# City of Minneapolis
# 2013 Budget

## Financial Policies

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## Financial Management Policies

## OPERATING BUDGET POLICIES

The objective of the operating budget policies is to ensure adequate levels of essential City services at reasonable costs.

***Balanced Budget.*** The operating budget for the City shall be balanced. For each fund, ongoing costs are not to exceed ongoing revenues plus available fund balances used in accordance with reserve policies.

***Self-Supporting Enterprises***. All enterprise activities of the City shall be self-supporting, including those activities contained within the Internal Service Funds. To the extent that an activity is not self-supporting, long-term financial plans shall be created to secure a self-supporting state in the future.

***Service Levels***. Changes in service levels shall be governed by the following:

- ***Budget Process***. The annual budget process is intended to weigh all competing requests for City resources within expected fiscal constraints. Requests for new programs should be made as a part of the annual budget process. New initiatives will be financed by reallocating existing City resources to the services with the highest priorities as determined by the City Council. Services funded through the identification or raising of additional revenues may be given higher priority.

- **[New in 2013]** ***Personnel Expenses***. Departments are to account for the salaries and benefits of permanent employees within their ongoing budget appropriations. Departments may use projections of bell-curve staffing to adjust the level of employees throughout the year as long as the department does not exceed its appropriated budget.

- ***Overtime Limitation***. The policy approved by the Mayor and Council limits all departmental overtime to 5% of the budgeted amount for the salaries and wages category in the current budget year.

- ***Elected Official Budgets***. A year-end deficit will be allowed for each ward and the Mayor's office budget with the exception of the final year of term (but not for two consecutive years). The deficit will be paid by March 31 or the Council Member or Mayor's office budget for the current year will be reduced at mid-year. If there is savings in a ward or Mayor's budget, these savings can be reappropriated from one year to the next, but cannot be reappropriated the final year of the term.

- ***Grant Funded Programs***. General governmental programs financed with grant monies shall be budgeted in special revenue funds, and the service program shall be adjusted to reflect the level of available grant funding. Grant funding for permanent improvement funds and internal service and enterprise fund activities shall be accounted for in those funds. Individual grant budgets are controlled in the financial system at the cost category level. In the event of reduced grant funding, City funding sources shall be substituted only after all competing program priorities are considered during the annual budget process.

***Basis of Budgeting***. The basis of budgeting and accounting are the same, except as noted below. The budgets of all governmental funds are created using the modified accrual basis. Revenues are budgeted if they are measurable and available as net current assets. Major revenues that are determined to be susceptible to accrual and budgeted accordingly include the following: property taxes, special assessments, grants-in-aid, intergovernmental revenues, rentals, franchise fees, and intra-city charges.

Interest on investments, short-term notes, and loans receivable are accrued and budgeted. Interest on special assessments receivable is not accrued or budgeted. Major revenues that are not accrued because they are not available soon enough to pay liabilities of the current period or are not objectively measurable include the following: delinquent property taxes and assessments, licenses, permits, fines and forfeitures. Delinquent property taxes are not budgeted, while the other categories are budgeted on a cash basis.

In the governmental funds, expenditures are generally budgeted when the related fund liability is incurred. Only the current portion of principal and interest expense on general long-term debt is budgeted. Compensated Absences and Other Post-Employment Benefits are not budgeted and are considered expenditures at the time they are paid out. Salary expenditures are budgeted based on full time equivalents (FTEs), regardless of the type of pay.

Proprietary [internal service and enterprise] funds use the accrual basis, and revenues are budgeted as they are anticipated to be earned. Unbilled utility service receivables are recorded at year end. Utility service revenue estimates are based on the number of users and volume of service consumed, without a factor for delinquencies.

***Budgetary Controls***. The legal level of budgetary control is at the department level within a fund. The City Coordinator's Departments, the Public Works Department and the City Council/City Clerk/Elections areas are examples of what levels are considered to be legal levels of budgetary control within a fund, even though budgetary data may be presented at lower levels. Budget amendments at the department/fund level must be approved by the City Council. Budget amendments below the department/fund level may be approved by the appropriate department director, but are not required. Generally all appropriations for operating activity lapse at year end, with the exceptions of approved encumbrances and requests approved during the roll-over process after year end [See re-appropriation of authority in section on Authority of Finance Officer].

Purchase orders, contracts, and other commitments are recorded as encumbrances, which reserve appropriation authority. Encumbrances outstanding at year-end are reported as restrictions of fund balance. The appropriations for these encumbrances do not automatically transfer to the following year, but rather are included as part of the annual roll over processes.

***Five-Year Financial Direction.*** City departments will prepare business plans with a rolling five-year planning horizon which reflect the anticipated allocation of general City revenues, including property tax and state aid revenue. This financial direction is based upon the City's shared revenue distribution policy which aligns the revenue growth of City departments and independent boards and is updated with each budget release.

***Grant Funding in the Five-Year Financial Direction.*** All applications for grant funding require Council approval. Any department applying for grant funding should be aware of the effect on their budget of one-time-only funding, additional costs for maintenance, operation, and replacement of equipment and other capital assets purchased with grant funding, as well as grant funding that provides for funding of personnel and requires the maintenance of a minimum staffing level and/or maintenance of effort contribution. The department requesting the funding shall determine the amount of additional City resources that will be required to fund the ongoing services, maintenance and operation costs, and positions once the grant funding expires and report those estimates to the Finance Department. As a condition of accepting the funds, the Council shall identify permanent resources and amend the Five-Year Financial Direction to reflect adequate resources to cover the costs and retain the positions, if appropriate, once the grant funding ends.

## REVENUE POLICIES

The objective of the revenue policies is to ensure that funding is derived from a fair, equitable, defensible, and adequate resource base, while minimizing tax burdens.

***Revenue Structure and Sources***. The City shall maintain a stable and diverse revenue system to shelter programs and services from short-term fluctuations in any single revenue source. 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 shall be financed with a combination of broad-based revenues as well as user fees, charges, and assessments related to the level of service provided.

***Revenue Distribution.*** Major sources of broad-based revenue, including Local Government Aid (LGA) and property tax revenue, shall be treated in the aggregate, allowing for changes in the level of resources to be consistently aligned among the City and independent boards. Future increases will be aligned with available resources, and the annual percentage change in revenue available for activities of the City, Park Board and MBC will be similar for each entity.

Costs of shared services among the jurisdictions will be funded prior to determining the amount of resources available for general operating expenditures. These costs include closed pension obligations, previously approved internal service fund workout plans, the Bond Redemption Fund levy, the Permanent Improvement Fund levy, the Minneapolis Public Housing Authority special levy, the Teacher's Retirement Association special levy, the Library Market Value Referendum levy, the levy for the Board of Estimate and Taxation, and shared administrative costs.

City and independent board priorities that require an increase for one entity above others will be clearly funded to allow for maximum transparency.

The annual adjustment in revenues available to each entity in a given budget year for general activities will be based on the projected percentage increase in costs. The funding available for the activities will be based on the sum of the LGA, total tax collections, and total General Fund revenues after funding the costs of shared services outlined above. Available funding shall exclude funds transferred to other entities, including the following:

- *For the Park Board,* the funding amount shall exclude the General Fund Overhead transfer to the City, the General Fund Administration Fee transfer to the City, and the costs of Park Board Capital Improvements funded from the Park Board levy.

- *For MBC,* the funding amount shall exclude the General Fund Overhead transfer to the City.

- *For the City's General Fund,* the funding amount shall exclude the General Fund Overhead not recovered from the Park Board, MBC, and others.

The tax revenue percentage change for the City, the Park Board, and MBC may vary from year to year based on adjustments to LGA, total General Fund revenues, and adjustments to those items excluded from general activities, as well as adjustments to the projected change in cost of providing services.

***License, Permit and User Fees***. The City shall implement user charges to supplement general revenue sources for identified services where the costs are related to the level of service.

**[New in 2013]** ***Local Sales Taxes***. The City shall use the proceeds from local sales taxes dedicated by the State for municipal use as funding permits for the following purposes, as ordered below:

- For the payment of debt service obligations on the City's convention center.
- For operational support of the City's convention center, inclusive of maintenance, service, and marketing agreements.
- For baseline capital projects and maintenance at City facilities as allowed by law, including the City's convention center and Target Center.
- For establishment of reserves in a tax stabilization account to smooth changes in taxes levied.
- For infrastructure needs that promote economic development.
- For economic development-related public safety needs.
- For discretionary capital projects at the City's convention center and Target Center.

***Cost of Service***. The City shall establish user charges and fees at a level that reflects the cost of providing the service. Components of the user charges may include operating and capital costs, as well as the direct and indirect costs of providing the service. Full cost charges shall be imposed unless it is determined that policy, legal or market factors require lower fees.

***Non-Resident Charges***. User fees and other appropriate charges shall be levied for City activities, services or facilities in which non-residents participate, whenever practical. Non-resident fees may be set at different levels than charges to residents to minimize the tax burden on City residents.

***Enterprise Service Fees and Rates***. User charges for Enterprise Services such as water, sewer, stormwater, and solid waste collection, shall be set at rates sufficient to finance all direct and indirect operating, capital, reserve/working capital, and debt service costs. Overhead expenses and general government services provided to the enterprise activities shall be included as indirect costs. Rates shall be set such that these enterprise funds maintain a positive cash position throughout the year.

***Administrative Fees***. The General Fund Overhead Allocation Model shall be used to recover General Fund costs attributed to all non-General Fund activities.

***Fines and Administrative Citations***. Levels of fines shall be set according to legal guidelines, deterrent effect, administrative costs and revenue potential.

***Dedicated Revenues***. All non-restricted revenues shall be deposited in the General Fund and appropriated through the annual budget process. Except where required by law or generally accepted accounting principles (GAAP), no revenues shall be dedicated for specific purposes.

***Private Revenues***. All private money donated and accounted for as public money, contributed or lent to the City shall be subject to grant solicitation and acceptance procedures, deposited in the appropriate City fund, and accounted for as public money through the City's budget process and financial system.

***City-Administered Special Assessments*.** The City Council has the authority to levy special assessments. There are four main areas of assessments:

- *Capital or Infrastructure/Public Works Improvements:* Most common types of assessments are for infrastructure improvements and replacements such as sidewalks, street improvements, water and sewer line repairs and special service districts. (Assessments for unpaid utilities are handled by the City's Finance Department.)

- *Inspections and Code Enforcement:* Most common types are for rubbish removal; trees, grass and brush cutting; inspection fees for inoperable vehicles towed from private property; re-inspection fees; administrative citations; vacant building registration fees and inspections.

- **[New in 2013]** *Tax-Forfeited Properties:* A portion of nuisance abatement special assessments under State statute may be cancelled for tax-forfeited properties.

- *Park Board:* Most common types of assessments are for tree removal, and parkway and sidewalk reconstruction.

- *Unpaid Citations and Invoices:* Most common types are for unpaid Administrative Citations and utility bills, as well as abatement and service invoices.

***Method of Payment (Public Works Improvement Assessments).*** Owners of benefiting properties shall have the option of paying their assessment all at once or in installments as part of their annual real estate taxes following the process outlined in MN Statutes 429.061. The City Council shall determine the number of equal annual installments, not to exceed twenty, in which assessments may be paid. The City Council shall determine the interest rate to be paid annually on all unpaid installments; this rate shall be set annually based upon the financing cost of the improvement. The first installment shall be payable in the year following completion of the project and in the same manner as real estate taxes

***Permanent Improvement Fund.*** The Permanent Improvement Fund is used to account for construction costs on basic governmental infrastructure projects. The fund is used to record both expenditures on projects and revenues received from outside funding sources as well as such internal sources as capital improvement tax levies, special assessments, and proceeds of bonds issued for public infrastructure projects. All project costs not assessed shall be paid from this fund. If the amount of money raised through special assessments is insufficient to pay the maximum amount specified for the project, the balance shall be paid from the Permanent Improvement Fund and offsetting revenue. City Council approval is required in order for the Permanent Improvement Fund to cover insufficiencies.

***Uniform Assessment Rate.*** The Uniform Assessment Rate is a standardized rate applied in street construction and street renovation projects. Assessments shall be part of the funding for all street paving construction/reconstruction projects for which the City is to bear any part of the cost, except for freeways. This rate shall be applied to the square footage per parcel in the project area to arrive at an assessment cost for each benefited property. The goal of the rate is to ensure an equitable distribution of costs between projects and to assess approximately 25% of construction project costs. The Uniform Assessment shall be calculated annually and submitted to the City Council's Transportation and Public Works Committee for approval. Separate rates must be established based on the type of project (construction, renovation, or resurfacing), funding category (local or other) and benefited parcel category (non-residential or residential).

***Proceeds from Sale of Real Property.*** The Property Disposition Fund was created in section 14.120 of City Ordinance, which requires proceeds from the sale of City property to be deposited into a Property Disposition Fund. The proceeds of this fund are to be used for implementing the City's strategic real estate plan as developed and approved by the Facilities, Space, and Asset Management Committee with the exception of enterprise and proprietary funds and those funds associated with economic development purposes.

## FUND BALANCE POLICIES

The objective of the fund balance policies is to provide adequate working capital for cash flow and contingency purposes, while maintaining reasonable tax rates.

***General Fund Cash Flow and Contingency***. The City shall maintain a minimum unallocated General Fund balance of 15% of the following year's revenue budget amount to be used for cash flow purposes, unanticipated expenditures of a non-recurring nature, and to meet unexpected increases in service delivery costs or unexpected revenue deficits. These funds will be used to avoid cash flow interruptions, generate interest income and avoid the need for short-term borrowing.

Adequate operating contingency reserves shall be maintained to provide for business interruption costs and other unanticipated expenditures of a non-recurring nature. Enterprise funds shall also maintain adequate capital fund reserves for emergency improvements relating to new regulations, or emergency needs for capital repair or replacement.

For all other funds, appropriate balances shall be maintained reflecting the nature of the accounts, including the following:

***General Fund Operating Contingency.*** Separate from the unallocated general fund reserve balance, the City shall budget an operating budget contingency of not less than 1% of all budgeted general fund expenditures in each of the applicable years planned for in the City's Five-Year Financial Direction.

***Non-General Governmental Funds***. The appropriate balances shall be the amount needed to maintain positive cash balances throughout the year with exceptions made for those funds associated with economic development purposes.

***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 annual operating budget. This balance shall be maintained to ensure adequate maintenance reserves, cash flow balancing requirements and legal restrictions. Where cost-effective access to capital markets is available and debt financing is regularly used, replacement balances shall not be maintained so current consumers are not required to pay for future facilities, with exceptions made for those funds associated with economic development purposes***.***

***Internal Service Funds.*** The following balances shall be maintained to ensure adequate maintenance reserves, cash flow balancing requirements and legal restrictions:

- *Self-Insurance Fund* shall maintain a cash balance equal to the unpaid claims payable amount on its balance sheet plus 10% of the annual department operating budgets within the fund. Net assets within the fund should not fall below zero.

- *Fleet Services, Intergovernmental Services, and Property Services Funds*: If allocation model charges to customers are sufficient to cover debt service or depreciation expense, then the minimum cash balance should be 15% of the fund's operating budget. If not, the reserve should be 15% of the fund's total budget. Net assets shall not fall below two times the fund's annual depreciation amount.

- *Stores and Engineering Materials & Testing Funds* shall maintain cash and net assets equal to 15% of the fund's annual operating budget.

***Use of Fund Balances***. Fund balance is the cumulative years' excess or deficit of all revenues and expense. In the case of proprietary funds, this is termed unrestricted net assets. For the purposes of the budget, revenue and expense activity include bond proceeds and debt service. 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.

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

## ACCOUNTING POLICIES

The objective of the accounting policies is to ensure that all financial transactions of the City and its boards, commissions, and agencies conform to federal and state laws and regulations and generally accepted accounting principles (GAAP).

***Accounting Standards***. The City shall establish and maintain a central accounting system according to GAAP, which are set by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). The central system shall be used for financial transactions of all City departments, boards, and independent agencies.

***Disclosure and Monitoring***. Full disclosure is provided in all financial statements and bond representations. Financial systems are maintained to monitor all financial activity on a daily, monthly, and year-end basis. A Comprehensive Annual Financial Report (CAFR) is published by the City within six months of the following as required by the Office of the Minnesota State Auditor.

## INVESTMENT POLICIES

All revenues for the City of Minneapolis not immediately required for payment of obligations are placed in an investment pool to earn income for the City. The investment pool consists of the combined cash balances of the various funds of the City. The pooled cash is parceled out to investment management firms. Investment pool earnings are allocated monthly to the various funds. All investments must comply with State and Federal law, as well as the City's "Investment Guidelines." The "Investment Guidelines" contain the full investment policies of the City.

## DEVELOPMENT FINANCE POLICIES

The objective of the development finance policies is to provide public assistance to community development efforts in a manner that balances costs against benefits. In addition to the City's Financial Management Policies, detailed guidelines have been adopted by the City to manage specific development resources and programs. To the greatest extent possible, all development activities shall be self-supporting. City staff shall identify sufficient public and private resources at the time a project is approved to ensure feasible completion and operation of the project. All development financing proposals shall be reviewed to ensure that the proposed finance plan is reasonable, balanced, and the best means by which to achieve City objectives, while adequately protecting citywide financial interests.

***Tax Increment Policy.*** The Tax Increment Policy guides the City's use of the tax increment financing (TIF) tool, identifying the purposes and conditions under which TIF will be used and the factors to be considered when evaluating developers' applications for TIF assistance. The policy provides that TIF will only be used when the City has the financial capacity to provide needed public assistance and a developer can clearly demonstrate that the development will be able to meet its financial and public purpose commitments. The City seeks to recapture the public investment to the maximum extent feasible after allowing the developer a reasonable return. Alternatives such as "pay as you go" financing and reimbursing front-end public redevelopment costs with tax increment revenues are preferable to bond financing. The City will only issue general obligation tax increment bonds in rare situations and under certain strict criteria. Only those public improvements and public redevelopment costs directly associated with or needed to service proposed development plans or projects are to be financed through TIF.

The complete current Tax Increment Policy, approved by the City Council is available at: http://www.ci.minneapolis.mn.us/cped/resources/reports/cped_tax_increment_policy

***Tax Abatement Policies.*** The Policy for the Use of Tax Abatement for Historic Properties identifies the circumstances in which the City will consider the use of tax abatement to support the substantial rehabilitation of designated historic preservation properties. Proposed uses of tax abatement must achieve one or more identified objectives, and the expected benefits to the City must at least equal the City's costs. The complete current policy, approved by the City Council is available in its entirety at: http://www.ci.minneapolis.mn.us/cped/resources/reports/cped_tax_abatement_historic

***Tax Increment Special Revenue Funds and Internal Loans.*** State statute requires that tax increment (TI) revenues be segregated from all other revenues of the City and maintained in separate funds established for each individual TI district. As a result of this statutory requirement, a separate fund is established at the time a new TI district is approved. Qualifying expenses are charged to these individual district funds as they are incurred. This action could result in negative balances in a fund until TI revenues are generated from the district.

When a district has a negative fund balance, this is considered to be an internal loan by the Office of the State Auditor and the TI Act requires prior, specific action to be taken by the City to authorize these internal, inter-fund loans.

As part of the budget process, and for purposes of covering any temporary negative fund balances, the City authorizes the advance of revenues from other TI special revenue funds in the amount needed to offset any negative fund balances incurred within a TI fund prior to or in excess of the collection of sufficient TI revenue. The interest rate paid on any advance will be equal to the rate of interest those revenues would have earned in their respective fund. The term of any advances shall end upon termination of any TI district that carries the negative fund balance. As TI revenues are available in a TI fund that previously had a negative balance, the advance shall be offset by the amount available in that fund.

Capital advances needed for negative fund balances will not result in the actual movement of revenue between funds, but the positive balance of all the City's TI funds will offset any negative balance in a TI fund.

## PUBLIC PARTICIPATION POLICIES

The objective of the public participation policies is to enhance the City's ability to meet financial and policy challenges by promoting a well-informed community and by encouraging public input in the decision-making process.

***Financial and Performance Measurement Reports***. Information regarding the City budget, financial statements and performance measurement shall be available to residents.

***Budget and Service Priorities***. Various methods shall be used to ensure public input into the budgeting process, such as informational hearings, surveys, resident-based review committees and community meetings.

## ALLOCATION MODEL POLICIES

The City employs cost allocation models for a variety of purposes:

- Recovery of indirect costs for grants, capital projects, internal and external work-for-others.

- o Internal Service Funds.

- o To support activities and services of departments funded by the General Fund that are provided to other departments that are supported by other fund types.

***The primary methodology used is Activity-Based-Costing which links the cost of the service provided to the consumption of the service.***

- o Cost allocation models should recover indirect labor, depreciation, general and administrative costs, and costs from other allocation models.

- o Cost allocation models should abide by grant agreements, contracts and other applicable Federal, State and local guidelines.

- o Cost allocation models should be reviewed and updated annually.

***Internal Service Funds (ISF's):*** All ISF's use cost allocation models to recover costs.

***General Fund Allocation Model*.** The City will recover costs within the General Fund related to services it provides to non-General Fund departments. The following General Fund departments participate in the allocation model:

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|---|---|---|---|
| Finance & PS | Coordinator Admin | Human Resources | Mayor |
| Civil Rights | IGR | CPED | Communications |
| City Clerk | Assessor | Internal Audit | |

The allocation of those costs shall be based on a consistent methodology, applied enterprise-wide and developed and administered by the Finance and Property Services Department.

The General Fund overhead allocation model is not self-balancing in nature; costs that should be borne by one department will not be subsidized by another unless it is determined by the Finance and Property Services Department that a phase-in period is necessary.

The General Fund allocation model will adhere to the applicable policies set forth for Internal Service Funds.

***One-Time Costs Assessed.*** One-time cost increases may be assessed to the fund if the financial condition of the fund meets the City's financial policies.

***Management Support Charges to Independent Boards.*** The management support charges to the Independent Boards will be based upon standard accounting practices for allocating costs. The method and procedure to calculate the prorated costs and collection of the charge will be finalized and communicated to the Independent Boards by December 31 of each year in accordance with the City's revenue policies.

**ADMINISTRATIVE POLICIES**

***Year-End Report.*** The Finance department will report to the Ways and Means/Budget Committee on year-end expenditures and revenues by department and fund compared to authorized allocations for the prior fiscal year. This report will identify departments and funds with expenditures in excess of authorized appropriations and/or revenues less than budgeted amounts.

Departments with actual expenses in excess of authorized appropriations and/or revenues less than budgeted amounts will report to the Ways & Means/Budget Committee each month for the year following the year of overspending or under-collection of revenues, beginning with the first committee meeting in April. This report should report actual spending and revenue collection to date for the current year and forecasts for the balance of the year compared to allocations. If forecasted spending exceeds authorized appropriations, the department will present a plan that reduces spending to meet authorized appropriations.

***Operating Costs for Technology.*** Departments are directed to clearly identify, within existing resources, the funds that would be used to finance the ongoing costs related to the purchase or development of technology prior to the expenditure of funds for the purchase or development of that technology. The sponsoring department should prepare a Receive and File notice for consideration by the respective home committee and the Ways and Means/Budget Committee when the annual operating and maintenance cost of any technology project exceeds $50,000. This notice should be submitted as soon after the sponsoring department has identified the ongoing costs and funding sources. IT and Finance and Property Services should work with departments to ensure those costs are identified and included in the contract for technology services.

***Contract Funding.*** Prior to committing to conditions requiring a minimum purchase under any contract, the department/departments involved must clearly identify the specific funding sources dedicated for such purchases.

***Gift Acceptance.*** Any gifts with a value of $15,000 or less can be received by individual City departments with written notice to the Finance Officer or his/her designee. The Finance & Property Services Department shall submit a quarterly gift report to the City Council's Ways and Means/Budget Committee for approval. Consistent with Minnesota Statutes, section 465.03, the department may not use the gift until it has been approved by a two-thirds vote of the City Council.

The quarterly gift report shall contain the following information on each donation:

1) Name of recipient department;
2) Name of entity making gift;
3) Description of gift (including date received and special designations on gift, if any); and
4) Funding strings for revenue and expense appropriation increases.

For any gifts with a value exceeding $15,000, the recipient department shall submit a request for authorization to accept the gift to the City Council's Ways & Means/Budget Committee directly.

***Approval of Payments and Procurements*****.** All payments to or procurement of goods and services from external sources, regardless of dollar amount must be approved. Additionally, where applicable, the system-generated purchase order number will be communicated to the vendor prior to the order being placed.

***Central Requisitions and Receiving Policy.*** The City has developed a Central Requisitions and Receiving process as outlined on the City's Finance & Property Services Department internal website. [http://citytalk/finance/central/index.htm](http://citytalk/finance/central/index.htm)

***City Time Reporting.*** Every employee of City departments must follow the City's Time and Labor guidelines for time reporting and approval of compensation, reporting both working and non-working compensable hours. With the exception of Charter Department Heads, every employee's timesheet must be approved by a supervisor, regardless of FLSA exemption status.

### *Authority of the Finance Officer*

The Finance Officer or his/her designee has the authority to approve the following technical changes:

- To make temporary loans to cover any cash deficits at the end of each fiscal year.
- To adjust appropriations in any fund to facilitate transfers for debt service which may be required, and to make all appropriate transfers and payments.
- To authorize the Deputy Finance Officer and/or Controller to sign real estate and bond documents in the absence of the Finance Officer.
- To amend appropriations related to technical accounting treatment changes.
- To adjust re-appropriations for grant funds within cost centers as appropriate.
- To assign fund balance in accordance with GASB 54 based on analysis provided by the City Controller.
- To allocate the State Insurance Aid payments received from the state for pension costs.
- To adjust the appropriations of the special revenue funds for payments to various pension organizations as may be required.
- To establish or adjust appropriations, transfer balances, or make payments to carry out the intent of any action or resolution Passed and Approved, or any legal agreement Passed, Approved and Executed, with respect to any inter-fund loans, advances, residual equity transfers, or operating transfers, or the repayment thereof.
- To make the necessary project and line item budget adjustments to periodically balance budgets and expenses between objectives within given programs and within normal CDBG program constraints.
- To make any necessary appropriation adjustments to allow departments to receive and spend funds consistent with Council-approved actions.
- To approve any and all transfers of eligible revenues into the Development Account (based on an eligibility assessment and analysis conducted by Finance & Property Services Department staff).
- To approve any and all transfers of eligible revenues into the Property Disposition Fund (based on approval by the Facilities, Space and Asset Management Committee and eligibility assessment conducted by Finance & Property Services Department staff).
- To appropriate available grant balances.
- To make appropriation adjustments to correct any errors, omissions or misstatements to accurately reflect the intent of the City Council in adopting the Operating or Capital Budget.
- **[New in 2013]** To reduce any capital appropriation whenever a revenue source is determined to be uncollectible for whatever reason.
- To appropriate and transfer revenue within the Tax Increment and other special revenue funds consistent with the management of the City's tax increment districts and development program.
- **[New in 2013]** To approve the closure of non-bond funded capital projects.
- To establish or amend appropriations related to technical accounting treatment changes and to establish and adjust accounts and appropriations, make payments and transfers,

process transactions as necessary for the purpose of cash management of revenues, and facilitate any technical corrections, adjustments and completions authorized for the following project/s:

- Target Center Finance Plan internal allocation models and the appropriations attached to them.
- To reduce LGA payments to the Independent Boards if payment of the management support charge, or any other charges required by City Ordinance, are not received prior to the distribution of the December LGA payment. This reduction shall only occur after an affirmative vote of the Council to implement this authority.
- To re-appropriate funds and certify that an encumbrance is eligible for re-appropriation at the end of the fiscal year. Additionally, the Finance Officer may reject re-appropriation requests based on the financial health of the fund or extenuating circumstances. To be eligible for re-appropriation, requests must meet all of the following criteria:

    1) Be a valid encumbrance;
    2) Be a one-time expenditure, not a recurring budget item;
    3) Have a purpose consistent with the department's business plan;
    4) Have the budget year appropriation balance available for the encumbered item; and
    5) Have a positive fund financial position, i.e., status of the fund relative to work out plans and whether the fund's spending in the preceding year had expense in excess of revenue.

**CDBG REPROGRAMMING POLICY**

The City's current over-obligation of CDBG funds stands at $4.4 million. The City manages its over-obligation through its new annual allocations. The first priority for reprogramming eligible available balances is to reduce the deficit in the City's letter of credit with the Federal government. There are four sources for reprogramming funds:

1) Unspent annual administrative appropriations,
2) Unspent and not legally obligated public service funds over two years old,
3) Cancelled, ineligible or unspent capital funds,
4) Program income.

***Administrative Allocations***. The intent of the reprogramming policy and the footnotes is to limit administrative fund expenditures to the amount that was appropriated for that calendar year, regardless of the amount that is available from the grant balances. The limitation applies to the City Department's non-contractual, internal costs.

Funds that are allocated to grant recipients for administrative purposes are exempt from this provision (*e.g.:* Legal Aid, Public Housing Citizen Participation). These projects are legal obligations and would not become part of the administrative reprogramming calculation unless the projects were finalized without fully expending the funds.

***Public Service Allocations.*** The amounts that are awarded from and appropriated for public service activities expire two years from the original award date for that CDBG program year that starts on June 1. The Department can roll over appropriations from the prior year, as needed to carry out these activities. After two years any unspent amounts and those that are not legally obligated are available for reprogramming and will be referred to the reprogramming process.

***Capital Allocations.*** Beginning with the Year 32 (2006) approved Consolidated Plan, authorization for capital project allocations expired for those projects that have not moved forward toward implementation as enumerated by meaningful financial obligation activity indicated by a minimum of 75% of appropriation expended on tangible project activities by the end of 2009 for appropriations authorized in 2006.

***Program Income.*** Fifty percent of program income not obligated by pre-2009 contracts is applied to reducing the deficit in the City's letter of credit with the Federal Government. The balance is available for reprogramming.

Projects with a twelve-month period of inactivity shall be cancelled if the project has been authorized for more than three years.

## CAPITAL BUDGET POLICIES

The objective of the capital budget policies is to ensure maintenance of capital assets and infrastructure in the most cost-efficient manner.

***Capital Improvement Program***. The City prepares and adopts a five-year Capital Improvement Program (CIP) that details each capital project, the estimated cost and funding sources. An adopted point rating system is used to rank and prioritize recommended projects.

***Planning Direction Provided***. The adoption of the Five-Year Capital Program is to assist in planning and provide direction for City departments, but it does not establish permanent Council commitment to the out-year projects either in scope or timeline of construction.

***Operating Budget Impacts***. Operating expenditures/savings of each capital request are included in the cost of implementing the CIP and reflect estimates of all personnel expenses and other operating costs attributable to the capital outlays. Departments receiving capital funds must account for the increased operating costs resulting from capital projects.

***Repair and Replacement***. The City strives to maintain its physical assets at a level that protects the City's capital investments and minimizes future maintenance and replacement costs. Where possible, the capital budget shall provide for the adequate maintenance, repair and replacement from current revenues.

## CAPITAL PROJECT ADMINISTRATION

***Reduction of Appropriations if revenues do not materialize***. The amounts appropriated for capital projects using various revenue sources are appropriated contingent upon the reasonable expectation of receipt of the identified revenue.

***Reappropriation of Capital Projects***. Capital project appropriations automatically roll over from year to year for ongoing projects. The balances of prior year appropriations supporting operating budgets and reimbursable projects in capital project funds, internal service funds and enterprise funds do not roll over from year to year.

***Expiration of Revenue Funded Capital Projects in Enterprise funds***. For certain enterprise fund capital projects, annual revenues are designated as the source of funding. These projects are typically for recurring major maintenance projects or ongoing long-term programs. For these projects, the expenditures are to be paid from funds of the appropriation year in which the work occurs. These projects will not have their appropriations carried forward since they receive a new annual appropriation each year based on work needs, existing financial capacity and utility rate considerations. Bond appropriations authorized for these programs will be carried over upon request.

***Reallocation of Bond Resources.*** Reallocation of excess bond proceeds must follow applicable charter, statutory and IRS regulations and provisions related to the issuance and use of those resources consistent with the City's comprehensive plan. Bonds cannot be reallocated until a project is completed and closed or abandoned. At the time of project closing, any excess bond proceeds will be reallocated according to the following priorities:

1) Completed projects with existing deficits;
2) Approved capital projects or programs with projected deficits;
3) Returned to the debt service fund to increase capacity for future capital programs.

***Expiration of Capital Project Funding***. For all capital appropriations, the City Council authorizations for bond issuance and project appropriation will expire a maximum of four years after original project appropriation.

The expiration of bond authorizations and project appropriations under this policy will automatically take place unless a request for extension is specifically made to the Ways and Means/Budget Committee and is approved by the City Council.

**Annual Capital Project Status Report.** The Finance and Property Services Department will report to the City Council's Ways & Means/Budget Committee annually on the status of capital projects. The annual capital project status report shall contain the following information by project and capital program year:

1) A list of open capital projects for which bonds or City funding sources have been authorized;
2) The amount of revenue received to date;
3) The current, expended and remaining appropriations;
4) The balance of project shortfalls or funds available for reprogramming; and
5) A list of outstanding capital projects with the amount of bond authorizations and appropriations identified for expiration in the following year.

The Finance and Property Services Department shall also report on capital project appropriations and bond authorizations that may be cancelled and bond proceed reallocations due to projects that have been completed or otherwise concluded, or because the purposes for which money was appropriated or bonds authorized or issued have been cancelled, completed, or otherwise abandoned.

## DEBT POLICIES

The debt management policies provide a framework for managing the City's debt-funded capital financing and economic development activities in a way that preserves the public trust and balances costs to current and future taxpayers without endangering essential City services.

***Authority and Oversight.*** Management responsibility for the City's debt program is delegated to the Finance Officer. The Debt Management Committee advises on the use of debt financing and debt management activities. The Debt Management Committee meets periodically at the call of the Director of Capital & Debt Management and includes the following persons:

- Finance Officer
- City Attorney
- Deputy Finance Officer/Director, Budget and Enterprise Financial Management
- Director of Capital & Debt Management
- Executive Secretary, Board of Estimate & Taxation
- Director, Development Finance or designee
- Independent Bond Counsel as needed
- Independent Financial Advisor as needed

***Guiding Principles for City of Minneapolis Debt Issuance***

***Method of Sale***. The three primary methods of selling bonds include competitive sale, negotiated sale and private placement. The City uses the competitive sale method for its general obligation bond sales unless factors such as structure, size or market conditions compel the use of a negotiated sale. The City may use the negotiated sale method when the characteristics of the transaction require a more specific marketing plan and/or the issue lacks an investment grade rating due to complex security provisions or other factors.

***Selection of Independent Advisors***. The City uses competitive processes to select all service providers involved in the bond issuance process.

***Short-term Debt/Use of Derivatives***. Derivative-based financing arrangements shall only be used after careful evaluation by knowledgeable staff regarding the benefits of the instruments as well as all of the associated risks including counterparty credit, market, settlement and operating risk.

***Variable Rate Debt***. The City uses variable rate debt to provide debt structuring flexibility and potential interest savings to the total debt portfolio. Generally, the City maintains no more than 25% of its total debt obligations in variable rate mode.

***Conduit Debt Financings***. The City maintains an active program of conduit business financings. Development proposals are reviewed to determine if they meet program objectives as determined by City Council financing guidelines and whether the proposal is financially feasible. Items reviewed during due diligence reviews include narrative on the company and owners, past three years of financial statements, personal financial statements, tenant and lease data, market feasibility studies, business plans, project pro formas, appraisals, plans and specifications, environmental reviews, insurance covenants, etc. Additionally, the project shall be evaluated for consistency with other City measures related to land use, job creation and compliance with affirmative action, civil rights, job linkage and other equal employment opportunity requirements.

***General Obligation Bonds, Property Tax Supported***. General obligation, property tax supported bonds finance only those capital improvements and long-term assets that have been determined to be essential to the maintenance or development of the City.

***General Obligation Revenue Bonds***. The City issues general obligation revenue bonds to finance assets associated with its primary enterprise businesses including storm water and sanitary sewers, waterworks and parking ramps. Financial feasibility of capital projects is reviewed each year, including a review of the cash basis pro formas for these funds. Five-year business plans detailing projected operating costs and prior debt obligations are reviewed as well as revenue performance and rate setting analysis to ensure that adequate bond coverage ratios are achieved.

***Tax Increment Bonds***. The City uses tax increment bonds only where projects can be shown to be self-liquidating from tax increments arising in sufficient amounts, or where secured guarantees are provided for potential shortfalls, and with appropriate timing to avoid, to the maximum extent possible, the use of citywide property tax revenues and where maximum allowable guarantees are obtained.

The City will not issue general obligation tax increment bonds except when all net bond proceeds are used to directly pay public costs or refinance debt that was previously issued to pay for such costs, and the taxable development that will generate the tax increment is either fully constructed or is underway and subject to the terms and conditions of a development agreement with the City. Alternatives, such as "pay as you go" financing and reimbursing front-end public redevelopment costs with tax increment revenues, are available as alternatives to bond financing and are to be considered and used when appropriate.

***Special Obligation Revenue Bonds***. Special obligation revenue bonds, those bonds for which the City incurs no financial or moral obligation, are issued only if the associated development projects can be shown to be financially feasible and contributing substantially to the welfare and/or economic development of the City and its inhabitants.

***Bond Term***. The City shall issue bonds with terms no longer than the economic useful life of the asset financed and frequently chooses terms shorter than the economic life to minimize interest expense. For self-supporting bonds, maturities and associated debt service shall not exceed projected revenue streams.

***Feasibility***. The City shall obtain secured guarantees for self-supporting and tax increment supported bonds. The City shall also obtain assurances of project viability and guarantees of completion prior to the issuance of bonds.

***Approvals for Bond Issuance***. The amounts appropriated in any City fund to be financed by bond proceeds are contingent upon the necessary approvals for issuance. The Finance Officer is authorized to establish or adjust any bond-financed appropriations when the necessary approvals for issuance of bonds are obtained.

***Creation of Appropriations***. The Finance Officer is authorized to create or adjust certain appropriations subsequent to the sale of bonds, including all appropriate fund transfers and payments necessary to comply with arbitrage rebate and reporting to the federal government as required by law. The Finance Officer is further authorized to adjust debt service budgets resulting from new bond sales and refunding bonds issued during the year.

***Alternative Financing Arrangements***. The Finance Officer is authorized to establish or adjust appropriations, make payments and transfers, and process transactions as necessary for the purpose of providing departments, boards and commissions an internal financing alternative to lease/purchase agreements with external vendors. The Finance

Officer may provide capital advances from individual funds to the extent funds are available. The Finance Officer shall establish the term and interest rate applicable to the capital advance. The principal amount of the capital advance can be transferred to the fund of the department, board or commission after the purchase of the asset and execution of an Internal Lease/Purchase Agreement, signed between the department, board or commission and the Finance Officer. Prior to issuing the capital advance, the Finance Officer shall determine that the department, board or commission has made a commitment in their annual budgets to provide the funds necessary to repay the advance, with interest, over the term of the agreement.

***Accounting Adjustments***. The Finance Officer is authorized to approve adjustments to capital appropriations between different capital departments for the same project within the same fund and revenue sources. Such appropriation adjustments shall not constitute approvals of any policy change.

***Adjustments Related to Cost of Bond Issuance and Maintenance Fees***. The Finance Officer is authorized to establish or adjust appropriations and fund transfers to pay all costs associated with authorized City bond sales including costs of issuance and annual bond maintenance fees from the Bond Redemption Fund with the expenditures then being allocated to other funds as appropriate.

***Funding of Capital Models and Studies***. The Finance Officer is authorized to fund from investment earnings, generated from capital project balances, studies related to long-term financial planning models and related debt management activity.

***Authorization of Transfers for Bond Proceeds and Investment Income***. The Finance Officer is authorized to establish and adjust appropriations to provide for the transfer of funds to include bond proceeds and investment income for capital projects.

***Appropriation of Debt Service***. Debt service funds shall be appropriated with sufficient funds to pay debt service requirements.

***[New in 2013] Post Issuance Compliance Policy.*** The City of Minneapolis adopted a formal Post-Issuance Compliance Policy on August 3, 2012. This policy establishes the documentation requirements and management actions the City will perform to ensure compliance with the Internal Revenue Code and Treasury Regulations. Compliance with Treasury Regulations is required to maintain the tax-exempt status of the City's bonds. A copy of the full policy is available online here: http://www.minneapolismn.gov/www/groups/public/@clerk/documents/webcontent/wcms1p-096355.pdf

***Use of Investment Earnings***. The investment earnings from unspent bond proceeds shall be accounted for in separate arbitrage funds and will be allocated to debt service on net debt bond issues and shall be transferred on the scheduled debt service payment dates. The exception to this is that investment earnings on unspent tax increment bonds are to be used only for tax increment-eligible purposes related to that specific tax increment bond issue.

***Tax-Exempt Bonds***. The annual capital budget resolution constitutes an official declaration pursuant to IRS Treasury Regulations Section 1.150-2 that the City intends to reimburse expenditures which may be made for those projects designated herein to be funded with bond proceeds by incurring tax-exempt debt of the City. The expenditures to be reimbursed include all preliminary expenses for planning, design, legal, consulting services and staff costs reasonably allocated to the project as well as costs incurred and paid for related to the design and construction of the projects after approval of the capital budget. In addition, as approved by resolution 2008R-133, the City hereby declares its official intent to reimburse itself for expenditures for projects described as bond funded in the annual adopted capital resolution and subsequent related resolutions. The projects are more fully described on Capital Budget Request forms on file in the office of the Director of Capital and Debt Management. The reasonably expected source of funds to pay debt service on the tax-exempt bonds to be issued by the City consists of the following according to the designated bond type:

| **Bond Type** | **Source** |
|---|---|
| Net Debt | Property Taxes |
| Equipment, Property Services or Information Technology | Internal User Fees |
| Sanitary Sewer | Sanitary Sewer Fund revenues |
| Stormwater Sewer | Stormwater Fund revenues |
| Water | Water Fund revenues |
| Parking | Parking Fund revenues |
| Assessment | Special Assessments |
| Tax Increment | Tax Increment revenues |

***Reimbursement Intent***. The Finance Officer is authorized to make further declarations of official reimbursement intent in connection with the projects described herein pursuant to IRS Treasury Regulations Section 1.150-2 on behalf of the City consistent with budgetary and financial circumstances. Copies of any such further declarations shall be filed with the Ways & Means/Budget Committee and the Board of Estimate and Taxation.