible, will contain both short-term and long-term investments. The City will attempt to match its investments with anticipated cash flow requirements. Liquidity is necessary to pay for recurring operations. Maturities should be extended beyond the dates necessary to meet these projected liquidity needs and should be staggered in such a way that avoids overconcentration in a specific maturity sector. Extended maturities may be utilized to take advantage of higher yields; however, no more than 20% of the total investment portfolio should extend beyond five (5) years and in no circumstance should any extend beyond ten (10) years).

The portfolio will reflect diversity by class of maturity and issuer. The following limits are imposed for investments of a specific class:

- Certificates of Deposit – At any one time, no more than 70% of the total portfolio shall consist of certificates of deposit. Maximum holdings for any one issuer of a certificate of deposit will be \$250,000, or the amount insured by the Federal Deposit Insurance Corporation (FDIC), unless collateral is provided in accordance with this policy and Minnesota Statute § 118. Maximum holdings for any one issuer of collateralized certificates of deposit will be 5% of the total portfolio.
- Government Securities – At any one time, no more than 70% of the total portfolio shall be invested in obligations of the federal government or its agencies.
- State or Local Government Securities – At any one time, no more than 50% of the total portfolio shall be invested in State or local government securities. Maximum holdings for any one issuer of state or local government securities will be 10% of the total portfolio.
- Money Market Funds – At any one time, no more than 70% of the total portfolio shall be invested in authorized money market mutual funds.

M. Investment Reporting

- Internal Reporting – Finance Department procedures shall ensure that investment portfolios are maintained on the City's records system and reconciled monthly. A monthly internal report will be generated to show compliance with the investment policy
- Quarterly Reporting – A quarterly report on the portfolio will be created for inclusion with the quarterly financial report provided to the City Council.

N. Interest Earnings

Interest earnings will be credited to all funds with a positive cash balance at the end of each month, based on average cash balances during that month. Market value adjustments will be credited or debited to all funds with a positive cash balance based on average cash balances during that month. The City will use the average yield of the one-year Treasury note as a benchmark for performance comparisons.

O. Conclusion

The intent of this policy is to ensure the safety of all City funds. The main goal of the City will be to achieve a benchmark rate of return while maintaining the safety of principal.

PUBLIC PURPOSE EXPENDITURE POLICY

A. Purpose

The City Council recognizes that public funds may only be spent if the expenditure meets a public purpose, and the expenditure relates to the governmental purpose for which the City was created. An expenditure that Minnesota Statute specifically or implicitly authorizes is considered a valid public purpose expenditure.

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

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

This policy is intended to provide guidelines regarding which expenditures are for public purposes and authorized in accordance with the City’s annual budget process, and which expenditures are not considered to fall within the public purpose definition and are therefore not allowed.

B. Permitted Expenditures for Meals and Refreshments

Use of City funds in reasonable amounts for meals and/or refreshments for elected and appointed City officials and employees are permitted in the following circumstances, with Department Head approval:

- 1) City-sponsored events of a community-wide interest where staff are required to be present (e.g., 4th of July, National Night Out, Feb Fest, etc.)
- 2) City Council, boards, and commissions meetings held during or adjacent to a meal hour
- 3) Meetings related to City business at which the attendees include non-City representatives
- 4) Professional association meetings, conferences, and training when meals are included as part of the registration or program fee, or in accordance with the travel policy
- 5) Election judge training and duty
- 6) Employee training and events
- 7) Annual recognition events for volunteer and non-employees
- 8) Fire department meetings and in-house training sessions
- 9) Multi-department meetings scheduled during or adjacent to a meal hour when no other meeting time is available
- 10) Work activities requiring continuous service when it is not possible to break for meals (e.g., election days, water main breaks, emergency snow removal, public safety responses)
- 11) Healthy snacks and incentives of moderate value provided to attendees of safety, health, and wellness programs for City employees
- 12) Events recognizing completion of a significant work-related project (City Manager approval required)
- 13) Reimbursable travel expenses for employees and councilmembers are outlined in the City of Chanhassen Personnel Policy.
- 14) The City will not purchase or reimburse any employee, councilmember, or agent for the purchase of alcohol.

The costs of these meals are included within individual department budgets. These budgets are approved annually by the City Council as a part of the overall budget approval process which includes a public hearing on the proposed budget.

C. Memberships and Dues

The City Council has determined that the City will fund memberships and dues in professional organizations and City social and community organizations when the purpose is to promote, advertise, improve, or develop the City's resources. In addition, memberships and dues will be allowed for employees, councilmembers, and commission members if the dues promote primarily educational opportunities related to their field or assigned duties and are not solely for personal interest or gain.

The costs of these memberships and dues are included within individual department budgets. These budgets are approved annually by the City Council as a part of the overall budget approval process which includes a public hearing on the proposed budget.

D. Employee Recognition Program

The City Council recognizes the hard work and service performed by the employees of the City through a formal Employee Recognition Program. The Council believes the benefits of attracting, retaining, and motivating employees through an Employee Recognition Program support employee job satisfaction, which in turn impacts cooperation and productivity. The result is to provide excellent public and customer service to better serve the interests of the citizens of the community.

The Employee Recognition Program is considered additional compensation for work performed by employees but is entirely depending on receiving funding from year-to-year.

Service recognition awards shall be given to all regular and full-time employees who have completed continuous years of service. The following awards have been established:

Years of Service	Award
Five (5)	Certificate and \$50
Ten (10)	Certificate and \$100
Fifteen (15)	Certificate and \$125
Twenty (20)	Certificate and \$150
Twenty-five (25)	Certificate and \$175
Thirty (30)	Certificate and \$225
Thirty-five (35)	Certificate and \$275
Forty (40)	Certificate and \$500
Forty-five (45)	Certificate and \$750

The costs of these recognition awards are included within individual department budgets. These budgets are approved annually by the City Council as a part of the overall budget approval process which includes a public hearing on the proposed budget.

The City supports events that are planned and paid for by employees. Examples of such events include, but are not limited to, the summer picnic, potluck meals, and holiday parties. The council understands that these events may occur during normal working hours and if approved by the City Manager or his/her designee, employees will not be required to use vacation or compensatory time for such events.

The City Manager has the authority to approve other forms of recognition including issuance of flex time or compensatory time as he/she sees appropriate.

E. Credit Card Use

The use of credit cards by any employee otherwise authorized to make purchases on behalf of the City is permitted, provided that purchases made by credit card comply with all statutes, rules, and/or City policy

applicable to purchases. The use of City credit cards shall be limited to purchases on behalf of the City and for no other purpose. All purchases on City credit cards are required to have detailed supporting receipts. In addition, all monthly credit card statements are to be reviewed by the employee's department head and signed for approval.

F. Uniforms, Clothing, and Apparel

The City purchases uniforms, clothing, and apparel considered necessary for safety or for visible staff recognition by the public (e.g., safety footwear, safety glasses, shirts with the City logo for building inspectors and other staff who interact with the public).

PURCHASING POLICY

A. Introduction

Purchasing policies and procedures are required because they:

- Ensure purchases conform to legal requirements
- Prevent expenditures from exceeding the budget
- Provide proper documentation for purchases
- Prevent payment for items not received
- Ensure accurate accounting
- Provide payment of all bills within 35 days of receipt
- Prevent duplicate payments on the same invoice

All purchasing by local government units is regulated by State law. Because of these laws and because of the unique nature of budget and tax levy procedures for funding City government, all City employees must conform to these purchasing policies and procedures. The Finance Department will review and approve all purchases and employee reimbursements and will ensure that all purchases and payments are legal, properly coded, and well documented.

B. Quick Reference Guide for Purchases

The table below shows the required quotes, bids, payment options, and approvals needed for various purchase amounts. All purchases must be included in the operating budget or Capital Improvement Plan. Purchases of professional services are included in a separate section.

Amount of Purchase	Quotations or Bid Needed*	Payment Request Options	Approval Needed Prior to Purchase?	
\$5,000 or less	None	Credit Card Check Request	Department Finance City Manager City Council	Yes No No No
\$5,001 - \$10,000	Two written quotes or proposals	Credit Card Check Request	Department Finance City Manager City Council	Yes No No No
\$10,001 - \$20,000	Two written quotes or proposals	Credit Card Check Request	Department Finance City Manager City Council	Yes Yes Yes No
\$20,001-\$175,000	Two written quotes or proposals	Check Request	Department Finance City Manager City Council	Yes Yes Yes Yes
Over \$175,000	Sealed bids	Check Request	Department Finance City Manager City Council	Yes Yes Yes Yes

*If the purchase is over \$20,000 Council approval is required prior to the purchase. However, Council approval is not required on purchases over \$20,000 for regular utility bills, insurance premiums, payments due to other units of government, or payments required to be made before the next regular meeting of the Council to avoid endangering public safety, damaging public or private property, or interrupting City services.

C. Professional Services

The same purchase amount thresholds apply to approvals for professional services; however, services typically utilize a Request for Proposal (RFP) process versus quote or bids. Utilizing an RFP process, bid, or quote is required for soliciting professional services that exceed \$25,000 except when an established consultant pool is in place.

For professional services less than \$25,000, or when utilizing an established consultant pool, direct solicitation and negotiation can be utilized.

Unique professional services are not required to utilize an RFP process, if those professional services are specialized or based on specific expertise or professional abilities.

All professional services should have a written agreement. Section K contains additional information on agreement processing.

D. Ethics/Vendor Relationships

The City holds its employees to the highest ethical standards. Purchases shall be conducted so they foster public confidence in the integrity of the City's procurement system, and open and free competition among prospective suppliers. In keeping with this value, employees should avoid the following practices when making purchases on behalf of the City:

- Circumventing competitive bidding requirements – Examples of this include:
 - Splitting purchases so that they can be made through several smaller purchases
 - Using the emergency procedure process when no true emergency exists
 - Using a sole source exemption when competition is available
- Denying one or more vendors the opportunity to bid on a contract – Examples of this include:
 - Using unnecessary restrictive specifications
 - Pre-qualifying bidders on a discriminatory basis
 - Removing companies from a bidders list without just cause
 - Requiring unnecessarily high bonding
- Giving favored vendors an unfair advantage – Examples of this include:
 - Providing vendors with information regarding their competition's offers in advance of a bid opening
 - Making information available to certain vendors and not to others
 - Giving certain vendors inaccurate or misleading information
- Accepting gifts from vendors – Examples of this include:
 - Minnesota Statute § 471.895 prohibits government employees from receiving gifts except where they are included as part of the cost of a product, good, or service provided (such as a meal provided as part of a conference)
- Purchasing personal items from a vendor using government pricing

E. Environmentally Preferred Products

Environmentally preferable products are goods and services that have a lesser or reduced effect on human health and the environment when compared to other goods and services that serve the same purpose. They contain recycled content, are sustainably harvested, are made with less toxic materials, or conserve energy or water.

The Minnesota Pollution Control Agency website for sustainable purchasing provides several tips to consider when purchasing: [Sustainable government purchasing | Minnesota Pollution Control Agency \(state.mn.us\)](#).

F. Authorization

The City has a decentralized purchasing program where individual departments are responsible for making their own purchases. Front desk administrative staff can assist with purchasing supplies maintained in the office supply closet, paper, and small office furniture.

The steps in the payment authorization process are:

- 1) Determine the need for commodities and services
- 2) Research the cost of the purchase and determine the proper purchasing alternative
- 3) Determine the appropriate account coding and whether there are sufficient funds available in that budget line item
- 4) Forward the request to the department director or designee for approval (review the Quick Reference Guide to determine if Finance Director, City Manager, and/or City Council approval is required)
- 5) Commodity or service is ordered
- 6) Commodity is received or service is performed
- 7) Department director forwards request for payment with invoice to the Finance Department for approval and input into the financial system
- 8) Payment is made by the Finance Department
- 9) Claims roster is presented to the City Council for approval

G. Purchasing Alternatives

1) Quotes

If a purchase is estimated to cost at least \$5,001, but not exceed \$175,000, the purchase may be made either by sealed bids or by direct negotiation based on quotations. If a purchase is made in this range, staff members are required to obtain at least two written quotes. If the quotes are not written, the requestor who received the verbal quote must document the verbal quote in writing. All such quotes must be forwarded to the Finance Department with the purchasing documents (invoices).

2) Sealed Bids

A formal sealed bid process is required for all purchases over \$175,000 except for professional services. Online (electronic) bidding platforms are acceptable to use. A published notice of bid is required in the official City newspaper at least seven days in advance of bid opening. The published notice must state where the plans and specifications can be obtained by bidders and specifically, where the bid opening will be held. The notice may also be published on the City's official website; however, this publication is in addition to the official newspaper publication. All bid openings, preparation of all specifications, and required authorization for plans and specifications are to be administered by the originating department. The Council must formally approve the contract.

3) Sole Source Purchases

If there is no ability to solicit multiple bids, departments must demonstrate that the purchase from a particular vendor is sufficiently justified as sole source. Sole source means that a single vendor is uniquely qualified to meet the department's procurement objective. To be considered a sole source and therefore exempt from the bid process, one of the following conditions must be met:

- The actual product or service needed is the only one that will meet the department's need or requirement, and it can only be purchased from one source (manufacturer or distributor)
- The product or service must match or be compatible with current equipment or services
- The product needed is specifically required for use in conjunction with a grant or contract
- The service needed is controlled or mandated by the local, state, or federal government
- The service is artistic
- An unusual or compelling urgency exists

If the need meets one of the above criteria, the department can negotiate with the vendor directly.

4) Best Value

For the purposes of construction, building, alteration, improvement, or repair services, “best value” procurement is an option subject to the limits contained in Minnesota Statute § 16C.28 Subd. 1.

5) State, County, and Other Cooperative Purchasing Contracts

The City participates in the State of Minnesota Cooperative Purchasing Venture (CPV). This enables participants to buy goods and services at a reduced cost under the terms of contracts already negotiated by the State of Minnesota. Participation in other purchasing cooperatives is encouraged by all departments. If a product or service will be purchased under the state contract the vendor should be informed. When completing the purchasing paperwork, it should be noted that that purchase is per state contract and indicate the state contract number.

Per Minnesota Statute § 471.345 Subd. 15, if a contract is estimated to exceed \$25,000, the City must consider the availability, price, and quality of supplies, materials, or equipment available through the CPV before purchasing through another source.

6) Emergency Purchases

Emergency situations may arise where the normal purchasing process cannot be followed for the procurement of goods and services. An emergency means an unforeseen combination of circumstances that calls for immediate action to prevent a disaster from developing or occurring.

Minnesota Statute § 12.29 gives the Mayor the authority to declare a local emergency for up to three days, which period may be extended by the City Council. During such an emergency, if authorized by the City Council, the City is not required to use the typically mandated procedures for purchasing and contracts. During that time, the Council may waive compliance with the prescribed purchasing guidelines, including compliance with Minnesota Statute § 417.345, Uniform Municipal Contracting Law.

Whenever possible the current purchasing policies and procedures should be followed even when an emergency is declared, but as described above if the emergency requires speedy action essential to the health, safety, and welfare of the community and if there has been an emergency declaration, the standard purchasing policies and procedures can be waived in accordance with Minnesota State § 12.37.

7) Request for Proposals (RFP)

RFPs may be used to solicit proposals for professional services. Typical information to address in RFPs includes:

- Background and scope of the project
- The project’s budget to ensure that the proposals stay within that range
- Proposal requirements should include adequate information to allow for proper review and evaluation, including:
 - Description of firm and qualifications, including any specialized experience related to the project
 - A list of similar projects the firm has completed
 - Project timetables including an estimate of hours, breakdown of hours by phase, and the City’s expectation for a completion date
 - Designation of a firm principal who will oversee the project
 - Résumés for key staff who will work on the project
 - Statement that either no subcontractors are allowed or that all subcontractors will be identified and are subject to the City’s approval
- Not to Exceed or Lump Sum Fee to provide the service along with a fee schedule
- Description of the City’s selection process

- City’s evaluation criteria, which typically may include:
 - Quality and thoroughness of the proposal
 - Similar experience and/or expertise
 - References
 - Cost estimate
- The following statements must be included:
 - “The City reserves the right to reject any and all proposals, waive all technicalities, and accept any proposal deemed to be in the City’s best interest.”
 - “Proposers are solely responsible for delivery of their proposal to the City before the deadline. Any proposal received after the deadline will not be considered and will be returned.”
- Submittal deadline information: date, time, project name, and addressee
- Information about where questions should be directed (Note – staff should make sure that all proposers are given the same information)

Attach a copy of the agreement proposed to be used for the project, including the City’s insurance requirements. The agreement includes provisions to which the firm must agree, so it is important that they see the agreement upfront. It is suggested the RFP be submitted to the City attorney for review prior to distribution.

8) Leases

All lease agreements need approval through the Finance Department and possibly legal counsel prior to initiating or modifying a lease.

9) Online Purchases

The following guidelines are recommended for online purchases:

- All addresses for secure purchasing sites should have an https:// prefix
- No purchase should be made from a City account while connected to any public Wi-Fi service
- Whenever possible avoid making credit card purchases over the telephone
- City credit card numbers should not be stored on any ecommerce site
- Avoid online purchases from sites located outside the United States

H. Payment

The City uses various processes in making payments for goods and services.

1) Standard Purchase Orders

Purchase orders are used when required by the vendor to acknowledge the City’s request for goods and services. A copy of the purchase order will be sent to the vendor when requested. Once an invoice is received and the purchase order complete, the purchase order should be attached to the invoice and authorization for payment to the Finance Department.

2) Accounts Payable Payments

The Finance Department policy is for invoices to be paid on one of the weekly claims lists. Payments submitted by 3:00 p.m. on Wednesday will be paid by check on Thursday if due. Payments to be processed electronically will be credit to vendor bank accounts on the following Monday or the next business day if Monday is a holiday.

3) Blanket Purchase Orders, Charge Accounts, Online Accounts, and House Accounts

The City uses blanket purchase orders, charge accounts, and house accounts for frequently used vendors. This process requires submission of receipt with an account code and department approval. All new open accounts must be authorized by the requesting department and Finance department. House accounts are not to be used for personal purchases. Use of City online accounts for personal purchases is strictly prohibited. Violation can result in disciplinary action and/or termination.

- 4) Invoices
Invoice must be attached to any accounts payable payment, purchase order, or expense voucher along with proper authorization. Documentation must be returned to the Finance Department to be processed on claims list.
- 5) Statements
The Finance Department tracks all statements – reviewing old invoices or credits. For certain vendors where the City has open accounts, accounts are paid once a month after matching invoices to the statement.
- 6) Account Coding
All requests for payment including purchase orders, invoices, or expense vouchers must have an 11-digit code (Fund-Dept-Object) to process payment. Refer to the department budget for the line-item code. A description of the goods or services provided should be included.
- 7) Credit Cards
The City issues credit cards to some staff members to allow for more efficient purchasing and to make purchases at businesses that do not allow open accounts. The Finance Department issues credit cards as requested by department heads. All credit cards have a transaction limit and overall credit limit. Credit card statements must be reviewed each month and each transaction must have a detailed receipt. Department heads should code and sign off on all transactions and monthly statements and forward to the Finance Department.
- 8) Electronic Funds Transfer
Electronic Funds Transfers (EFT) may be required in some cases to complete a business transaction. These purchases need to follow all other standard guidelines for payment processing. The City’s preference is to push (initiate) these transactions versus having them pulled from the bank account, but under certain circumstances pull transactions are allowed.
- 9) Expense Reimbursement
A complete and signed authorized form is required for reimbursement of employees for City-related expenses. All requests must contain proper account coding, department head approval, and original itemized receipts.

I. Prompt Payment of City Bills

State law requires municipalities to pay obligations within a standard payment period except where good faith disputes exist. The City is required to pay invoices within 35 days of receipt. The date of receipt is defined as the completed delivery of the goods or services or the satisfactory installation or assembly, or the receipt of the invoice for the delivery of goods, whichever is later.

The City has the responsibility to notify vendors of invoice errors within 10 days of receipt. Minnesota Statute § 471.425 requires the City to calculate and pay interest of 1 ½ percent per month on bills not paid within 35 days. The minimum monthly interest penalty payment is \$10.00 on any one overdue bill of \$100 or more. For unpaid balances less than \$100, the actual interest penalty of 1 ½ percent per month is due the vendor. Purchases or contracts for service with a public utility or telephone company are not subject to the requirements of this statute.

J. Final Payments on City Construction Contracts

The State of Minnesota requires the filing of Form IC-134 prior to the final payment of any contract involving employees under Minnesota Statute § 270C.66 CONTRACTS WITH STATE: WITHHOLDING.

Before final payment can be made on any contract which involves the payment of wages by a contractor of the City to any employee, or subcontractors with employees that performed work on a job for the City, the contractor must furnish to the City a copy of Form IC-134 that has been certified by the Minnesota Department of Revenue. These forms should be kept on file in with all the other contract documents for possible review by the auditors.

K. Agreement Processing

Agreements need to be reviewed by the City Attorney unless they follow a previously used format, such as Standard Form of Agreement or Contracts for Private Redevelopment. If attachments to the agreement modify the agreement or provide new terms the agreement should be reviewed by the City Attorney prior to submission for City Council and/or signatures. The City Attorney must review an agreement if it is written on the other party's form or if a special agreement is drafted.

Department heads may authorize agreements up to \$5,000 in value. The City Manager is authorized to sign agreements up to \$20,000 in value, however he/she may delegate the authority for approval of such agreements. The Finance Director must also authorize agreements between \$10,001 and \$20,000. Council authorization is required where a contract exceeds \$20,000. These agreements should be signed by the Mayor and City Manager. An original signed copy of the agreement should be returned to the City.

L. Capital Outlay and Capital Assets

1) Capitalization Threshold

Capital outlay purchases are for tangible items costing \$10,000 or more and having a life expectancy of two years or more. These items are typically coded to expense codes beginning with "47xx". Delivery charges, sales tax, and other related items should be included as a cost of the item. The capital asset is recorded at the total cost to place the asset in its intended location and condition for use.

2) Acquisition

When a capital asset is purchased, a capital asset form should be completed by the department making the purchase and sent to the Finance Department. Vendor invoices should be included to support the amount recorded.

3) Tracking and Transfer

Once a capital asset is recorded in the City's financial system it is the responsibility of the assigned department to notify the Finance Department of any assets that have been transferred to a different department. A physical account of all capital assets should be done each year by each department. The Finance Department will provide a capital assets list for this purpose. Any discrepancies should be noted by the department.

4) Deletion or Disposal of Capital Assets

When a capital asset is sold or disposed of the assigned department must complete a capital asset form with the required information for the Finance Department to remove the asset from the financial system. This includes items that are disposed of, sold, or traded in.

M. Technology Purchases

All technology purchases, including hardware and software purchases and agreements, must be reviewed, and approved by the IT Manager before purchase. The IT Department will coordinate and facilitate all technology purchases and agreements for individual departments and the enterprise as a whole. New software and technology, providing enhanced capabilities not previously deployed by the City, must also be approved by the City Manager.

N. Disposal of Surplus Property

1) Auction

The City disposes of surplus vehicles and equipment through public sale in accordance with Council policy. Throughout the year the City collects items to be sold at public auction and sends them to an auctioneer with a description and number of items to be sold. The auction house forwards a tabulation of the bids received along with payment. The information is reviewed by the equipment manager and payment is forwarded to the Finance Department.

A capital asset disposal form must be filled out when an item sold at auction was listed in the City's financial system.

2) Computer Equipment

When computer equipment has reached the end of its useful life with the City it may be disposed of in one of the following ways:

- Sealed bids
- Donation to non-profit or governmental agency (City Manager approval required)
- Sold at auction
- Recycle through an authorized computer recycling vendor
- Dispose of as waste

O. Procurement Policies when Using Federal Dollars/Grants

The City has a separate Policies and Procedures for Federal Awards Administration for the use of federal grant funds.

ACCOUNTS PAYABLE AND EFT PAYMENTS POLICY

A. Purpose

The purpose of the policy is to ensure that payments are initiated, executed, and handled in a secure manner and to ensure that adequate banking controls are maintained.

B. Purpose

This policy shall establish financial controls and management procedures for all payments. Payments are made by check, Electronic Funds Transfers (EFT), or by purchasing card. EFT payments include Automated Clearing House (ACH) transfers and wire payments.

C. Payment Processing

- All new vendors must be authorized by the Assistant Finance Director or Finance Director
- Qualified vendors must complete and return a Form W-9 "Request for Taxpayer Identification Number and Certification" to the Finance Department
- Vendors outside the United States must complete and return the appropriate Form W-8 before goods or services are ordered and payment is made
- Payments are to be made on original invoices received from vendors, and not solely from a vendor statement
- Accounts payable staff will verify the information contained on the invoice, including the vendor name, address, purchase order if applicable, and amount
- Qualified claims will be paid within 35 days of receipt
- Payments made after 35 days on undisputed invoice will include interest per Minnesota Statute § 461.425
- Invoices will be submitted and paid according to the timeline established by the Finance Department
- All invoices must be verified by the person who placed the order and approved through the City's established approval process
- The Finance Department will separate roles and responsibilities of employees performing accounts payable duties to ensure appropriate segregation of duties, in an attempt to reduce the risk of fraud and error
- Bank activity will be monitored daily for unusual and unexpected transactions
- Reconciliation of bank activity to the general ledger will be performed in a timely manner with all exceptions resolved.
- All paid claims will be reported to the City Council in accordance with established City policies

D. EFT Payments

- Vendors requesting EFT payments will provide banking information on a form provided by the City
- Accounts payable staff will independently confirm the banking instructions with the vendor to prevent fraud and strengthen the integrity of the data
- All EFT payments will be initiated by secure computer-based systems
- The Finance Director will designate a primary administrator to manage and control access to the systems used to process EFT transactions
- The primary administrator shall ensure that adequate separation of duties exists in accordance with accepted internal control standards
- The mechanism by which EFT payment requests are communicated to the disbursing bank will have adequate controls to prevent unauthorized access (these controls should include password protected user accounts, PINs, a designated administrator, and/or multi-factor authentication)
- Positive pay and/or filters will be used for EFT payments
- EFT payments require that one employee initiate the transaction, and another approve the transaction

- The procedures to initiate, approve, record, and report an EFT payment are subject to the same financial policies, procedures, and controls that govern disbursements made by any other means
- For recurring EFT payments, the administrator will coordinate the establishment of a template with receiving and disbursing bank information that may not be altered without the approval of two authorized signers

E. Payment by Check

- Blank check stock will be kept in a secure, locked location
- Checks will not be issued to “Cash”
- Positive pay will be used for all payments made by check

CAPITAL IMPROVEMENT PLAN POLICY

A. Purpose

As the demand for services and the cost of building and maintaining the City's infrastructure continues to increase, a methodology must be employed that provides a realistic projection of community needs, the meeting of those needs, and a framework to support City Council prioritization of those needs. A Capital Improvement Plan (CIP) is a community planning and fiscal management tool used to coordinate the location, timing, and financing of capital improvements over a multi-year period.

B. Scope

The CIP includes the scheduling of public improvements for the community over a five-year period and considers the community's financial capabilities as well as its goals and priorities. Capital improvements include major expenditures such as:

- Purchase of major equipment (e.g., vehicles, playground equipment, snowplows)
- Acquisition of land for a public purpose (e.g., for a park or facility)
- Construction, expansion, or major renovation of a public facility or infrastructure
- Related planning, engineering, design, and feasibility costs

C. Benefits of a CIP

- It ensures the timely repair and replacement of aging infrastructure
- It provides a level of certainty for residents, businesses, and developers regarding the location and timing of public investments
- It identifies the most economical means of financing improvement projects
- It eliminates unanticipated, poorly planned, and unnecessary capital expenditures
- It eliminates sharp increases in taxes, user fees, and debt levels to help cover unexpected capital improvements
- It helps to ensure that patterns of growth and development are consistent with the comprehensive plan
- It helps to balance desired public improvement with the community's financial resources

D. Features of a CIP

The CIP includes the following information for each proposed item:

- A description and justification for the proposed capital improvement
- A narrative describing the budget impact of the improvement
- Total expenditures by year for the capital improvement
- Funding sources by year for the capital improvement
- Priority of the capital improvement
- Additional information such as useful life, type of improvement, etc.

E. CIP Development Process

- Department heads submit a list of capital improvement projects
- City staff works to consolidate and prioritize the recommended projects into the proposed CIP
- Funding sources for each projected are analyzed
- If debt issuance is required, the impact of the debt on property taxes, utility rates, or other user charges is analyzed and compared to existing taxes, utility rates, and other user charges
- The preference of Council is to limit new debt to the following:
 - Special assessment funded portion of a project
 - That portion of a project that will be repaid from tax increment

- Major new facilities, such as a new City Hall or Regional Park
- The overall CIP should have an acceptable impact on tax levy, total debt, and utility rate levels
- The City Council will evaluate the proposed CIP and approve the projects deemed necessary and affordable
- The CIP is linked to the budget – the first year of the CIP is known as the capital budget, and when adopted becomes part of the annual operating budget

CAPITAL ASSETS POLICY

A. Purpose

It is essential for financial reporting and cost accounting purposes that City departments follow a uniform policy for capitalizing expenditures. Capital expenditures are used to acquire assets or improve useful life of existing assets. The purpose of the capital assets policy is to define the accounting practices and procedures that will ensure effective and accurate documentation of the value of capital assets and their corresponding depreciation to be reported in the City's financial reports.

B. Capitalization Thresholds

The City will maintain a schedule of individual capital assets with an original cost equal to or greater than the amounts shown below and an estimated useful life of greater than two years:

Asset Type	Threshold
Land and Land Improvements	Always
Construction in Progress	Track and capitalize when complete
Easements	\$50,000
Buildings and Building Improvements	\$50,000
Infrastructure	\$100,000
Machinery and Equipment	\$10,000
Intangible Assets	\$50,000

C. Recording Capital Assets

Capital assets should be recorded and reported at historical cost. When the historical cost of a capital asset is not practicably determinable, the estimated historical cost of the asset should be determined by appropriate methods. Estimated historical costs should be identified in the records, including the basis of determination.

D. Contributed (Donated) Capital

Acceptance of contributions of capital assets shall be in accordance with applicable Minnesota Statutes and shall be approved by the City Council. Contributed capital assets should be recorded and depreciated in the same manner as all other capital assets. Donated capital assets should be recorded at fair value at the time of acquisition. In addition, capital assets acquired through contribution from an outside source should be identified in the records of the City, including documentation of the actual or estimated value and the basis of determination.

E. Intangible Assets

Intangible assets possess three characteristics:

- Lack of physical substance;
- Initial useful life in excess of one year; and
- Nonfinancial in nature

Examples of intangible assets include easements, land use rights, patents, trademarks, copyrights, or software that is purchased, licensed, or internally generated.

An intangible asset should be recognized in the statement of net position only if it is identifiable. This means the asset can either be:

- Sold, transferred, rented, or exchanged, or

- Arose from contractual or other legal rights, regardless of whether those rights are transferable or separable

Donated intangible assets should be recorded at fair market value as of the donation acceptance date.

F. Improvements

The City will maintain its assets to protect its capital investment and to minimize future capital expenditures.

Capital asset improvement costs should be capitalized if:

- The costs exceed the capitalization threshold, and
- One of the following criteria is met:
 - ✓ The value of the asset or estimated life is increased by 25% of the original cost or life period, or
 - ✓ The cost results in an increase in the capacity of the asset, or
 - ✓ The efficiency of the asset is increased by more than 10% of its current value

Otherwise, the cost should be classified as a repair and maintenance expense under the appropriate department and expense category.

G. Depreciating Capital Assets

Capital assets will be depreciated over their estimated useful lives unless they are:

- Inexhaustible (i.e., land and land improvements, certain works of art and historical treasures), or
- Construction work in progress

For financial reporting purposes, the straight-line method will be used to calculate depreciation with no salvage value. No depreciation will be taken in the year of acquisition and a full year of depreciation will be taken in the year of retirement or disposition.

For depreciation purposes, the following guidelines will be used to estimate the useful life of the asset:

Buildings and Building Improvements	Useful Life
Buildings – wood frame	30 years
Buildings – brick/block	30 years
Buildings – temporary/portable	20 years
Roofing	20 years
Siding	20 years
HVAC/Plumbing/Electrical systems	20 years
Fire suppression systems	10 years
Security systems	10 years
Cabling	10 years
Flooring	10 years
Elevators	20 years
Windows	15 years

Infrastructure	Useful Life
Streets, including curb and gutter	30 years
Storm drain systems	30 years
Parking lots	25 years
Sidewalks	25 years
Pedestrian bridges	25 years

Paved trails	25 years
Streetlights	25 years
Water/Sewer mains and lines	30 years
Water storage facilities	30 years
Water treatment plants	30 years
Lift stations	30 years

Other Improvements	Useful Life
Fencing and gates	10 years
Outside sprinkler systems	20 years
Athletic fields, bleachers	25 years
Septic systems	20 years
Swimming pools	20 years
Tennis, basketball, other sport courts, skate park equipment	25 years
Fountains	20 years
Retaining walls	20 years
Outdoor lighting	20 years
Monuments	10 years
Traffic signals	20 years
Light poles	20 years
Landscaping and trees	20 years
Boat launch pads	25 years

Equipment, Machinery, and Vehicles	Useful Life
Appliances	5 years
Audio/Visual equipment	5 years
Business machines and office equipment	5 years
Radio and communications equipment	10 years
Computer equipment and software	3 years
Furniture and cabinets	10 years
Recreational/Athletic Equipment	10 years
Water softeners/heaters	5 years
Grounds equipment – mowers, etc.	8 years
Machinery	7 years
Tools	5 years
Playground equipment	10 years
ATVs and other utility vehicles	5 years
Motor vehicles – cars and light trucks	8 years
Light equipment	8 years
Street sweepers	8 years
Heavy trucks	10 years
Heavy equipment – loaders, graders	10 years

For items not listed, staff will research and determine an appropriate useful life.

H. Historical Treasures and Works of Art

Historical treasures and works of art are items which are considered inexhaustible and held for public exhibition, educational purposes, or research in enhancement of public service instead of financial gain. Examples are paintings, sculptures, photography, maps, manuscripts, musical instruments, recordings, film, furnishings, artifacts, tools, weapons, and other memorabilia. These items are generally considered inexhaustible and are, therefore, not depreciated.

DEBT MANAGEMENT POLICY

A. Purpose

The purpose of the debt policy is to ensure that debt is used wisely, and that future financial flexibility remains relatively unconstrained. Debt is an important mechanism to fund capital expenditures. It can reduce long-term costs due to inflation, prevent lost opportunities, and equalize the costs of improvements to present and future constituencies. Debt management is an integral part of the financial management of the City. Adequate resources must be provided for the repayment of debt, and the level of debt incurred by the City must be effectively controlled to amounts that are manageable and within levels that will maintain or enhance the City's credit rating. A goal of debt management is to stabilize the overall debt burden and future tax levy requirements to ensure that issued debt can be repaid and prevent default on any municipal debt. A high debt level places a financial burden on taxpayers and can create economic problems for the community. The debt policies ensure that the City's outstanding debt does not weaken the City's financial structure, provides manageable limits on debt, and allows for the best possible credit rating.

B. Conditions for Issuance

- 1) The City will confine long-term borrowing to capital improvements, equipment, or projects that have a life of at least five years and cannot be financed from current revenues.
- 2) Capital equipment with a useful life greater than five years may be financed with equipment certificates, with a bond term of ten years or less.
- 3) Minnesota Statute § 475.53 limits net general obligation debt to less than 3% of the estimated market value of taxable property in the City.
- 4) The City shall use a competitive bidding process for the sale of debt unless the use of a negotiated process is warranted due to adverse market conditions, timing requirements, or a unique pledge or debt structure. The City will award competitively issued debt on the true interest cost (TIC) basis.
- 5) The City should strongly consider market conditions (i.e., interest rates, construction market) when planning for the issuance of debt. The City should consider issuing debt, rather than paying cash, when interest rates are lower.
- 6) Debt should be structured in a manner that distributes cost and benefits appropriately. Intergenerational equity aspects should be considered when financing capital assets. The debt payments should be distributed over the useful life of the asset.
- 7) Long-term forecasts should support the assumption that the City will be able to repay the debt without causing financial distress.
- 8) Interfund borrowing for periods of more than one year shall only be undertaken for capital expenditures. A payment schedule for the borrowed amounts shall be established by the City Council. Interest charges for interfund loans utilizing tax increment bonds will be in accordance with Minnesota Statute § 469.178, Subd. 7.

C. Restrictions on Debt Issuance

- 1) Where possible, the City will issue revenue (including general obligation backed revenue) or other self-supporting type bonds instead of general obligation bonds.

- 2) The City will not use long-term debt for current operations.
- 3) The City should not issue debt with a longer amortization period than the life of the asset being financed.
- 4) When possible, the City should use pay-as-you-go financing for equipment and other minor capital assets.

D. Financial Limitations

- 1) The City will strive to keep the total maturity length of general obligation bonds below 20 years and structure the bonds to allow for retirement of at least 50% of principal within 2/3 of the term of the bond issue. Maturity length of up to 30 years may be considered for new facilities.
- 2) The City shall typically issue debt with level principal and interest payments.
- 3) Bond rating categories shall be used as a means of assessing the City's financial condition. The City will strive to achieve and maintain a ratio of governmental funds debt service to expenditures that will result in adequate, or better than adequate, debt and contingent liability profile rating from rating agencies.
- 4) Direct debt is the amount of general obligation principal or lease obligations supported by taxes that are outstanding for the City only. Direct debt per capita shall not exceed \$2,000. Direct debt as a percentage of the City's taxable market value shall not exceed 2%, excluding revenue-based debt.
- 5) Bond issues may require a special debt levy. The amount of the City's property tax levy dedicated to debt service (principal and interest) shall not exceed 30% of the total property tax levy (levy does not include special assessments, tax abatements, or tax increments).
- 6) The City will maintain regular communications with bond rating agencies about its financial condition and will follow a policy of full disclosure in every financial report and bond statement. The City will comply with Securities and Exchange Commission (SEC) reporting requirements.
- 7) The City is committed to providing continuing disclosure to certain financial and operating data and material event notices as required by the SEC Rule 15c2-12. The Finance Department shall be responsible for the preparation of all disclosure documents and releases under Rule 15c2-12.
- 8) When feasible, the City will refund bonds to reduce interest costs and evaluate the use of debt reserves to lower annual debt service. Refunding of outstanding debt shall only be considered when present value savings of at least 3% of the principal amount of the refunded bonds are produced, according to Minnesota Statute §475.67 Subd. 12. Savings from refundings will be distributed evenly over the life of the refunded bonds unless special circumstances warrant a different bond structure.
- 9) Debt reserve funds will be examined at least annually to ensure adequate funding balances and funding progress.
- 10) The City should maintain the highest credit rating possible.

E. Professional Service Providers

Municipal financial advisors should be selected through a process of evaluating formal proposals every ten years. Selection should be based on, but not limited to, experience with the type, size, and structure of the bonds typically issued, ability to commit sufficient time to accomplish necessary tasks, and lack of potential conflicts of interest.

Proposals for bond counsel should be solicited and considered on an occasional or as-needed basis. Consideration should be given to experience with municipal debt, ability to commit sufficient time to accomplish necessary tasks, and lack of potential conflicts of interest.

The City should strategically maintain good relations with rating agencies and a positive perception in the marketplace.

POST-ISSUANCE COMPLIANCE POLICY FOR TAX-EXEMPT BONDS

A. Purpose

The City of Chanhassen issues tax-exempt governmental bonds to finance capital improvements. As an issuer of tax-exempt governmental bonds, the City is required by the terms of §§ 103 and 141-150 of the Internal Revenue Code of 1986, as amended (the “Code”), and the Treasury Regulations promulgated thereunder (the “Treasury Regulations”), to take certain actions subsequent to the issuance of such bonds to ensure the continuing tax-exempt status of such bonds. In addition, § 6001 of the Code and § 1.6001-1(a) of the Treasury Regulations, impose record retention requirements on the City with respect to its tax-exempt governmental bonds. This Post-Issuance Compliance Policy is designed to ensure that the City complies with its post-issuance compliance obligations under applicable provisions of the Code and Treasury Regulations.

B. Responsible Parties

The Finance Director of the City shall be the party primarily responsible for ensuring that the City successfully carries out its post-issuance compliance requirements under applicable provisions of the Code and Treasury Regulations. The Finance Director will be assisted by the staff of the Finance Department of the City and by other City staff and officials when appropriate. The Finance Director of the City will also be assisted in carrying out post-issuance compliance requirements by the following:

- 1) Bond Counsel (the law firm primarily responsible for providing bond counsel services for the City)
- 2) Municipal Advisor (the organization primarily responsible for providing financial advisor services to the City)
- 3) Paying Agent (the person, organization, or City officer primarily responsible for providing paying agent services for the City)
- 4) Rebate Analyst (the organization primarily responsible for providing rebate analyst services for the City)

The Finance Director shall be responsible for assigning post-issuance compliance responsibilities to members of the Finance Department, other staff of the City, Bond Counsel, Paying Agent, and Rebate Analyst. The Finance Director shall utilize such other professional service organizations as are necessary to ensure compliance with the post-issuance compliance requirements of the City. The Finance Director shall provide training and educational resources to City staff who are responsible for ensuring compliance with any portion of the post-issuance compliance requirements of this Policy.

C. Post-Issuance Compliance Actions

The Finance Director shall take the following post-issuance compliance actions or shall verify that the following post-issuance compliance actions have been taken on behalf of the City with respect to each issue of tax-exempt governmental bonds issued by the City:

- 1) The Finance Director shall make sure that the Municipal Advisor prepares a transcript of principal documents
- 2) The Finance Director shall make sure that Bond Counsel files with the Internal Revenue Service (the “IRS”), within the time limit imposed by § 149(e) of the Code and applicable Treasury Regulations, an Information Return for Tax-Exempt Governmental Obligations, Form 8038-G
- 3) The Finance Director shall prepare an “allocation memorandum” for each issue of tax-exempt governmental bonds in accordance with the provisions of Treasury Regulations, § 1.148-6(d)(1), that accounts for the allocation of the proceeds of the tax-exempt bonds to expenditures not later than the earlier of:
 - Eighteen (18) months after the later of (A) the date the expenditure is paid, or (B) the date the project, if any, that is financed by the tax-exempt bond issue is placed in service; or

- The date sixty (60) days after the earlier of (A) the fifth anniversary of the issue date of the tax-exempt bond issue, or (B) the date sixty (60) days after the retirement of the tax-exempt bond issue.

Preparation of the allocation memorandum will be the primary responsibility of the Finance Director (in consultation with the Municipal Advisor and Bond Counsel).

- 4) The Finance Director, in consultation with Bond Counsel, shall identify proceeds of tax-exempt governmental bonds that must be yield-restricted and shall monitor the investments of any yield-restricted funds to ensure that the yield on such investments does not exceed the yield to which such investments are restricted.
- 5) In consultation with Bond Counsel, the Finance Director shall determine whether the City is subject to the rebate requirements of § 148(f) of the Code with respect to each issue of tax-exempt governmental bonds.
- 6) In consultation with Bond Counsel, the Finance Director shall determine, with respect to each issue of tax-exempt governmental bonds of the City, whether the City is eligible for any of the temporary periods for unrestricted investments and is eligible for any of the spending exceptions to the rebate requirements.
- 7) The Finance Director shall contact the Rebate Analyst (and, if appropriate, Bond Counsel) prior to the fifth anniversary of the date of issuance of each tax-exempt governmental bond of the City and each fifth anniversary thereafter to arrange for calculations of the rebate requirements with respect to such tax-exempt governmental bonds.
- 8) If a rebate payment is required to be paid by the City, the Finance Director shall prepare or cause to be prepared the Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, Form 8038-T, and submit such Form 8038-T to the IRS with the required rebate payment.
- 9) If the City is authorized to recover a rebate payment previously paid, the Finance Director shall prepare or cause to be prepared the Request for Recovery of Overpayments Under Arbitrage Rebate Provisions, Form 8038-R, with respect to such rebate recovery, and submit such Form 8038-R to the IRS.

D. Procedures for Monitoring, Verification, and Inspections

The Finance Director shall institute such procedures as the Finance Director shall deem necessary and appropriate to monitor the use of the proceeds of tax-exempt governmental bonds issued by the City, to verify that certain post-issuance compliance actions have been taken by the City, and to provide for the inspection of the facilities financed with the proceeds of such bonds. At a minimum, the Finance Director shall establish the following procedures:

- 1) The Finance Director shall monitor the use of the proceeds of tax-exempt governmental bonds to: (i) ensure compliance with the expenditure and investment requirements under the temporary period provisions set for in Treasury Regulations, § 1.148-2(e); (ii) ensure compliance with the safe harbor restrictions on the acquisition of investments set forth in Treasury Regulations, § 1.148-5(d); (iii) ensure that the investments of any yield-restricted funds do not exceed the yield to which such investments are restricted; and (iv) determine whether there has been compliance with the spend-down requirements under the spending exceptions to the rebate requirements set forth in Treasury Regulations, § 1.148-7.
- 2) The Finance Director shall monitor the use of all bond-financed facilities in order to: (i) determine whether private business uses of bond-financed facilities have exceeded the de minimus limits set forth in § 141(b) of the Code as a result of leases and subleases, licenses, management contracts, research contracts, naming rights agreements, or other arrangements that provide separate legal entitlements to nongovernmental persons; and (ii) determine whether private security or payments that exceed the de minimus limits set forth in § 141(b) of the Code have been provided by nongovernmental persons with respect to such bond-financed facilities. The Finance Director shall provide training and educational

resources to any City staff who have the primary responsibility for the operation, maintenance, or inspection of bond-financed facilities with regard to the limitation on the private business use of bond-financed facilities and as to the limitations on the private security or payments with respect to bond-financed facilities.

- 3) The Finance Director shall undertake the following with respect to each outstanding issue of tax-exempt governmental bonds of the City: (i) an annual review of the books and records maintained by the City with respect to such bonds; and (ii) an annual physical inspection of the facilities financed with the proceeds of such bonds, conducted by the Finance Director with the assistance of any City staff who have the primary responsibility for the operation, maintenance, inspection of such bond-financed facilities.

E. Record Retention Requirements

The Finance Director shall collect and retain the following records with respect to each issue of tax-exempt governmental bonds of the City and with respect to the facilities financed with the proceeds of such bonds:

- Audited financial statements of the City
- Appraisals, demand surveys, or feasibility studies with respect to the facilities to be financed with the proceeds of such bonds
- Publications, brochures, and newspaper articles related to the bond financing
- Trustee or paying agent statements
- Records of all investments and the gains (losses) from such investments
- Paying agent or trustee statements regarding investments and investment earnings
- Reimbursement resolutions and expenditures reimbursed with the proceeds of such bonds
- Allocations of proceeds to expenditures (including costs of issuance) and the dates and amounts of such expenditures (including requisitions, draw schedules, draw requests, invoices, bills, and cancelled checks with respect to such expenditures)
- Contracts entered into for the construction, renovation, or purchase of bond-financed facilities
- An asset list or schedule of all bond-financed depreciable property and any depreciation schedules with respect to such assets or property
- Records of the purchases and sales of bond-financed assets
- Private uses of bond-financed facilities that arise subsequent to the date of issue through leases and subleases, licenses, management contracts, research contracts, naming rights agreements, or other arrangements that provide special legal entitlements to nongovernmental persons and copies of any such agreements or instruments
- Arbitrage rebate reports and records of rebate and yield reduction payments
- Resolutions or other actions taken by the governing body subsequent to the date of issue with respect to such bonds
- Formal elections authorized by the Code or Treasury Regulations that are taken with respect to such bonds
- Relevant correspondence, including letters or emails, relating to such bonds
- Documents related to guaranteed investment contracts or certificates of deposit, credit enhancement transactions, and financial derivatives entered into subsequent to the date of issue
- Bidding of financial products for investment securities
- Copies of all Form 8038-Ts, Form 8038-Rs, and Form 8038-CPs filed with the IRS and any other forms or documents filed with the IRS
- The transcript prepared with respect to such tax-exempt governmental bonds, including but not limited to:
 - Official statements, private placement documents, or other offering documents

- Minutes and resolutions, orders, or ordinances or other similar authorization for the issuance of such bonds
- Certification of the issue price of such bonds
- Documents related to government grants associated with the construction, renovation, or purchase of bond-financed facilities
- Documents related to government grants associated with the construction, renovation, or purchase of bond-financed facilities

The records collected by the Finance Director shall be stored in any format deemed appropriate by the Finance Director and shall be retained for a period equal to the life of the tax-exempt governmental bonds with respect to which the records are collected (which shall include the life of any bonds issued to refund any portion of such tax-exempt governmental bonds or to refund any remaining bonds) plus three (3) years. The Finance Director shall also collect and retain reports of any IRS examination of the City or any of its bond financings.

F. Remedies

In consultation with Bond Counsel, the Finance Director shall become acquainted with the remedial actions (including redemption or defeasance) under Treasury Regulations, § 1.141-12, to be utilized in the event that private business use of bond-financed facilities exceeds the de minimus limits under § 141(b)(1) of the Code.

In consultation with Bond Counsel, the Finance Director shall become acquainted with the Tax-Exempt Bonds Voluntary Closing Agreement Program described in Notice 2008-31, 2008-11 I.R.B. 592, to be utilized as a means for an issuer to correct any post-issuance infractions of the Code and Treasury Regulations with respect to outstanding tax-exempt bonds.

G. Continuing Disclosure Obligations

In addition to its post-issuance compliance requirements under applicable provisions of the Code and Treasury Regulations, the City has agreed to provide continuing disclosure, such as annual financial information and material event notices, pursuant to a continuing disclosure certificate or similar document (the “Continuing Disclosure Document”) prepared by Bond Counsel and made a part of the transcript with respect to each issue of bonds of the City that is subject to such continuing disclosure requirements. The Continuing Disclosure Documents are executed by the City to assist the underwriters of the City’s bonds in meeting their obligations under Securities and Exchange Commission Regulation, 17 C.F.R. § 240.15c2-12, as in effect and interpreted from time to time (“Rule 15c2-12”). The continuing disclosure obligations of the City are governed by the Continuing Disclosure Documents and by the terms of Rule 15c2-12. The Finance Director is primarily responsible for undertaking such continuing disclosure obligations and to monitor compliance with such obligations.

H. Other Post-Issuance Actions

If, in consultation with Bond Counsel, Municipal Advisor, Paying Agent, Rebate Analyst, the City Manager, the City Attorney, or the City Council, the Finance Director determines that any action not identified in this Policy must be taken by the Finance Director to ensure the continuing tax-exempt status of any issue of governmental bonds of the City, the Finance Director shall take such action if the Finance Director has the authority to do so.

If, in consultation with Bond Counsel, Municipal Advisor, Paying Agent, Rebate Analyst, the City Manager, the City Attorney, or the City Council, the Finance Director and City Manager determine that this Policy must be amended or supplemented to ensure the continuing tax-exempt status of any issue of governmental bonds of the City, the City Manager shall recommend to the City Council that this Policy be so amended or supplemented.

I. Taxable Governmental Bonds

Most of the provisions of this Policy, other than the provisions of § 7, are not applicable to governmental bonds for which the interest is includable in gross income for federal income tax purposes. On the other hand, if an issue

of taxable governmental bonds is later refunded with the proceeds of an issue of tax-exempt governmental refunding bonds, then the uses of proceeds of the taxable governmental bonds and the uses of the facilities financed with the proceeds of the taxable governmental bonds will be relevant to the tax-exempt status of the governmental refunding bonds. Therefore, if there is any reasonable possibility that an issue of taxable governmental bonds may be refunded, in whole or in part, with the proceeds of an issue of tax-exempt governmental bonds then, for purposes of this Policy, the Finance Director shall treat the issue of taxable governmental bonds as if such issue were an issue of tax-exempt governmental bonds and shall carry out and comply with the requirements of this Policy with respect to such taxable governmental bonds. The Finance Director shall seek the advice of Bond Counsel as to whether there is any reasonable possibility of issuing tax-exempt governmental bonds to refund an issue of taxable governmental bonds.

J. Qualified 501(c)(3) Bonds

If the City issues bonds to finance a facility to be owned by the City but which may be used, in whole or in substantial part, by a nongovernmental organization that is exempt from federal income taxation under § 501(a) of the Code as a result of the application of § 501(c)(3) of the Code (a “501(c)(3) Organization”), the City may elect to issue the bond as “qualified 501(c)(3) bonds” the interest on which is exempt from federal income taxation under §§ 103 and 145 of the Code and applicable Treasury Regulations. Although such qualified 501(c)(3) bonds are not governmental bonds, at the election of the Finance Director, for purposes of this policy, the Finance Director shall treat such issue of qualified 501(c)(3) bonds as if such issue were an issue of tax-exempt governmental bonds and shall carry out and comply with the requirements of this Policy with respect to such qualified 501(c)(3) bonds.

CONDUIT DEBT POLICY

A. Purpose

The City is granted the power to issue conduit revenue bonds and other conduit revenue obligations under Minnesota Statutes, § 469.152-469.165, as amended, and Minnesota Statutes, Chapter 462C, as amended. The City expresses its support for the use of such financing but has reserved the right to approve or reject projects on a case-by-case basis.

B. Criteria

The following criteria have been developed as a guide for review of applications:

- 1) The project is to be compatible with the overall development plans and objectives of the City and neighborhood where the project is located.
- 2) New businesses locating in the City must show new tax base being generated by the project.
- 3) Locating in areas of the City that the City wishes to develop, redevelop, or which in any way complements any development plans or policy of the City, will constitute a prime purpose under these guidelines. It is also the City's intent to assist in business expansions or relocations within the City where it can be shown that such would have a substantial, favorable impact on employment, tax base, or both.
- 4) It is the City's intent to assist new or existing businesses in the acquisition of existing facilities, where such acquisition will maintain the stability of the tax base, employment, or both
- 5) The project must not put a burden on existing City services or utilities beyond that which can be reasonably and economically accommodated.
- 6) The applicant (and/or the lessee) must show sufficient equity in the project. Applicant must provide copies of all financing agreements for review by the City.
- 7) The credit rating and method of offering conduit bonds or notes of the City are important considerations. The City will not consider applications for such financings unless (i) the debt is rated investment grade by a nationally recognized rating agency or (ii) the debt is sold in a private placement.
- 8) Debt will be considered sold in a private placement (i) if no advertising or solicitation of the general public occurs, and (ii) if the bonds are initially sold to not more than ten purchasers (not including any underwriter or placement agent as a purchaser) and (iii) the City receives written certification from each initial purchaser (or each underwriter or placement agent based on its reasonable belief) that: (a) such purchaser has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and the risks of the debt, and (b) such purchaser is not purchasing for more than one account or with a view to distributing the debt.
- 9) In addition, for a private placement either (a) all bonds or notes (except for one bond or note) must remain in minimum denominations of not less than \$100,000, with the exception of charter schools which may have minimum denominations of \$25,000 or (b) investment letters from not only each initial purchaser, but from any subsequent purchaser, must be obtained which contains the above-described certifications from the purchasers.
- 10) Any offering material for a private placement must prominently state in effect that: "THE CITY OF CHANHASSEN HAS NOT ASSUMED BY RESPONSIBILITY TO REVIEW THIS OFFERING MATERIAL AND HAS NO RESPONSIBILITY FOR ITS ACCURACY OR COMPLETENESS. THE CITY HAS NO FINANCIAL OBLIGATION OF ANY NATURE WITH RESPECT TO THE OFFERED BONDS."
- 11) Finally, to qualify as a private placement, the financing documents must require annual financial statements from the benefited private party (or the ultimate provider of credit) to be delivered to each investor (or a trustee).
- 12) The term "conduit" refers to any type of City revenue obligation the proceeds of which are loaned to a private party and for which the City has no financial obligation.

- 13) Applications for acquisition of or replacement of machinery and equipment will be discouraged unless in conjunction with a totally new business in Chanhassen, a physical plant expansion of an existing business, or where it is shown that the equipment acquisition is essential to the continued operation of the business in Chanhassen. Also, it is the City's intent to assist where possible in the acquisition of pollution control equipment for any new or existing business being required to meet mandated standards.
- 14) A further permitted use under these guidelines are projects, whether profit or nonprofit, engaged in providing health care services, including hospitals, nursing homes, and related medical facilities, when either of the following findings can be made:
 - Number of new jobs is increased
 - The project would provide a facility or service considered desirable or necessary by the community
- 15) The City may allow for the designation of the issue as bank qualified if the City does not plan or foresee that it will need to issue more than \$10 million in tax-exempt bonds in the given calendar year.

C. Procedures

The following procedures have been developed to facilitate the application for financing:

- 1) The applicant shall make an application for financing on forms available from the Finance Department of the City. The completed application is to be returned to the Finance Director, accompanied by the processing fee, whereupon the application will be forwarded to the City Council with a staff recommendation. Specific findings shall be made and recited regarding the criteria as well as satisfaction of public purposes of the applicable statutes.
- 2) The application cannot be considered by the City until tentative City Code findings and requirements have been made with respect to zoning, building plans, platting, streets, and utility services.
- 3) The applicant is to select qualified financial consultants and/or underwriters, as well as legal counsel, to prepare all necessary documents and materials. The City may rely on the opinion of such experts and the application shall be accompanied by a financial analysis (pro forma income statement, debt service coverage, mortgage terms, etc.) by the underwriter as to the economic feasibility of the project and the underwriter's ability to market the financing. Financial material submitted is to also include most recent fiscal year-end, audited financial statements of the applicant and/or of any major lessee tenant, if readily available.
- 4) Further, in the case of the tax exempt mortgage placements, the applicant will be required to furnish the City, before passage of the final resolution, a comfort letter (but not necessarily a letter of commitment) from the lending institution, to the effect that said lending institution has reviewed the economic feasibility of the project, including the financial responsibility of the guarantors and find that, in their professional judgment, it is an economically viable project.
- 5) The applicant shall furnish along with the application, a description of the project, plat plan, rendering of proposed building, etc., and a brief description of the applicant company, all in such form as shall be required at the time of application. This data, as necessary, may be furnished to members of the City Council for background information.
- 6) If an allocation of bonding authority is required under Minnesota Statute, Chapter 474A, as amended, the applicant shall be required to pay any required application deposit as specified in Chapter 474A, without regard to whether the application fee or application deposit will be refunded.
- 7) The applicant shall covenant in the applicable conduit bond documents to comply with all applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the applicable Treasury Regulations, including, but not limited to: (i) the arbitrage and rebate requirements of § 148 of the Code; and (ii) the qualified bond provisions of §§ 141(e), 142, 143, 144, and 145 of the Code. The applicant shall be the party responsible for monitoring the conduit bonds for compliance with such

requirements and to remediate nonqualified bonds in accordance with the requirements of the Code and applicable Treasury Regulations. The applicant shall be the party responsible for monitoring compliance with the requirements of § 148 of the Code.

- 8) The applicant shall covenant in the applicable conduit bond documents to reimburse the City for all costs paid or incurred by the City (including the fees of attorneys, financial advisors, accountants, and other advisors) as a result of the City's response to or compliance with an audit, inspection, or compliance check (random or otherwise), by the Internal Revenue Service, the Minnesota Department of Revenue, the Minnesota Office of the State Auditor, or any other governmental agency with respect to the conduit bonds or the project financed with the proceeds of conduit bonds.

D. Administrative Fees and Provisions

The following administrative fees and provisions apply to the application for financing:

- 1) The City Council reserves the right to deny any application for financing at any stage of the proceedings prior to adopting the final resolution authorizing issuance of the industrial development financing. The City Council may waive any provision of this Conduit Debt Policy if the City Council determines that such waiver is in the best interests of the City.
- 2) The City is to be reimbursed, and held harmless, for and from any out-of-pocket costs related to the actual or proposed issuance of conduit revenue bonds. In addition, a nonrefundable processing fee of \$2,500 must be submitted with the application. Upon closing, an administrative fee is due and payable to the City based on the following schedule:
 - On the first \$20,000,000 0.50% of par
 - On portion in excess of \$20,000,000 0.10% of par
- 3) In the case of a refinancing, the fee shall be calculated at 50% of the above schedule. The City will be reimbursed for any technical changes to a bond issue previously issued at 25% of the above schedule.
- 4) All applications and supporting materials and documents shall remain the property of the City. Note that all such materials may be subject to disclosure and/or public review under applicable provisions of State law.
- 5) The Finance Department shall report all conduit debt issues in the Annual Comprehensive Financial Report (ACFR) in accordance with Generally Accepted Accounting Principles and shall report any material events with regard to all conduit debt issued by the City, and still outstanding, to the City Council.
- 6) The applicant will be responsible for providing the City any required arbitrage reports, continuing disclosure reports, and annual financial statements after the issuance of the debt.

POLICIES AND PROCEDURES FOR FEDERAL AWARDS ADMINISTRATION

Policies and Procedures – Federal Awards Administration Overview

- 1) Purpose – This manual has been prepared to document the policies and procedures for the administration of federal awards of City of Chanhassen (the “City”). The Office of Management and Budget (OMB) Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) require all recipients and sub-recipients of federal funds to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Written policies and procedures are part of the necessary internal controls and are required as a precondition to receiving federal funds. These policies and procedures are intended to be sufficiently comprehensive to adequately meet such requirements. However, in no case are these policies and procedures intended to supersede or limit federal or state laws or regulations, or the provisions of individual grant agreements.
- 2) Hierarchy of Authority – In the event that conflicting guidance on the administration of Federal awards is available, the City has deemed Federal guidance to be most authoritative, followed by other State or local agencies.
- 3) Revisions – Guidance provided by the Federal government through the OMB UG - Uniform Grant Guidance Compliance Supplement are expected to be updated each year. Such updates are considered by the City as they become available, and policies and procedures will be revised accordingly.

The City Manager, Finance Director, Assistant Finance Director, and designees are authorized and required to establish and document policies and procedures to ensure compliance with the provisions of federal and state regulations and the provisions of grant agreements. Such policies and procedures are documented herein, and will be reviewed and updated as necessary, but not less than once every three years.

- 4) Training – City finance personnel and its program administrators of Federal awards will be provided the necessary training through various mechanisms, such as:
 - Reviewing monthly State Aid Financial Status Report Updates, accompanying State aid payments
 - Consulting with the City’s auditors as needed for clarification
 - Participating in various training opportunities, such as those offered by appropriate professional organizations
 - Reviewing legislative updates from multiple sources
 - Membership and participation in meetings of the Government Finance Officers Association (GFOA)
 - Certification of respective positions by the GFOA, i.e.: Finance Director
 - Coordination and collaboration with individuals performing similar job functions at similar municipalities.
- 5) Compliance Failures – Compliance failures, whether noted internally by management or through the external audit process, will be addressed immediately by reviewing the reason for the failure with responsible personnel and devising an improved process to improve compliance in the future.

General Accounting and Financial Management

It is the policy of the City to comply with all statutory, regulatory, and contractual requirements in the conduct of, and accounting for, its financial operations. The official books of record for the City will be maintained subject to the following provisions:

- 1) The City will account for its operations in accordance with the Generally Accepted Accounting Principles (GAAP) applicable to local units of government.
 - The City will comply with the Super Circular issued by the OMB, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200).
- 2) The City will comply with all contractual requirements detailed in its duly executed grant agreements with awarding agencies.
- 3) The City will contract annually with an independent CPA firm for the purposes of conducting the City's external financial audit. To the extent that the City has expended federal awards in excess of the applicable single audit limit (currently \$750,000), the City will have a single audit performed in accordance with OMB UG.
- 4) To ensure continuing compliance with all applicable accounting requirements, the City may, at its discretion, contract with a CPA firm to provide internal auditing and/or consulting services.
- 5) The Finance Director shall be responsible for the maintenance of all accounting and financial records (including journals, timesheets, bank statements, audit reports, and similar documents). Such records shall be retained as required by contractual or regulatory requirements. The City has adopted the state's records retention schedule as its official guide for records storage, filing, and destruction.
- 6) The City and employees are required to comply with the City's conflict of interest policy and report any potential conflicts of interest to their managers. No employee, officer or agent may participate in the selection, award or administration of a contract supported by a federal award if he or she has a real or apparent conflict of interest.

Such violations may result in appropriate discipline. See also the City policies on conflict of interest located in the City's Personnel Policies and Procedures.
- 7) The City will request prior approval from federal agencies for program or budget changes.
- 8) The City has implemented the new federal purchasing procedures which follow:
 - Acquisitions for micro-purchases (below \$25,000 or below \$2,000 for construction subject to the Davis Bacon Act) may be awarded without soliciting bids if the City considers the price to be reasonable.
 - Procurements for Small Purchases (less than \$175,000 - Minn. Stat. § 471.345), in which case quotations must be obtained from an adequate number of sources.
 - Procurements made by sealed bid should be made to the lowest responsible (not necessarily the lowest) bidder.

- Procurements made by competitive proposal must have standards to evaluate the selected recipient.
- Procurement made by non-competitive proposals (to one vendor) may be used only if one of the following applies
 - the item is available only from a single source,
 - an emergency exists,
 - the federal agency expressly authorizes non-competitive proposals, or
 - competition is seen as inadequate after solicitation to vendors.

9) Other procurement procedures include:

- Contractors who develop or draft specifications for bids are precluded from bidding on them.
- The City must maintain oversight so that contractors perform work as bid.
- Multiple provisions must be included in contracts (see Appendix II of grant procurement guidelines of super circular procedures).
- If a contract is \$25,000 or more the City must verify on <http://www.sam.gov/> that the contractor is not on the suspended and debarred list for federal grants.

10) Procedures for inventory of federal capital purchases will be maintained by the Finance Department, with the help of the other departments if needed, and all items will be tracked annually. The Equipment and Real Property Management section of this document contains additional procedures.

11) The Finance Director (or designee) or the City Manager are required to certify expenditures.

Purchasing and Procurement

It is the policy of the City to ensure that all disbursements of City funds are properly reviewed and authorized, and consistent with sound financial management principles, and made in compliance with all applicable federal, state, and local laws. To meet these objectives, all disbursements of City funds shall be subject to the following provisions, to the extent that they do not conflict or contradict with any specific federal, state, or local law or Council policies (the most specific or restrictive law, policy or procedure will be followed):

- 1) Substantial state and federal requirements exist pertaining to standards of conduct and conflict of interest. It is the intent of the City for all employees, officers, or agents to conduct all activities associated with procurements in compliance with the highest ethical standards, including the avoidance of any real or perceived conflict of interest. It is also the intent of the City to impose appropriate sanctions or disciplinary actions, including but not limited to termination and/or prosecution, for any employees or officers who violate any of these requirements.
- 2) The City avoids the acquisition of unnecessary or duplicative items. Additionally, the City considers consolidating or breaking out procurements to obtain a more economical purchase. And, where appropriate, the City makes an analysis of leases versus purchase alternatives, and other appropriate analyses to determine the most economical approach.
- 3) To foster greater economy and efficiency, the City enters into state and local intergovernmental agreements where appropriate for procurement or use of common or shared goods and services. This includes cooperative purchasing agreements where practical and beneficial. Depending on the purchase requested,

the City may purchase it from a cooperative or inter-local agreement if the price is competitive and the goods or service are needed in a timely manner. The Finance Director and the City Manager will make this determination.

- 4) The City awards contracts only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. The City considers such matters as contractor integrity and business ethics, compliance with public policy, ability to complete the project on time and in accordance with specifications, record of past performance, and the contractor's financial and technical resources.
- 5) The City will award a contract to a contractor who has the appropriate experience, expertise, qualifications, and any required certifications, necessary to perform the work. Contractors should also have the financial resources to sustain the project while the initial work is being completed and during each service period until he or she submits invoices for payment to the City as work is completed. Contractors should have the proper equipment or the capability to subcontract for the proper equipment necessary to complete the contracted work.
- 6) Debarment and Suspension: The City will not subcontract with or award subgrants to any person or company who is debarred or suspended from receiving federal funds. The Finance Director, or designee thereof, is required to check for excluded parties at the System for Award Management (SAM) website before any procurement transaction paid with federal funds. This list is located at: <http://www.sam.gov/>.
- 7) All procurement transactions paid with federal funds are conducted in a manner providing full and open competition. In an environment of full and open competition, no proposer or bidder has a competitive advantage over another. All potential proposers and bidders must be provided the same information and have the same opportunity to submit a bid or proposal. Providing a competitive advantage to one or more potential proposers or bidders over another can open the potential for disputes and lawsuits that can be costly and can significantly delay the completion of projects.
- 8) To ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, or invitations for bids or requests for proposals (RFP) are excluded from competing for such procurements. The City does not engage in the following situations that may restrict full and open competition, including but not limited to:
 - Placing unreasonable requirements on firms in order for them to qualify to do business
 - Requiring unnecessary experience and excessive bonding
 - Noncompetitive pricing practices between firms or between affiliated companies
 - Noncompetitive contracts to consultants that are on retainer contracts
 - Organizational conflicts of interest
 - Specifying only a "brand name" product instead of allowing "an equal" product to be offered and describing the performance or other relevant requirements of the procurement
 - Any arbitrary action in the procurement process
 - The City conducts federal procurements in a manner that prohibits the use of statutorily or administratively imposed state or local geographical preferences in the evaluation of

bids or proposals, except in those cases where applicable federal statutes expressly mandate or encourage geographic preference.

- 9) All solicitations will incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. Such description will not, in competitive procurements, contain features which unduly restrict competition. The description will include a statement of the qualitative nature of the material, product, or service to be procured and, when necessary, will set forth those minimum essential characteristics and standards to which it must conform if it is to satisfy its intended use. Detailed product specifications will be avoided if possible.
- 10) The City will make independent estimates of the goods or services being procured before receiving bids or proposals to get an estimate of how much the goods and services are valued in the current market. To accomplish this, after bids and proposals are received, but before awarding a contract, the City conducts either a price analysis or a cost analysis, depending on the type of contract, in connection with every procurement with federal funds in excess of \$175,000.
- 11) The City takes all necessary affirmative steps to assure that minority businesses and women's business enterprises, and labor surplus area firms are used when possible. To accomplish this, the City uses the following required affirmative steps:
 - Placing qualified small and minority businesses and women's business enterprises on solicitation lists.
 - Assuring that small and minority businesses and women's business enterprises are solicited whenever they are potential sources.
 - Dividing total requirements, when economically feasible, into smaller tasks or quantities to permit maximum participation by small and minority businesses, and women's business enterprises.
 - Establishing delivery schedules, where the requirement permits, which encourage participation by small and minority businesses, and women's business enterprises.
 - Using the services and assistance, as appropriate, of such organizations as the Small Business Administration and the Minority Business Development Agency of the Department of Commerce.
 - Requiring the prime contractor, if subcontracts are to be let, to take the affirmative steps listed above.
- 12) Federal methods provide for procurement by micro-purchase. Micro-purchase is a purchase of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed \$25,000. The micro-purchase method is used to expedite the completion of its lowest-dollar small purchase transactions and minimize the associated administrative burden and cost.
- 13) Small purchase procedures may be used in those relatively simple and informal procurement methods for securing nonprofessional services, supplies, or other property that do not cost more than \$175,000.

- 14) Sealed bids (\$175,000, formal advertising, price is a major factor). Requirements for sealed bids:
 - a. The invitation for bids will be publicly advertised and bids must be selected from an adequate number of known suppliers, providing them sufficient response time prior to the date set for opening the bids.
 - b. The invitation for bids, which will include any specifications and pertinent attachments, must define the items or services for the bidder to properly respond.
 - c. All bids will be publicly opened at the time and place prescribed in the invitation for bid.
 - d. A firm fixed price contract award will be made in writing to the lowest responsive and responsible bidder.
 - e. Any or all bids may be rejected if there is a sound documented reason.

- 15) Competitive proposal (> \$175,000, fixed price or cost reimbursement, RFP with evaluation methods). Requirement for competitive proposal procedures:
 - a. RFPs must be publicized requests and identify all evaluation factors and their relative importance.
 - b. Proposals must be solicited from an adequate number of qualified sources.
 - c. The organization must have a written method for conducting technical evaluations of the proposals received and for selecting recipients.
 - d. Contracts must be awarded to the responsible firm whose proposal is most advantageous to the program.
 - e. The organization may only use qualification-based methods, whereby competitors' qualifications are evaluated, and the most qualified competitor is selected, in the procurement of architectural/engineering professional services.

- 16) Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source and may be used when using federal funds only when one or more of the following circumstances apply:
 - a. The item is available only from a single source. This must be documented.
 - b. The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation.
 - c. Any federal awarding agency expressly authorizes noncompetitive proposals in response to a written request from the City.
 - d. After solicitation of a number of sources, competition is determined inadequate.

- 17) Time and materials type contract means a contract whose cost to the City is the sum of the actual costs of materials, and direct labor hours charged at fixed hourly rates that reflect wages, general and administrative expenses, and profit. The City may use a time and materials type contract paid with federal funds in accordance with the above only
 - After a determination that no other contract is suitable; and
 - If the contract includes a ceiling price that the contractor exceeds at its own risk.

- 18) The City ensures that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition. The City accomplishes this by conducting internet searches, including using vendor

searches, and by using other less technologically advanced tools to locate and identify potential contractors. Federal guidelines are followed regarding the number of bids required.

- 19) If bids are required, the City requires that construction or facility improvement contracts, or subcontracts exceeding \$175,000, include a bid guarantee equivalent to 5% of the bid price from each bidder (such as bid bond or certified check), a performance bond on the part of the contractor for 100 percent of the contract price, and a payment bond on the part of the contractor for 100 percent of the contract price.

Note: The City's purchasing policy does not apply to procurement by contractors or subcontractors on projects, federally supported or otherwise.

Payroll and Timekeeping

The following provisions apply to the payment of employees and recording of time and effort (as required) in accordance with OMB UG:

1. The payroll records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated. Hourly employees record time on an electronic timekeeping system each day, with the following information:
 - a. The total number of hours actually worked each day
 - b. The use of any holiday, personal, vacation, sick, or other approved time off with pay
 - c. The total number of hours to be paid
 - d. An allocation of those hours to each program or department for which work was performed, when necessary
 - e. The approval of the employee and his/her supervisor for each payroll period

The allocation of hours between programs or departments should be based on the actual hours worked, and not be based on available budgets, or predetermined allocation schedules.

2. It is the responsibility of the employee being charged to a federal award(s) to clarify documentation requirements with the City Manager or Finance Director and provide appropriate documentation to the Assistant Finance Director as it becomes available. The employee should retain a copy of the documentation for his/her personal records. In the event that an after-the-fact correction is necessary to an employee's timesheet due to errors in the allocation of time worked, such corrections must be submitted to the Assistant Finance Director and approved in writing by both the employee and his/her supervisor. Salaried employees charged to a federal grant will document time and effort as follows: the employee may document time and effort using a timesheet as described above. Timesheets must account for the total activity for which the employee is compensated and be signed by the employee. It will not be acceptable for timesheets to include the hours worked on Federal grants only.
 - a. It is the responsibility of the employee being charged to a federal award(s) to clarify documentation requirements with the Finance Director, or designee and provide appropriate documentation to the Assistant Finance Director as it becomes available. The employee should retain a copy of the documentation for his/her personal records.

Certifications should never be signed prior to the end date of the payroll period being certified. Each certification should be provided to the Finance Department when available.

Grant Administration

The following policies and procedures will also be applied to the extent that they do not conflict with or contradict any existing Council policies:

1. Grant Development, Application, and Approval –
 - a. Legislative Approval – The point at which legislative approval is required is determined by the requirements of the grant program. If the grant must be submitted by “an individual authorized by the *legislative body*”, then City Council approval is required prior to submitting the application. If such legislative approval is not specifically required by the written terms of the grant, then the City Manager or designee may, at his or her discretion, approve grant applications.
 - b. Matching Funds – Grants that require cash local matches must be coordinated through the Finance Department. At a minimum, funds must be identified within the existing budget to provide the match, or a budget amendment will be required. Depending on the nature of the grant, there may also be some policy implications that will bear discussion. (For example, will the grant establish a level of service that cannot be sustained once the grant funds are depleted?)

In all cases involving matching funds, the grant applicant should contact the Finance Department to determine the strategy for securing matching funds.

Refer to the section within this manual titled “Matching, Level of Effort, and Earmarking” for additional information on compliance with the provisions of the OMB UG.

- c. Grant Budgets – Most grants require the submission of an expenditure budget. The Finance Director will review this portion of the grant request prior to submission. A technical review may reveal inconsistencies in the calculations, cost centers that might have been overlooked, or identify reimbursable expenses of which program staff may not be aware—particularly for indirect costs.
2. Grant Program Implementation –
 - a. Notification and Acceptance of an Award – Official notification of a grant award is typically sent by a funding agency to the official (City Grant Official) designated in the original grant proposal. However, the authorization to actually spend grant funds is derived from the City Council through the approval of a grant budget. Such notification should also be directed to the Finance Department.

Adoption of the grant budget as a component of the City-wide operating budget is deemed to be sufficient approval.
 - b. Establishment of Accounts – The department that obtained the grant will provide the Finance Director with information needed to establish revenue and expense accounts for the project, as well as other codes needed for tracking purposes. Ordinarily, this information will include a copy of a summary of the project and detail of the full project budget.

- c. Purchasing Guidelines – All other City purchasing guidelines apply to the expenditure of grant funds. The use of grant funds does not exempt any purchase from normal purchasing requirements. All typical paperwork and bidding requirements as well as normal staff approvals apply. When in doubt, the City Grant Official should contact the Finance Director for further assistance.

3. Financial and Budgetary Compliance –

- a. Monitoring Grant Funds – Departments may use some internal mechanism (such as a spreadsheet) to monitor grant revenues, expenditures, and budgetary compliance, at the grant level. The Finance Director maintains this information in financial software system as well; this is the City’s “official” accounting system. City Grant Officials are strongly encouraged to use financial software reports provided by the Finance Department for their grant tracking.

If any “off-system” accounting records are maintained, it is the responsibility of the City Grant Official to ensure that the program’s internal records agree to the City’s accounting system.

- b. Fiscal Years – Occasionally, the fiscal year for the granting agency will not coincide with the City’s fiscal year. This may require adjustments to the City’s internal budget accounts and interim financial reports as well as special handling during fiscal year-end close. It is the responsibility of the City Grant Official to bring such discrepancies to the attention of the Finance Department at the time the grant accounts are established.

- c. Grant Budgets –The terms of each specific grant will dictate whether any budget transfers between budgeted line items will be permitted. In no case will the City Grant Official be authorized to exceed the total budget authority provided by the grant.

If grant funds have not been totally expended by fiscal year-end, it is the responsibility of the City Grant Official to notify the Finance Director that budget funds need to be carried forward to the new fiscal year, and to confirm the amounts of such carryforwards. Carryforwards of grant funds will be subjected to maximum allowable amounts/percentages based on the grant award agreement and/or the OMB UG.

Capital Assets – The City is responsible for maintaining an inventory of assets purchased with grant funds. The city is accountable for them and must make them physically available for inspection during any audit. The City Council must approve of any sale of these assets. Customarily, the proceeds of the sale can only be used on the grant program that purchased them. (Refer to the specific regulations governing the original grant).

The Finance Director will coordinate this grant requirement. All transactions that involve the acquisition or disposal of grant funded capital assets must be immediately brought to the attention of the Finance Director. Refer to the City’s separate Capital Assets policy and the section of this manual titled Equipment and Real Property Management for additional information. Record Keeping –

- d. Audit Work-papers – The City’s external auditors audit all grants at the end of each fiscal year. Finance Department staff will prepare the required audit work- papers. City Grant Officials may be asked to assist in this process, if necessary.

- e. Record Keeping Requirements – Grant record keeping requirements may vary substantially from one granting agency to another. Consequently, a clear understanding of these grant requirements at the beginning of the grant process is vital. The Finance Department will maintain copies of all grant draw requests and approved grant agreements (including budgets). The City Grant Official should maintain all other records.
4. Other Guidelines – Specific information on policies and procedures related to compliance with the provisions of the OMB UG are addressed in this manual and should be considered along with the information in this section.

Year-end Closing and Reporting

The following provisions govern the year-end close-out process of the City for purposes of external financial reporting:

2. To the extent that the City is required to have a single audit completed in accordance with OMB UG, the City will accumulate the information necessary to prepare a Schedule of Expenditures of Federal Awards (SEFA) in accordance with Federal and State requirements. This schedule will be characterized as follows:
 - a. The schedule will include all federal financial assistance, including grants, contracts, property, loans, loan guarantees, interest subsidies, cooperative agreements, insurance, or direct appropriations. Amounts will be reported whether received directly from the Federal government or through a pass-through agency (if the city is determined to be a sub-recipient and not a vendor).
 - b. The schedule will be prepared on the same basis of accounting as the related financial statements.
 - c. Federal programs will be listed by Federal Agency. For program clusters, the schedule will provide the cluster name, individual federal programs in each cluster, and the name of the federal agency. Totals will be provided for each cluster.
 - d. Total Federal awards expended for each federal program will be listed along with the Assistance Listing Number, pass-through entity name (if applicable) and pass-through entity number (if applicable). Such information will agree to the award documentation.
 - e. If the Assistance Listing Number of a Federal award cannot be reasonably determined, it shall be reported in the schedule using the two-digit prefix for the related Federal agency, followed by “UNKNOWN”.
 - f. In addition to current year expenditures, the schedule will list approved award/grant amount, accrued/deferred revenue at the beginning of the year, current year cash received, current year actual expenditures, and accrued/deferred revenue at the end of the year. If expenditures were incurred relative to this award in prior year(s), this amount should be disclosed as memorandum-only.

- g. Any adjustments to prior year awards, expenditures, and balances (including transfers between grants) will be disclosed in the footnotes to the schedule.
- h. Accrued/deferred revenue in the schedule shall agree to the amounts recorded as receivables/deferrals in the related financial statements.
- i. To the extent that a separate line item is included in the financial statements for federal revenue, this amount shall agree to expenditures in the schedule. Any reconciling items will be disclosed in the footnotes to the schedule.
- j. To the extent that amounts are passed through to sub-recipients, the schedule will provide the total amount for each federal program that was provided to subrecipients.
- k. The notes to the schedule will include significant accounting policies used to prepare the schedule, balances of any loans and loan guarantees that are outstanding at the end of the audit period, and whether the auditee has elected to use the 10% de minimis cost rate.

Additional Federal Awards Compliance Requirements

Some of the Federal awards received by the City are passed-through the State of Minnesota. Management will consider both the OMB UG and any applicable compliance requirements as set forth by the State of Minnesota.

General Information

Source of Information – Each year the OMB issues a comprehensive document on the compliance requirements each grant recipient is obligated to follow in general terms, along with program-specific guidance on various grant awards. There are 12 compliance requirements identified, each of which is considered individually in this manual.

The following pages document the policies and procedures of the City related to compliance with such procedures, as applicable. In each year that the City is subject to a single audit, applicable compliance requirements are expected to be tested in detail by the City's independent auditors.

Objectives – The objectives of most compliance requirements are generic in nature. While the criteria for each program may vary, the main objective of the compliance requirement is relatively consistent across all programs. As such, the policies and procedures of the City have been based on the generic sense of the compliance requirement. For selected compliance requirements, this manual addresses the specific regulations applicable to individual grants. This is not intended to imply that a program is not subject to such policies if it is not specifically mentioned here. It is the intent of the City that all Federal awards are subject to the following policies and procedures.

Controls over Compliance – In addition to creating policies and procedures over compliance with provisions of Federal awards, the City has implemented internal controls over such compliance, generally in the form of

administrative oversight and/or independent review and approval. To document these control activities, all independent reviews must be signed/initialed and dated.

Documentation – The City will maintain adequate documentation to support both the compliance with applicable requirements as well as internal controls over such compliance. This documentation will be provided to the City’s independent auditors and/or pass-through grantor agencies, as requested, during the single audit and program audits.

Activities Allowed/Unallowed and Allowable Costs/Cost Principles

Source of Governing Requirements – The requirements for activities allowed or unallowed are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award. The requirements for allowable costs/cost principles are contained in 2 CFR 200 Subpart E, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

To ensure compliance with these requirements, the City has implemented the following policies and procedures:

1. All grant expenditures will be in compliance with OMB Circular 2 CFR 200, Subpart E, State law, City policy, and the provisions of the grant award agreement, which will also be considered in determining allowability. Grant funds will only be used for expenditures that are considered reasonable and necessary for the administration of the program.
2. Grant expenditures will be approved by department heads/City Grant Officials initially through the purchasing process and again when the bill or invoice is received. This will be evidenced by signature or initials and date on the invoice or by an approval documented via email. Accounts payable disbursements will not be processed for payment by the Finance Department until necessary approval has been obtained.
3. Payroll costs will be documented in accordance with 2 CFR 200 Subpart E as described in the section of this manual titled “Payroll and Timekeeping”.
4. An indirect cost rate will only be charged to the grant to the extent that it was specifically approved through the grant budget/agreement. When allowable, indirect costs will be charged based on the *Cost Allocation Plan* of the City.

Cash Management

Source of Governing Requirements – The requirements for cash management are contained in OMB UG 2 CFR 200.302 & 305, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

To ensure compliance with these requirements, the City has implemented the following policies and procedures:

1. Many of the City's grants are awarded on a reimbursement basis. As such, program costs will be expended and disbursed prior to requesting reimbursement from the grantor agency.
2. Cash draws will be initiated by the Assistant Finance Director who will determine the appropriate draw amount. Documentation of how this amount was determined will be retained and signed/dated.
3. For state grants, the physical draw of cash will be processed through SWIFT (Minnesota's State-wide Integrated Financial Tools payment system) or through the means prescribed in the grant agreement.
4. Supporting documentation from SWIFT or a copy of the cash draw paperwork will be filed along with the approved paperwork described above and retained for audit purposes.
5. When cash is received in advance or drawn, the City will work to minimize time lapse between transfer of funds and disbursement by the City.

Eligibility

Source of Governing Requirements – The requirements for eligibility are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

Federal grants will only benefit those individuals and/or groups of participants that are deemed to be eligible.

Equipment and Real Property Management

Source of Governing Requirements – The requirements for equipment are contained in OMB UG 2 CFR 200.310-316, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

The following policies and procedures will also be applied to the extent that they do not conflict with or contradict any existing Council policies:

1. All equipment will be used in the program for which it was acquired or, when appropriate and allowable, other Federal programs.
2. When required, purchases of equipment will be pre-approved by the grantor or pass-through agency. The Finance Director, or designee will be responsible for ensuring that equipment purchases have been previously approved, if required, and will retain evidence of this approval.
3. Equipment records will be maintained, and an appropriate system shall be used to safeguard equipment, as described in the City's separate Capital Asset policy. Equipment should be assigned to a program and physical location on the inventory. If such equipment is moved, it will be noted and adjusted in the City's capital assets records.
4. When equipment is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

The City will keep, sell, or otherwise dispose of the equipment with no further obligation unless disposal requirements are specifically detailed in the grant. A record of the date, reason, and method of disposal or sale will be maintained with the equipment inventory.

5. Equipment purchased will be identified and kept in the City's capital asset records. The records shall include the following:
 - a. Asset number and description of the equipment
 - b. Location of the equipment
 - c. Depreciation method & years of expected life
 - d. Acquisition date
 - e. Cost of the equipment
 - f. Equipment classification (land, building, equipment, etc.)
 - g. Make, Model, & Serial number or other identification number
 - h. Vendor and invoice number to purchase equipment
 - i. Disposition data including date and sale price of the equipment

A physical inventory of the property will be conducted periodically, and the results will be reconciled with the capital asset listing. A control system will be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft will be investigated.

Maintenance procedures are in place to keep the equipment in good condition.

Matching, Level of Effort and Earmarking

Source of Governing Requirements – The requirements for matching are contained in OMB UG 2 CFR 200.306, program legislation, Federal awarding agency regulations, and the terms and conditions of the award. The requirements for level of effort and earmarking are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

The City defines “matching”, “level of effort”, and “earmarking” consistent with the definitions of the OMB UG:

Matching or cost sharing includes requirements to provide contributions (usually non-Federal) or a specified amount or percentage of match Federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions).

Level of effort includes requirements for (a) a specified level of service to be provided from period to period, (b) a specified level of expenditures from non-Federal or Federal sources for specified activities to be maintained from period to period, and (c) Federal funds to supplement and not supplant non-Federal funding of services.

Earmarking includes requirements that specify the minimum and/or maximum amount of percentage of the program's funding that must/may be used for specified activities, including funds provided to sub-recipients. Earmarking may also be specified in relation to the types of participants covered.

To ensure compliance with these requirements, the City has implemented the following policies and procedures:

1. Compliance with matching, level of effort, and earmarking requirements will be the responsibility of the Finance Director.
2. Adequate documentation will be maintained to support compliance with matching, level of effort, and earmarking requirements. Such information will be made available to City administration, auditors, and pass-through or grantor agencies, as requested.
3. Maintenance of effort for grants through the State Minnesota will be determined at the State level.

Period of Performance

Source of Governing Requirements – The requirements for period of performance of Federal funds are contained in OMB UB 2 CFR 200.038-309 & 344, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

To ensure compliance with these requirements, the City has implemented the following policies and procedures:

1. Costs will be charged to an award only if the obligation was incurred during the funding period (unless pre-approved by the Federal awarding agency or pass-through grantor agency).
2. All obligations will be liquidated not later than 120 days after the end of the funding period (or as specified by program legislation).
3. Compliance with period of performance requirements will initially be assigned to the individual approving the allowability of the expense/payment. This will be subject to review and approval by the Finance Department as part of the payment processing.

Procurement, Suspension and Debarment

Source of Governing Requirements – The requirements for procurement are contained in OMB UG 2 CFR 180, program legislation, Federal awarding agency regulations, and the terms and conditions of the award. The requirements for suspension and debarment are contained OMB UG 2 CFR 180, program legislation, Federal awarding agency regulations; and the terms and conditions of the award.

To ensure compliance with these requirements, the City has implemented the following policies and procedures:

1. Purchasing and procurement related to Federal grants will be subject to the general policies and procedures of the City (described in the section of this manual titled “Purchasing and Procurement”).
2. Contract files will document the significant history of the procurement, including the rationale for the method of procurement, selection of the contract type, contractor selection or rejection, and the basis of contract price.

3. The Finance Director will be responsible for determining whether the City is entering into a transaction that may be subject to suspension or debarment procedures and executing appropriate oversight and control activities at that time. The Finance Director, or designee thereof, is required to check for excluded parties at the System for Award Management (SAM) website: <http://www.sam.gov/>.

Program Income

Source of Governing Requirements – The requirements for program income are found in OMB UG 2 CFR 200.307, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

To ensure compliance with these requirements, the City has implemented the following policies and procedures:

1. Program income will include (but will not be limited to): income from fees for services performed, the use or rental of real or personal property acquired with grant funds, the sale of commodities or items fabricated under a grant agreement, and payments of principal and interest on loans made with grant funds. It will not include interest on grant funds unless otherwise provided in the Federal awarding agency regulations or terms and conditions of the award.
2. The City will allow program income to be used in one of three methods:
 - a. Deducted from outlays
 - b. Added to the project budget
 - c. Used to meet matching requirements

In the absence of specific guidance in the Federal awarding agency regulations or the terms and conditions of the award, program income shall be deducted from program outlays.

3. Program income, when applicable, will be accounted for as a revenue source in the same project code as the Federal grant.

Sub-recipient Monitoring

The City will ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and, if any of these data elements change, include the changes in subsequent subaward modification. Required information includes:

1. Federal Award Identification.
 - a. Subrecipient name (which must match the name associated with its unique entity identifier)
 - b. Subrecipient's unique entity identifier
 - c. Federal Award Identification Number (FAIN)
 - d. Federal Award Date (see §200.39 Federal award date) to the recipient by the Federal agency
 - e. Subaward Period of Performance Start and End Date
 - f. Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient

- g. Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation
- h. Total Amount of the Federal Award committed to the subrecipient by the pass-through entity
- i. Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA)
- j. Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity
- k. Assistance Listing Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listing number at time of disbursement
- l. Identification of whether the award is R&D
- m. Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs)

The City will perform a written risk assessment of each subrecipient, evaluating their risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in 2 CFR 200.332. This evaluation of risk may include consideration of such factors as the following:

- a. The subrecipient's prior experience with the same or similar subawards
- b. The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR Part 200, Subpart F, and the extent to which the same or similar subaward has been audited as a major program
- c. Where the subrecipient has new personnel or new or substantially changed systems
- d. The extent and results of federal award agency monitoring (e.g., if the subrecipient also receives federal awards directly from a federal awarding agency)

The City will monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

The City will verify that every subrecipient is audited as required by OMB UG 2 CFR 200 Subpart F when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold.

Special Tests and Provisions

To ensure compliance with these requirements, the City has implemented the following policies and procedures:

- 1. The Finance Director will be assigned the responsibility for identifying financial-related compliance requirements for special tests and provisions, determining approved methods for compliance, and retaining any necessary documentation. Program-related compliance requirements will be the responsibility of the department administering the grant.

Acronyms

CFR – Code of Federal Regulations

FFATA – Federal Funding Accountability and Transparency Act

GAAP – Generally Accepted Accounting Principles

GFOA – Government Finance Officers Association

OMB – Office of Management and Budget

RFP – Request for Proposal

SAM – System for Award Management

SEFA – Schedule of Expenditures of Federal Awards

ELECTED OFFICIALS OUT-OF-STATE TRAVEL POLICY

Minnesota Statutes § 471.661 requires that the governing body of a city must have on record a policy that controls travel outside the state of Minnesota for elected officials. The policy must be recorded vote and specify:

- 1) When travel outside the state is appropriate;
- 2) Applicable expense limits; and
- 3) Procedures for approval of the travel.

The policy must be made available for public inspection upon request. Subsequent changes to the policy must be approved by a recorded vote. A recorded vote means the names of each member present and the manner of their vote on the matter or question before the Council is recorded in the minutes.

A. Purpose

The City of Chanhassen recognizes that its elected officials may at times receive value from traveling out of state for workshops, conferences, events, and other assignments. This policy sets forth the conditions under which out-of-state travel will be reimbursed by the City.

B. General Guidelines

- 1) The event, workshop, conference, or assignment must be approved in advance by the City Council in an open meeting and must include an estimate of the cost of travel. In evaluating the out-of-state travel request, the Council will consider the following:
 - Whether the elected official will be receiving training on issues relevant to the City or to his or her role as the Mayor or Council Member
 - Whether the elected official will be meeting and networking with other elected officials from around the country to exchange ideas on topics of relevance to the City or on the official roles of local officials
 - Whether the elected official will be viewing a city facility or function that is similar in nature to one that is currently operating or under consideration by the City where the purpose of the trip is to study the facility or function to bring back ideas for the consideration of the full council
 - Whether the elected official has been specifically assigned by the Council to visit another city for the purpose of establishing a goodwill relationship such as a “sister-city” relationship
 - Whether the elected official has been specifically assigned by the Council to testify on behalf on the City at the United States Congress or to otherwise meet with federal officials on behalf of the City
 - Whether the City has sufficient funding available in the budget to pay the cost of the trip
- 2) No reimbursements will be made for attendance at events sponsored by or affiliated with political parties.
- 3) The City may make payments in advance for airfare, lodging, and registration if specifically approved by the Council. Otherwise, all payments will be made as reimbursements to the elected official.
- 4) The City will reimburse for transportation, lodging, meals, registration, and incidental costs using the same procedures, limitations, and guidelines outlined in the City’s policy for travel by City employees.
- 5) The elected official must complete an expense report form and attach original receipts for all expenses, including lodging, airfare, and meals. The expense form shall be submitted to the Finance Department for payment.
- 6) The City will not reimburse for alcoholic beverages, personal telephone call, costs associated with the attendance of a family member, rental of luxury vehicles, meal expenses (for meals included in the cost of registration), or recreational expenses, such as golf or tennis.