1. 1. Agenda

   Documents:

   1. 2018-06-05 FINANCE AGENDA.PDF

2. 2. Financial Policies

   Documents:

   2. FINANCIAL POLICIES.PDF
   2B. FUND BALANCE POLICY.PDF
   2C. INVESTMENT POLICY.PDF

3. 3. Transfer Of Available Funds

   Documents:

   3. TRANSFER OF AVAILABLE FUNDS.PDF

City Council Finance Committee
Tuesday, June 5, 2018 at 6:00 pm
City Hall – Public Meeting Room

AGENDA

1. Call to Order

2. Financial Policies
   a. GFOA Best Practices
   b. Fund Balance Policy
   c. Investment Policy

3. Transfer of Available Funds

4. Adjourn

Please contact the City Administrator's Office if you need special accommodations while attending this meeting

Council Committee Memorandum

TO:	Finance Committee
THROUGH:	Tim Murray, City Administrator
FROM:	Karla McCall, Finance Director
MEETING DATE:	June 5, 2018
SUBJECT:	Financial Policies

Discussion:

Financial policies are important documents that the City should keep updated. As noted in the attached Government Finance Officers Association Best Practice, Adopting Financial Policies, there are "powerful arguments in favor of adopting formal, written policies". The GFOA recommends the formal adoption of financial policies to help maintain stability, continuity, limitations, bond ratings, long-term strategic thinking, risk management, and overall compliance.

There are some basic financial policy categories that should be considered for adoption. These categories include:

- General Fund Reserves
- Reserves in Other Funds
- Grants
- Debt
- Investment
- Economic Development
- Accounting and Financial Reporting
- Risk Management and Internal Controls
- Procurement (Purchasing)
- Long-Term Financial Planning
- Structurally Balance Budget
- Capital
- Revenues
- Expenditures
- Operating Budget

In 2001, the Finance Director went through the process of writing and presenting multiple procedures to the Council for approval. The need to have formal, written financial policies is standard practice for government entities. The City Council has already approved the Grants Management

Policy, Public Purpose Expenditure/Purchasing Policy, Credit Card Use Policy and this Committee will be working on the Fund Balance and Investment Policies during this meeting.

Attachments:

- GFOA Best Practice - Adopting Financial Policies
- Fund Balance Policy (DRAFT)
- Investment Policy (DRAFT)

Government Finance Officers Association

BEST PRACTICE

Adopting Financial Policies

BACKGROUND:

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

1. Institutionalize good financial management practices. Formal policies usually outlive their creators, and, thus, promote stability and continuity. They also prevent the need to re-invent responses to recurring issues.
2. Clarify and crystallize strategic intent for financial management. Financial policies define a shared understanding of how the organization will develop its financial practices and manage its resources to provide the best value to the community.
3. Define boundaries. Financial policies define limits on the actions staff may take. The policy framework provides the boundaries within which staff can innovate in order to realize the organization's strategic intent.
4. Support good bond ratings and thereby reduce the cost of borrowing.
5. Promote long-term and strategic thinking. The strategic intent articulated by many financial policies necessarily demands a long-term perspective from the organization.
6. Manage risks to financial condition. A key component of governance accountability is not to incur excessive risk in the pursuit of public goals. Financial policies identify important risks to financial condition.
7. Comply with established public management best practices. The Government Finance Officers Association (GFOA), through its officially adopted Best Practices endorsement of National Advisory Council on State and Local Budgeting (NACSLB) budget practices and the GFOA Distinguished Budget Presentation Award Program, has recognized financial policies as an essential part of public financial management.

RECOMMENDATION:

GFOA recommends that governments formally adopt financial policies. Steps to consider when making effective financial policies include (1) scope, (2) development, (3) design, (4) presentation, and (5) review.

Scope**.** There are some basic financial policy categories (but not limited to) that all governments should consider adopting.

1. *General fund reserves*. Policies governing the amount of resources to be held in reserve and conditions under which reserves can be used.
2. *Reserves in other funds.* Policies for other funds (especially enterprise funds) that serve a similar purpose to general fund reserve policies.

3. *Grants.* Policies that deal with the administration and grants process.
4. *Debt.* Policies that govern the use of government debt, including permissible debt instruments, conditions under which debt may be used, allowable levels of debt, and compliance with continuing disclosure requirements.
5. *Investment*. Policies that provide guidance on the investment of public funds, including permissible investment instruments, standards of care for invested funds, and the role of staff and professional advisors in the investment program.
6. *Economic development*. Policies that address a local government's use of subsidies or other incentives to encourage private development.
7. *Accounting and financial reporting*. Policies that establish and guide the use of an audit committee, endorse key accounting principles, and that ensure external audits are properly performed.
8. *Risk management and internal controls.* Policies that address traditional views of risk management and internal control, as well as more modern concepts of "enterprise risk management."
9. *Procurement.* Policies that are most essential for adoption by the governing board in order to encourage efficient, effective and fair public procurement.
10. *Long-term financial planning*. A policy that commits the organization to taking a long-term approach to financial health.
11. *Structurally balanced budget*. Policies that offer a distinction between satisfying the statutory definition and achieving a true structurally balanced budget.
12. *Capital*. Policies that cover the lifecycle of capital assets, including capital improvement planning, capital budgeting, project management, and asset maintenance.
13. *Revenues*. Policy guidance through the designing of efficient and effective revenue systems that guarantee the generation of adequate public resources to meet expenditure obligations.
14. *Expenditures*. Policies addressing a range of issues around how the money is expended, including personnel, outsourcing, and funding long-term liabilities.
15. *Operating budget*. Policies that describe essential features of the budget development process and form, as well as principles that guide budgetary decision making.

Development**.** The following steps should be considered in the development of effective policies.

1. Define the problem the policy will address.
2. Draft the policy. Be aware of legal requirements and consider public comments. Look at the experience of peer governments.
3. Review and present the policy to government officials.
4. Formally consider and adopt policy.
5. Implement policy making sure that staff and government officials are aware of policies.

Design**.** Effective polices have a number of design features in common.

1. Policies must exist in written form.
2. Policies should be expressed in a manner that is understandable to the intended audiences.
3. Policies should be made available to all stakeholders, and be published in more than one medium with multiple means of access.
4. Policies should address all relevant issues and risks for that specific policy in a concise fashion.

Presentation**.** Effective financial policies share some of the following traits.

1. All of the financial policies are placed in the same section of the budget document.
2. The original and revision dates are shown on the individual policies.

Review. Financial policies are most successful when they are reviewed after being enacted.

1. Policies should be monitored, reviewed, and updated as needed in a systematic way.
2. Analyze the reasons if specific policies are not being followed.

Note: References listed below will be arranged separately on the GFOA website.

Reference to Some of GFOA Best Practices on Financial Policies

Financial Policy	GFOA Best Practice Link
General Fund /Other Fund Reserves	• Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund • Determining the Appropriate Level of Working Capital in Enterprise Funds
Grants	• Establishing an Effective Grants Policy • Establishing a Grants Administration Oversight Committee • Administering Grants Effectively
Debt	• Debt Management Policy • Analyzing and Issuing Refunding Bonds
Investment	• Local Government Investment Pools • Investment of Bond Proceeds
Economic Development	• Evaluating and Managing Economic Development Incentives • Coordinating Economic Development and Capital Planning • Monitoring Economic Development Performance • Developing an Economic Development Incentive Policy
Accounting & Financial Reporting	• Documenting Accounting Policies and Procedures • Encouraging and Facilitating the Reporting of Fraud and Questionable Accounting and Auditing Practices • Audit Committees • Basis of Accounting versus the Budgetary Basis
Risk Management & Internal Controls	• Practical Steps to Avoid, Limit, or Eliminate Internal Control Deficiencies Identified in an Audit • Business Preparedness and Continuity Guidelines • Creating a Comprehensive Risk Management Program
Procurement	• Purchasing Card Programs • Electronic Payment and Collection Systems
Long-term Financial Planning	• Long-Term Financial Planning
Balanced Budget	• Achieving a Structurally Balanced Budget
Capital	• Capital Planning Policies

	• Incorporating a Capital Project Budget in the Budget Process • Multi-Year Capital Planning • Establishing Capitalization Thresholds for Capital Assets • Determining the Estimated Useful Life of Capital Assets
Expenditures	• Inflationary Indices in Budgeting • Effective Budgeting of Salary and Wages • Strategies for Managing Health-Care Costs • Measuring the Full Cost of Government Service
Revenues	• Establishing Government Charges and Fees • Financial Forecasting in the Budget Preparation Process • The Use of Trend Data and Comparative Data for Financial Analysis • Revenue Diversification, Use of One-Time Revenues, and Use of Unpredictable Revenues
Operating Budget	• A Systematic Approach to Managing Performance • Making the Budget Document Easier to Understand • Public Participation in Planning, Budgeting, and Performance Management • Presenting Official Financial Documents on Your Government's Website

References:

- GFOA Best Practice, "Recommended Budget Practices from the National Advisory Council on State and Local Budgeting," 1998.
- GFOA Publication, "Financial Policies," 2012 (Shayne Kavanagh).

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Fund Balance Policy

Purpose: The purpose of this policy is to establish guidelines to maintain financial stability by ensuring adequate fund balances and cash reserves.

1. **<u>PURPOSE</u>**

   The City officials and staff have the responsibility to maintain prudent financial operations to ensure stability for the benefit of City residents and businesses. Fund balance reserves are an important component when ensuring the overall financial health of a community, by giving the City cushion to meet contingency or cash-flow timing needs. The Office of the State Auditor recommends that at year-end, local governments maintain an unreserved fund balance in their general fund and special revenue funds of approximately 35 to 50% of fund operating revenues, or no less than five months of operating expenditures.

2. **<u>GUIDELINES</u>**

   A. <u>Unrestricted Fund Balance:</u> Unrestricted fund balance is the amount of fund balance left after determining both nonspendable and restricted net resources. The unrestricted fund balance is the amount of fund balance that a local government may place constraints on its use (committed and assigned) and fund balance that does not have any specific purpose identified for the use of those net resources (unassigned). Unrestricted fund balance includes the committed, assigned, and unassigned classifications. Committed and assigned fund balance represent resources set aside by the government to fund specific purposes.
      1. The City Council may agree to commit a portion of the fund balance for a specific purpose. This commitment of fund balance would require the approval of City Council.
      2. The Finance Director may assign fund balance as needed to maintain the appropriate levels of fund balance for specific purposes including, but not limited to, donated funds for K-9 operations, assignments of scholarship funds, etc.

   B. <u>General Fund:</u> The City shall maintain a minimum unrestricted fund balance in the General Fund not less than 35% and a maximum unrestricted fund balance not more than 50% of the following year's General Fund budgeted expenditures to be used for (1) cash flow purposes, (2) unanticipated expenditures of a non-recurring nature, (3) to meet unexpected expenditure increases due to local disasters or (4) unexpected revenue shortfalls.

   C. <u>Capital Replacement Funds:</u> The excess of revenues over expenditures in the General Fund at year-end will be transferred to the Capital Replacement Funds on an annual basis, provided the maximum 50% unrestricted fund balance has been met. The split of excess funds to the capital project funds shall be at the discretion of the City Administrator and Finance Director.

D. Enterprise Funds: The City shall maintain a minimum cash balance in its Enterprise Funds equal to approximately three months of operating expense, or 25% of the funds' annual operating budgets. This balance shall be maintained to ensure adequate maintenance reserves, operating cash flow balancing requirements, emergency improvements for capital repair or replacement, debt service requirements and legal restrictions.

E. Other Funds: The City shall maintain appropriate balances in all other funds in the amounts needed to maintain positive cash balances at year-end with exceptions made for those funds associated with economic development purposes which may be aggregated by fund type to maintain a positive balance.

F. Use of Fund Balances: Fund balance is the accumulation of prior years' excess or deficit of all revenues and expenditures. Available fund balances shall not be used for ongoing operating expenditures, unless a determination has been made that available balances are in excess of required guidelines and plans have been established to address any future operating budget shortfalls. Emphasis shall be placed on one-time uses that achieve future operating cost reductions and/or service level efficiencies.

G. Annual Review: An annual review of cash flow requirements and appropriate fund balances shall be undertake to determine whether modifications are appropriate for the reserve policy.

THIS POLICY SPECIFICALLY REPEALS AND REPLACES PRIOR CITY POLICIES AND ADMINISTRATIVE MEMORANDA RELATIVE TO FUND BALANCE POLICIES.

Approved:

________________________________	________________________________
Mayor	City Administrator

June 12, 2018

Investment Policy

Purpose: The purpose of this policy is to provide guidelines for the prudent investment of all financial assets of the City of Faribault.

1. **PURPOSE**

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

2. **GUIDELINES**

   A. Pooling of Funds:

   Except for cash in certain restricted and special funds, the City of Faribault 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.

   B. 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 capital in the overall portfolio. The objective will be to mitigate credit and interest rate risk.

   1. Credit Risk

      The City of Faribault will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

      - Limiting investments to the safest types of securities.
      - Pre-qualifying the financial institutions, broker/dealers, intermediaries and advisers with which the City will do business as stated in Section F, Paragraph 1.
      - Diversifying the investment portfolio as to issuer, so that potential losses on individual securities will be minimized.

2. Interest Rate Risk
   The City will minimize the risk that the market value of securities in the portfolio will fall due to the changes in general interest rates, by:
   - Structuring the investment portfolio, when appropriate, so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
   - Investing operating funds primarily in shorter-term securities, money market mutual funds or similar investment pools.

C. Liquidity:
The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with anticipated demands. A portion of the portfolio may be placed in money-market mutual funds or local government investment pools which offer same-day liquidity.

D. Yield:
The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:
1. A security with declining credit may be sold early to minimize loss of principal.
2. A security swap would improve the quality, yield or target duration in the portfolio.
3. Liquidity needs of the portfolio require that the security be sold.

E. Standard of Care:
1. *Prudence*: The standard of prudence, meaning not for speculation and with consideration of the probable safety of the capital as well as the probable investment returns, shall be used by investment officials. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes.
2. *Ethics and Conflicts of Interest*: Employees involved in the investment process shall have no personal business activity that could conflict with the proper execution and management of the investment program, or could impair their ability to make impartial decisions. Employees shall disclose any material interests in financial institutions with which the conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

3. *Delegation of Authority*: Authority to manage the investment program is granted to the City Administrator and derived from the following: Minnesota Statutes, Chapter 118A. Responsibility for the operation of the investment program is hereby delegated 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 and applicable state statutes. Procedures should include references to; safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreement 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 Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

F. Safekeeping and Custody:

1. Authorized Financial Dealers and Institutions: A list will be maintained of financial institutions authorized to provide investment services, in addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1.

2. All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:
   - Audited financial statements.
   - Proof of National Association of Securities Dealers (NASD) certification.
   - Proof of state registration.
   - Completed broker/dealer questionnaire.
   - Certification of having read and understood and agreeing to comply with the City's investment policy.

   An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Finance Director.

3. Internal 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 misuses. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

   Accordingly, the Finance Director shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:
   - Control of collusion.

- Separation of transaction authority from accounting and recordkeeping.
- Custodial safekeeping.
- Avoidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation of transactions for investments and wire transfers.

4. Delivery vs. Payment: All trades, other than those with the custody agent, will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

G. Suitable and Authorized Investments:
1. Investment Types: The City's investments will be limited to and only to those investments that qualify under Minnesota Statute 118A.
2. Collateralization: Full collateralization will be required on non-negotiable certificates of deposit.
3. Repurchase Agreements: Repurchase agreements shall be consistent with Government Finance Officers Association (GFOA) Recommended Practices on Repurchase Agreements.

H. Investment Parameters:
1. Methods: The Finance Director shall prepare an investment report, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made quarterly. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Mayor, City Council, and City Administrator on a quarterly basis. The report will include the following:
    - Listing of individual securities held at the end of the reporting period.
    - Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity.
    - Average weighted yield to maturity of portfolio on investments.
    - Listing of investments by maturity date.
    - Percentage of the total portfolio which each type of investment represents.
2. Performance Standards: The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates.
3. Marking to Market: The market value of the portfolio shall be calculated at least quarterly.

I. <u>Policy Considerations:</u>

1. Amendments: This policy shall be reviewed as needed or when requested by City Council. Any changes must be approved by the City Council.

THIS POLICY SPECIFICALLY REPEALS AND REPLACES PRIOR CITY POLICIES AND ADMINISTRATIVE MEMORANDA RELATIVE TO INVESTMENT POLICIES.

Approved:

________________________________ __________________________________

Mayor City Administrator

Adopted December 12, 2006
Revised March 12, 2013
Updated June 12, 2018

2B.

Fund Balance Policy

Purpose: The purpose of this policy is to establish guidelines to maintain financial stability by ensuring adequate fund balances and cash reserves.

1. **PURPOSE**

   The City officials and staff have the responsibility to maintain prudent financial operations to ensure stability for the benefit of City residents and businesses. Fund balance reserves are an important component when ensuring the overall financial health of a community, by giving the City cushion to meet contingency or cash-flow timing needs. The Office of the State Auditor recommends that at year-end, local governments maintain an unreserved fund balance in their general fund and special revenue funds of approximately 35 to 50% of fund operating revenues, or no less than five months of operating expenditures.

2. **GUIDELINES**

   A. Unrestricted Fund Balance: Unrestricted fund balance is the amount of fund balance left after determining both nonspendable and restricted net resources. The unrestricted fund balance is the amount of fund balance that a local government may place constraints on its use (committed and assigned) and fund balance that does not have any specific purpose identified for the use of those net resources (unassigned). Unrestricted fund balance includes the committed, assigned, and unassigned classifications. Committed and assigned fund balance represent resources set aside by the government to fund specific purposes.

      1. The City Council may agree to commit a portion of the fund balance for a specific purpose. This commitment of fund balance would require the approval of City Council.
      2. The Finance Director may assign fund balance as needed to maintain the appropriate levels of fund balance for specific purposes including, but not limited to, donated funds for K-9 operations, assignments of scholarship funds, etc.

   B. General Fund: The City shall maintain a minimum unrestricted fund balance in the General Fund not less than 35% and a maximum unrestricted fund balance not more than 50% of the following year's General Fund budgeted expenditures to be used for (1) cash flow purposes, (2) unanticipated expenditures of a non-recurring nature, (3) to meet unexpected expenditure increases due to local disasters or (4) unexpected revenue shortfalls.

   C. Capital Replacement Funds: The excess of revenues over expenditures in the General Fund at year-end will be transferred to the Capital Replacement Funds on an annual basis, provided the maximum 50% unrestricted fund balance has been met. The split of excess funds to the capital project funds shall be at the discretion of the City Administrator and Finance Director.

D. Enterprise Funds: The City shall maintain a minimum cash balance in its Enterprise Funds equal to approximately three months of operating expense, or 25% of the funds' annual operating budgets. This balance shall be maintained to ensure adequate maintenance reserves, operating cash flow balancing requirements, emergency improvements for capital repair or replacement, debt service requirements and legal restrictions.

E. Other Funds: The City shall maintain appropriate balances in all other funds in the amounts needed to maintain positive cash balances at year-end with exceptions made for those funds associated with economic development purposes which may be aggregated by fund type to maintain a positive balance.

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G. Annual Review: An annual review of cash flow requirements and appropriate fund balances shall be undertake to determine whether modifications are appropriate for the reserve policy.

THIS POLICY SPECIFICALLY REPEALS AND REPLACES PRIOR CITY POLICIES AND ADMINISTRATIVE MEMORANDA RELATIVE TO FUND BALANCE POLICIES.

Approved:

________________________________ ________________________________

Mayor City Administrator

June 12, 2018

Investment Policy

Purpose: The purpose of this policy is to provide guidelines for the prudent investment of all financial assets of the City of Faribault.

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

2. **GUIDELINES**

A. Pooling of Funds:
Except for cash in certain restricted and special funds, the City of Faribault 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.

B. 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 capital in the overall portfolio. The objective will be to mitigate credit and interest rate risk.

1. Credit Risk
The City of Faribault will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
   - Limiting investments to the safest types of securities.
   - Pre-qualifying the financial institutions, broker/dealers, intermediaries and advisers with which the City will do business as stated in Section F, Paragraph 1.
   - Diversifying the investment portfolio as to issuer, so that potential losses on individual securities will be minimized.

2. Interest Rate Risk
   The City will minimize the risk that the market value of securities in the portfolio will fall due to the changes in general interest rates, by:
   - Structuring the investment portfolio, when appropriate, so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
   - Investing operating funds primarily in shorter-term securities, money market mutual funds or similar investment pools.

C. Liquidity:

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with anticipated demands. A portion of the portfolio may be placed in money-market mutual funds or local government investment pools which offer same-day liquidity.

D. Yield:

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

1. A security with declining credit may be sold early to minimize loss of principal.
2. A security swap would improve the quality, yield or target duration in the portfolio.
3. Liquidity needs of the portfolio require that the security be sold.

E. Standard of Care:

1. *Prudence*: The standard of prudence, meaning not for speculation and with consideration of the probable safety of the capital as well as the probable investment returns, shall be used by investment officials. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes.
2. *Ethics and Conflicts of Interest*: Employees involved in the investment process shall have no personal business activity that could conflict with the proper execution and management of the investment program, or could impair their ability to make impartial decisions. Employees shall disclose any material interests in financial institutions with which the conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

3. *Delegation of Authority*: Authority to manage the investment program is granted to the City Administrator and derived from the following: Minnesota Statutes, Chapter 118A. Responsibility for the operation of the investment program is hereby delegated 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 and applicable state statutes. Procedures should include references to; safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreement 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 Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

F. <u>Safekeeping and Custody</u>:

1. Authorized Financial Dealers and Institutions: A list will be maintained of financial institutions authorized to provide investment services, in addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1.

2. All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:
    - Audited financial statements.
    - Proof of National Association of Securities Dealers (NASD) certification.
    - Proof of state registration.
    - Completed broker/dealer questionnaire.
    - Certification of having read and understood and agreeing to comply with the City's investment policy.

    An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Finance Director.

3. Internal 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 misuses. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

    Accordingly, the Finance Director shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:
    - Control of collusion.

- Separation of transaction authority from accounting and recordkeeping.
- Custodial safekeeping.
- Avoidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation of transactions for investments and wire transfers.

4. Delivery vs. Payment: All trades, other than those with the custody agent, will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

G. Suitable and Authorized Investments:
1. Investment Types: The City's investments will be limited to and only to those investments that qualify under Minnesota Statute 118A.
2. Collateralization: Full collateralization will be required on non-negotiable certificates of deposit.
3. Repurchase Agreements: Repurchase agreements shall be consistent with Government Finance Officers Association (GFOA) Recommended Practices on Repurchase Agreements.

H. Investment Parameters:
1. Methods: The Finance Director shall prepare an investment report, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made quarterly. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Mayor, City Council, and City Administrator on a quarterly basis. The report will include the following:
    - Listing of individual securities held at the end of the reporting period.
    - Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity.
    - Average weighted yield to maturity of portfolio on investments.
    - Listing of investments by maturity date.
    - Percentage of the total portfolio which each type of investment represents.
2. Performance Standards: The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates.
3. Marking to Market: The market value of the portfolio shall be calculated at least quarterly.

I. Policy Considerations:

1. Amendments: This policy shall be reviewed as needed or when requested by City Council. Any changes must be approved by the City Council.

THIS POLICY SPECIFICALLY REPEALS AND REPLACES PRIOR CITY POLICIES AND ADMINISTRATIVE MEMORANDA RELATIVE TO INVESTMENT POLICIES.

Approved:

______________________________	________________________________
Mayor	City Administrator

Adopted December 12, 2006
Revised March 12, 2013
Updated June 12, 2018

City Of Faribault

Council Committee Memorandum

TO:	Finance Committee
THROUGH:	Tim Murray, City Administrator
FROM:	Karla McCall, Finance Director
MEETING DATE:	June 5, 2018
SUBJECT:	Transfer of Available Funds

Discussion:
There are two considerations for designating the use of excess/available funds for City projects and information regarding the movement of the balances for the purchase and improvement of new property. The three areas are listed below for discussion with the Finance Committee.

1. ***Use of Tax Increment:***
   An annual report is prepared for Administration for Tax Increment Financing (TIF) Districts which includes balance information and important dates associated with each district. Cities are allowed to retain up to 10% of the increment collected to offset administrative costs associated with each district. Administrative costs include fees from Ehlers & Associates for professional services related to TIF issues and the preparation of annual reports that are required by the Office of the State Auditor (OSA). Rice County is also paid a fee for the collection and distribution of increment to the City. A portion of the 10% is retained by the City for other administration or pooled use outside the district.

   The City can use eligible pooled funds for activities as defined in Minnesota Statutes 469.1763 which include, "acquisition of property, clearing of land, site preparation, soils correction, removal of hazardous waste or pollution, installation of utilities, construction of public or private improvements, and other similar activities, but only to the extent that tax increment revenues may be spent for such purposes under the law."

   Based on the general pooling authority, redevelopment TIF districts may spend up to 25% of revenue derived from tax increment paid by properties in the district for eligible expenses outside the TIF district but inside the project area. Other TIF districts may spend up to 20% outside the TIF district for general pooling purposes. Each TIF District has specific parcel(s) identified within the district, whereas the "project area" is defined as the *City limits*.

The City currently has two active redevelopment districts; River Ridge and Cave Creek (Faribault Senior Living). These districts have been accumulating a fund balance from the remaining portion of the 10% of increment retained by the City for administration. The balances available in these funds may be used for general pooling purposes. The City has two active development districts; MRG and Mike's Garage. These districts have also built up balances, but are much smaller, due to the type of business and the length of the district. The MRG TIF District must be decertified by 12/31/2018 and any remaining, unused increment revenue must be returned to the County. The available balances are shown in the chart below:

TIF District	
River Ridge	$39,250
Cave Creek	$48,000
MRG	$7,337
Mike's Garage	$2,115
Total	**$96,702**

There are various projects and options for utilizing these funds and several current improvements may be under consideration.

We have concerns about the cash available for the airport to use for future, long-term capital improvements. A cash projection worksheet has been prepared for use in planning for future spending at the airport. There are three separate cash accounts which are used to maintain a separate balances of cash intended for operations, capital projects and debt service. Resolution #2013-230 was approved by the City Council to transfer $685,250 from the General Fund to the Airport Fund. This transfer was intended to provide cash for the repayment of the ten-year, interest-free loan for a 10-Unit T-Hangar, financed through the Minnesota Department of Transportation Aeronautics on March 1, 2013. The transfer provided additional funds to be used for future capital expenditures. The amounts are provided below:

- Amount needed for loan repayment………$563,750
- Amount for future improvements…………..$121,500

The cash projection worksheet shows a negative balance for capital projects at the end of 2018. The operating cash balance is in the positive position and appears to be stable. The General Fund contributes $30,000 annually for operating support. The hangar loan will be paid off in 2023 with the cash contributed by the General Fund in 2013.

2. **MIF Funds:**
The City has made an application to the State for a One-time Exception for the use of the MIF Fund balance. The Exception allows the City to split the balance 80/20 with the City keeping 80% of the balance to be used for public purposes and 20% will be returned to the State. The detailed amount of the split is listed below:

80% to the City	$638,165
20% to the State	$159,541

During the Council's Joint Committee meeting on May 8, 2018, the memo for discussion noted that the funds were originally intended for economic development and it was recommended that the Council consider directing all, or a portion, of the funds from the 80% allotment to assist with economic development, such as the general EDA Operating Fund (Fund 290) or similar fund *(from May 8, 2018 Joint Committee Memo 2)*. At their May 17, 2018 meeting, the EDA Board had recommended that the excess funds be transferred to EDA Fund 290 (EDA Operating Fund) so the dollars could be used for economic development activities (supporting business growth) as a consistent use of the original intended purpose of the funds (*from May 22, 2018 Joint Committee Memo 4F)*.

It is also noted in the May 8th memo that the 80% portion of the MIF funds can be used by the City with virtually no conditions or requirements, providing much more flexibility in the use of the funds. DEED information regarding these funds notes that, "The one-time exception would allow a home rule charter or statutory city, county or town that has uncommitted money in their RLF fund to use 80% of the balance as a general purpose aid for any lawful expenditure." The City may designate all, or a portion, of the $638,165 for parks, streets, public safety, economic development or any other public purpose. No final determination has been made by the City Council for the final distribution of these funds. This information is provided for discussion by this Committee.

3. **Excess for Purchase and Improvement of Land:**
The City Council previously discussed the use of certain excess funds for the purchase and improvement of specific properties which were identified in a closed session. The available excess for making these land acquisitions and improvements is made up of the following funds.
   - $500,000 is available from fund 704 (Worker's Compensation Fund)

- $800,000 from fund 705 (Property Liability Reserve Fund)
- $400,000 from fund 301 (Debt Service Reserve)

The total available for land acquisition and improvements is approximately $1,700,000. These designated funds are scheduled to be transferred to the Facilities Capital Improvement Fund (437) pending Council approval at the June 12th meeting.

Recommendation:

1. Staff recommends using the TIF pooled increment to pay a portion of the 2018 Fuel System Upgrade Project at the Airport. This is an eligible use of the TIF funds as a public improvement and would provide cash for the capital projects account.
2. Provide direction to staff on a recommendation to take forward regarding the disposition of the 80% MIF allotment. While previous recommendations were to transfer the funds to the general EDA Operating Fund (Fund 290), there is the option to designate all or a portion of the funds elsewhere for other allowed expenditures.
3. Information only; there is a memo and resolution being prepared for Council approval on June 12, 2018.

Attachments:

1. Airport Cash Projections

CITY OF FARIBAULT
AIRPORT CASH PROJECTION

	2016 Actual	2017 Actual	2018 Budget	2019 Projected	2020 Projected	2021 Projected	2022 Projected
OPERATING							
Revenues							
Intergovernmental Revenue (Maint)	$ 113,156	$ 166,131	$ 31,296	$ 31,296	$ 31,296	$ 31,296	$ 31,296
Rent of Hangars and Land	110,060	104,264	107,000	104,000	104,000	104,000	104,000
Transfer from General Fund	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Miscellaneous Revenue	11,979	2,095	9,000	5,000	2,500	1,000	500
Total Revenues	$ 265,195	$ 302,490	$ 177,296	$ 170,296	$ 167,796	$ 166,296	$ 165,796
Expenditures							
Supplies	$ 13,133	$ 4,786	$ 9,100	$ 9,282	$ 9,468	$ 9,657	$ 9,850
Other Services & Charges	121,224	174,695	$ 135,435	139,498	143,683	147,993	152,433
Extraordinary Maintenance		72,945		73,000		73,500	
Total Expenditures	$ 134,357	$ 252,426	$ 144,535	$ 221,780	$ 153,151	$ 231,150	$ 162,283
Operating Gain (Loss)	$ 130,838	$ 50,064	$ 32,761	$ (51,484)	$ 14,645	$ (64,854)	$ 3,513
Cash Balance January 1	$ 120,595	$ 251,433	$ 301,496	$ 334,257	$ 282,773	$ 297,419	$ 232,564
Cash Balance December 31	$ 251,433	$ 301,496	$ 334,257	$ 282,773	$ 297,419	$ 232,564	$ 236,077

CAPITAL PROJECTS:	2016	2017	2018	2019	2020	2021	2022
Revenues					CIP		
State & Federal Grants (Taxilane G)	$ 272,826	$ -	$ 231,800	$ 258,000	$ 1,328,400	$ 137,500	$ 1,433,210
State & Federal Grants (Fuel System)			500,000				
Total Revenues	$ 272,826	$ -	$ 731,800	$ 258,000	$ 1,328,400	$ 137,500	$ 1,433,210
Expenditures							
Project Costs (Taxilane G)	$ 419,278	$ 50,383	$ 859,343	$ 641,000	$ 1,573,000	$ 210,000	$ 1,781,000
Project Costs (Fuel System)			244,000				
Total Expenditures	$ 419,278	$ 50,383	$ 1,103,343	$ 641,000	$ 1,573,000	$ 210,000	$ 1,781,000
Revenue Over (Under)	$ (146,452)	$ (50,383)	$ (371,543)	$ (383,000)	$ (244,600)	$ (72,500)	$ (347,790)
Cash Balance January 1	$ 479,158	$ 332,706	$ 282,323	$ (89,220)	$ (472,220)	$ (716,820)	$ (789,320)
Cash Balance December 31	$ 332,706	$ 282,323	$ (89,220)	$ (472,220)	$ (716,820)	$ (789,320)	$ (1,137,110)

DEBT SERVICE:	2016	2017	2018	2019	2020	2021	2022
Revenues							
Use of Restricted Cash Balance	$ 61,500	$ 61,500	$ 61,500	$ 61,500	$ 61,500	$ 61,500	$ 61,500
Total Revenues	$ 61,500	$ 61,500	$ 61,500	$ 61,500	$ 61,500	$ 61,500	$ 61,500
Expenditures							
Principal Expense - Hangar Loan	$ 61,500	$ 61,500	$ 61,500	$ 61,500	$ 61,500	$ 61,500	$ 61,500
Transfer Out							
Total Expenditures	$ 61,500	$ 61,500	$ 61,500	$ 61,500	$ 61,500	$ 61,500	$ 61,500
Revenue Over (Under)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash Balance January 1	$ 440,750	$ 379,250	$ 317,750	$ 256,250	$ 194,750	$ 133,250	$ 71,750
Cash Balance December 31	$ 379,250	$ 317,750	$ 256,250	$ 194,750	$ 133,250	$ 71,750	$ 10,250