



FINANCIAL POLICIES



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To effectively promote the safety, health and well-being of our residents

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Introduction

These financial policies set forth the basic framework for the overall fiscal management of Goodhue County. With ever changing circumstances and conditions, these policies assist the decision-making process of the County Board and the administration of County affairs. These policies provide guidelines for evaluating both current activities and proposals for future programs.

Most of the policies represent long-standing principles, traditions and practices which have guided the County in the past and have helped maintain financial stability over the years. These policies shall be reviewed biannually and changed when authorized by County Board action.

FIXED ASSET POLICY

1. Purpose

The purpose of this policy is to ensure that the County's assets are properly recorded, maintained, controlled and accounted for.

2. Scope

This policy applies to all capitalized assets and certain non-capitalized assets.

Capital assets are items that have a useful life of greater than one year and have an initial cost of at least \$5,000. Specific criteria for different asset capital asset classes are listed below.

Certain assets that do not meet these criteria must also be tracked because of their sensitive nature or to meet insurance coverage requirements. Examples include computers and firearms. Additional information on these assets can be found in the Capital Planning policy.

3. Capital Asset Criteria

For reporting purposes, assets are grouped into several categories, by similarities in asset characteristics, costs to be included and useful lives. Assets are depreciated for a period of between 3 and 75 years, depending on asset category and asset type. In general, the cost of an asset includes all initial costs directly identifiable to an asset that are required to put the asset into service and are incurred after the decision to purchase or construct the asset was determined to be probable. Costs incurred subsequent to the initial purchase/construction of an asset are capitalized only if the costs significantly improve the utility of the asset, by significantly extending its useful life of by increasing that asset's effectiveness or efficiency. Expenditures for routine repair and maintenance should be expensed. Donated assets are recorded at acquisition cost as of the date of donation.

Equipment – includes furniture, equipment and vehicles. Cost includes initial purchase price, including delivery, taxes and set-up expenses.

Buildings & Building Improvements – either purchased or constructed. If purchased, cost is the purchase price, including all closing costs. Renovation costs (either as part of the original building or as a separate building asset) could also be included if these costs are necessary to get the building ready for use. If constructed, see CIP section for cost details. Building improvements would include ramps, structural modifications due to changes in code requirements and significant remodeling of space in the structure.

Infrastructure – includes public infrastructure such as roads and bridges. See CIP section for cost details. Additionally, bridge construction costs should include approach, signage, sidewalk and lighting costs. Costs for road or bridge overlays are not capitalizable and should be expensed unless the overlay provides a significant extension in the road or bridge's useful life or if it significantly increases the usefulness or utility of the road or bridge.

Construction in Progress – used to track and collect costs of multi-year projects. Includes all constructions costs, including design, engineering, materials purchased and contractor payments. Costs are moved to the appropriate asset category once the project is substantially completed and the asset is put into service. Only costs incurred after the project is considered probable should be capitalized – costs such as feasibility studies and costs to determine final site location should be expensed.

Land – costs include purchase price, including appraisal fees, closing fees and legal expenses. Costs also include other expenses necessary to get the land ready for use, such as structure demolition and site cleanup.

Land Improvements – examples include trails and parking lots. See CIP section for cost descriptions.

Right-of-Way – permanent easements or deeded property. Costs include those described under Land, and can also include relocation fees.

Software – includes internally-developed software and significantly developed external software (for example, a multi-year project to design, customize and test a financial software package specific for the needs of the County). Allowable costs include the purchase of any software (not a license – this is expensed) and any application development-related costs incurred after the project/purchase has become probable. Costs incurred after the software is in service are not capitalized – e.g. training.

4. Additions

Purchased assets are added when they are paid for, as this reasonably approximates when they are put into service. Constructed, or project, assets are recorded on the date they are substantially completed, that is, when they are considered usable. Unlike with purchased assets, all costs may not have actually been paid for at the time a constructed asset is recorded.

5. Disposals

When an asset is no longer being used by the County, it should be disposed of. Disposal may be warranted due to obsolescence, trade-in for a newer asset, theft, or unrepairable damage. Disposal can take place via several methods, including discarding and sale. Any sales of disposed assets should be done through public auction and proceeds from those sales should be deposited in the fund from which the items were originally purchased. Board approval is required prior to placing an item into public auction. All asset disposals must be reported to the Finance department and should include the asset description, tag # (if applicable), disposal date and amount of any proceeds (sales, insurance, etc.).

6. Impairments

Capital assets that experience significant and unexpected loss of service utility – but not total destruction – are considered to be impaired. Impaired assets are reasonably expected to be put back into service – they are not permanently disabled. Impairment can occur due to such things as serious physical damage or technological/regulatory developments. Costs incurred to restore the asset's previous service capacity should be capitalized and added to the loss-adjusted value of the existing asset.

7. Transfers

When an asset is transferred from the original purchasing department to another department, this transaction should be recorded in the County's asset management system. All transfers should be reported to the Finance department. Accurate asset location information is important for the periodic inventory verification process.

8. Leased Assets

Under current accounting guidance, certain leased equipment/facilities may require capitalization. Criteria for capitalization include least term/length, lease renewal options, lease payment amounts and the characteristics of the item being leased. Under new accounting rules that are effective for fiscal year 2020, the actual leased asset will no longer be accounted for; instead an intangible asset that represents the right to use the leased asset will be recorded. Departments should contact Finance if a new lease is being considered.

9. Depreciation & Useful Lives

All capital assets will be depreciated using the straight-line method, with the following useful life ranges for each category. If an asset is put into service or disposed of mid-month, depreciation will be recorded for the entire first/last month (whole month approach). Land and Right-of-Way assets have indefinite lives; Construction-in-Progress assets are not yet in service – both categories are not depreciated.

Asset Class	Useful Life (years)
Equipment	3 – 20
Land Improvements	5 – 20
Buildings	25 – 50
Building Improvements	20 – 50
Infrastructure	25 – 75
Land	Not depreciated (Indefinite life)
Right-of-Way (ROW)	Not depreciated (Indefinite life)
Construction-in-Progress CIP)	Not depreciated

10. Inventory

All capital assets should be tagged with an identifying number unless the asset does not permit affixing such a tag. This applies mainly to equipment items. Periodic inventory/physical counts will be conducted to ensure that all capital assets exist, are in usable condition and are reported in the correct department. The existence/condition of building and infrastructure assets should be reviewed periodically by departments as part of the capital planning process.

11. Reporting

Capital assets and associated accumulated depreciation are reported in the Statement of Net Assets. Depreciable assets are reported separately from non-depreciable assets (land, CIP, ROW). Depreciation expense is reported in the specific function to which the associated asset

relates, on the Statement of Activities. As part of the reporting process, Finance will provide an asset listing to departments at least annually to review for accuracy and completeness.

12. Responsibilities

Finance

- Maintain policies/procedures to ensure integrity of fixed asset information
- Coordinate periodic inventory
- Process all updates in RAM (Real Asset Management) – adds, deletes, transfers
- Prepare all financial statements and audit schedules

Departments

- Ensure that all assets are utilized only for appropriate public use
- Accurate/timely submission of payment documents and other asset addition information
- Submission of asset impairment/disposal information
- Participate/assist in periodic physical inventory

IT

- RAM functionality/updates

CAPITAL PLANNING POLICY

1. Purpose

A properly prepared capital plan is essential to the future health of an organization and continued delivery to services to citizens and businesses. Goodhue County will prepare and adopt a comprehensive, fiscally sustainable, Five-Year Capital Plan to ensure effective management of a smooth process of capital assets. A prudent Capital Plan identifies and prioritized expected needs based on a strategic goals, establishes project scope and costs, details estimated amounts of funding from various sources. This ensures that capital expenditures are well planned and enable the County to add or replace capital items when needed, without requiring significant fluctuation in property tax levy. It is extremely difficult for governments to address the current and long-term needs of their citizens and businesses without a sound multi-year Capital Plan that clearly identifies capital needs, funding options, and operating budget impacts.

2. Scope

This policy applies to all fixed assets as defined in the Fixed Asset policy, as well as certain other items that are either sensitive in nature (computers, firearms) and/or require significant periodic outlays for replacements (sheriff's radios, computers).

The Capital Plan identifies the timing and financing of all capital items including such things as land purchases; road infrastructure and bridges; building replacement and repairs; automobiles; and equipment and technology needs. The Capital Plan outlines the assets and revenue sources to then be incorporated into the General Fund and Capital Fund in order to establish a cohesive budgetary process.

3. Capital Budget

- a. Goodhue County will develop a Five-Year Capital Plan for all capital equipment and improvements and update the Plan annually.
- b. All departments, funds, and funding sources are included in the Five-Year Capital Plan.
- c. All Capital Plan expenditures shall include all fixed assets, as outlined in the Fixed Asset Policy, and improvements in the amount of or equal to \$1,000 with a life expectancy of three years or more regardless of funding source.
- d. As resources are available, the most current year of the Capital Plan will be incorporated into the current year operating budget. Years two through five of the Capital Plan are for planning purposes only and will incorporate anticipated future capital needs due to changes in population, economic base and real estate development.
- e. County staff and administration (The County) will coordinate the development of the Capital Plan with development of the General Fund Budget. Preference would be to address the Capital Plan prior to the adoption of the General Fund in order to meet delivery

times for certain acquisitions. Future operational costs associated with new capital items will be projected and included in operating budget forecasts.

- f. The County will identify the estimated costs and potential funding sources for each capital expenditure proposal before it is submitted to County Board for approval. The operating costs to maintain capital items shall be considered prior to the decision to undertake the capital expenditure.
- g. Capital expenditures will receive a higher priority if they meet at least some of the following criteria:
 - 1. Mandatory Project
 - 2. Maintenance project (approved replacement schedules)
 - 3. Project improves efficiency
 - 4. Broad extent of usage
 - 5. Length of expected useful life
 - 6. Positive effect on operating and maintenance costs
 - 7. Availability of state/federal grants
 - 8. Elimination of hazards (improves public safety)
 - 9. Prior commitments
 - 10. Replacement due to disaster or loss
 - 11. Do not duplicate other public and/or private services or facilities
 - 12. Project provides a new service
- h. Each year, the Capital Plan will be prepared by Finance, working in conjunction with other departments and will be presented to the Management Team for review. The Plan will then be presented to the County Board for approval. Any departures from the current year of the Capital Plan, as incorporated in the approved budget, must be approved following the guidelines in the County's purchasing policy. Changes to subsequent years of the Plan will be addressed when the full Plan is updated and presented to the Board in the following year.

4. Vehicle and Equipment Replacement

- a. The County will project its equipment replacement needs as part of its Capital Plan. Vehicle and equipment replacement is based on several factors including mileage, hours, reliability, maintenance and repair costs, and age.
- b. The Capital Plan provides for the orderly replacement and most cost-effective method to maintain its fleet while minimizing the annual fluctuations in expenditures from the operating funds.
- c. Computer equipment is often below the capitalization threshold but includes items that are sensitive in nature. Therefore, the County will maintain an inventory of computer equipment and update it as part of the Capital Plan.
- d. Other items such as firearms, mobile radios, defibrillators, and Tasers often fall below the capitalization threshold but are purchased in large quantities and are sensitive in nature. Therefore, the County will maintain an inventory of these items and update it as part of the Capital Plan.

- e. The County will attempt to obtain the highest sale value of its used vehicles and equipment. This may be achieved through trade-in, sale, or auction and any proceeds shall be applied to the Capital Fund.
- f. The County understands that to be consistent throughout the County and in an effort to maximize the useful life out of the County's assets, the County will adhere to the following Capital Plan Replacement Schedule Guidelines to the best of its ability. Each item shall be given a classification code in accordance with the Minnesota Counties Intergovernmental Trust valuation. The County understands that not all assets will operate or last through its estimated lifecycle and some pieces will need to be replaced or traded in prior its scheduled time. The County further understands that the following are simply guidelines for budgetary and planning purposes.

Capital Plan Replacement Schedule Guidelines:

Asset Type	Estimated Lifecycle	
	Years	Miles/Hours
Land Purchases & Improvements	Open	
Infrastructure		
Roads	+/- 50	
Bridges	+/- 75	
Trails, Sidewalks, & Curb	15-25	
Buildings		
Concrete Buildings	50	
Maintenance Facilities, Garages, Shops, Barns	30	
Storage Sheds and Shelters	30	
Wood Framed Construction	20	
Office Buildings	20-50	
Building Improvements – determined case by case	20-50	
Parking Lots, Lighting, Landscaping, Fencing, etc.	5-20	
Communication Equipment: Radio Towers	15-20	
HVAC Systems – Heating, Ventilation, Air Conditioning	10-20	
Roofing	10-20	
Elevators	15-20	
Carpet Replacement	5-7	
Electrical and Plumbing	30	
Office Furniture	5-30	
Kitchen Equipment - Appliances	10-15	
Motor Vehicles & Trailers		
Automobiles	3-5	100,000 mi.
Squad Cars	4-5	100,000 mi.
Pickup Trucks	10	
Other Vehicles	3-10	
Two Wheel Drive Trucks less than 14,630 lbs.		100,000 mi.
Two Wheel Drive Trucks 14,630 - 27,650 lbs.		100,000 mi.
Two Wheel Drive Trucks over 27,650 lbs.		150,000 mi.
Trailers	10-25	
Inland Marine – Contractors Equipment		

Tandem Snowplow Trucks	14	150,000 mi.
Motor Grader	15	8,000 hrs.
Loader, Backhoe	15	4,000 hrs.
Bulldozer, Excavator, Mowing Tractor	15	3,000 hrs.
Crawler Dozer	15	2-3,000 hrs.
Skidder	15	2,000 hrs.
Ground Equipment – Mowers, Tractors, Blowers & Attach.	4-10	
Custodial Equipment – Sweeper, Floor Scrubber, Vacuums	12	
Miscellaneous Personal Property Equipment, EM		
Boats	10	
Ballistic Vests (expiration date)	5	
Tasers (expiration date)	5	
Defibrillators (expiration date)	12	
Other Equipment	5-15	
Electronic Data Processing Equipment		
Computers	1-5	
Communications Equipment: Mobile & Portable Radios	10	
Office and Telephone equipment	5-20	

INVESTMENT POLICY

1. Purpose

The purpose of the Investment Policy is to set forth the investment objectives and parameters for the management of public funds of Goodhue County. This investment policy is designed to safeguard all funds on behalf of the County, assure the availability of operating and capital funds when needed, ensure compliance with applicable Minnesota statutes, and to provide a competitive investment return.

2. Scope

The Investment Policy outlines the investing philosophy and practices of Goodhue County and has been developed to serve as a reference point for the management of County assets. It is the policy of the County to implement the Investment Program that invest all financial assets in a manner which will provide the highest investment return with minimum risk while meeting the daily cash flow demands and debt service requirements of the County and conforming to all federal, state and local regulations governing the investment of public funds. Investment portfolio risk will be minimized to ensure that liquidity and marketability are maintained. The County will invest in securities that match the County's cash flow needs and debt service requirements.

3. Prudence

Investments shall be made with judgment and care, under circumstances existing at the time the investment is made, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering probable safety of their capital as well as interest yield to be derived.

The standard of prudence to be used by investment officials shall be applied in the context of managing the overall portfolio. Investment officers acting in accordance with written procedures and the Investment Policy and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse situations. Investment procedures developed by the Finance Department must be complied with by those with access to and management responsibilities for County investments.

4. Management of Investments

Management responsibility for the Investment Program is hereby delegated to the Finance Director, who shall establish written procedures for the operations of the Investment Program consistent with this Investment Policy. 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 investment transactions and shall abide by the system of controls to regulate the activities of subordinate officials.

The Finance Director, with assistance from finance department staff, monitors performance of the investment portfolio and ensures that proper internal controls are developed to

safeguard investments assets. Internal Control Procedures shall include reference to: safekeeping, delivery versus payment, investment accounting, Public Securities Association repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions.

The Investment Program shall be operated in conformance with federal, state, and other legal requirements. Authority to manage the County's investment program is derived from the following:

- Minnesota Statutes 118A, Municipal Funds
- Goodhue County Resolution – Annual Designation of Financial Institutions as Depositories
- The designations within this Policy as adopted.

5. Investment Objectives

The County will attempt to match its investment maturities with anticipated cash flow liquidity demands (static liquidity). Because of the inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

The Investment Program will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the County's investment risk constraints and cash flow needs. The County will strive to have at least 92% of its cash funds earning interest. The primary objective of Goodhue County's investment activities shall be:

- a. **Safety** – Safety of principal is of critical importance to the investment program. Investments of the County shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
 1. **Credit Risk** – the risk of loss due to failure of the security issuer or backer, will be minimized by:
 - Limiting investments to the type of securities listed in Section 7 of this investment policy.
 - Diversifying the investment portfolio as outlined in Section 8 so that the impact of potential losses from any type of security or from any one individual issuer will be minimized.
 2. **Interest Rate Risk** – the risk that the market value of securities in the portfolio will fall due to change in market interest rates, will be minimized by:
 - Structuring the investment portfolio 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 and limiting the average maturity of the portfolio in accordance with this policy.
- b. **Liquidity** – The County’s investment portfolio will remain sufficiently liquid to enable the County to meet all operating requirements that might reasonably be anticipated. The portfolio will be structured so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds, overnight repo or commercial paper accounts, or local government investment pools which offer same day liquidity for short-term funds.
 - c. **Return on Investment** – The County’s investment portfolio shall be designed with the objective of attaining a market rate return. The core of investments is limited to low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:
 - A security with declining credit may be sold early to minimize loss of principal.
 - A security swap would improve the quality, yield, or target duration in the portfolio.
 - Liquidity needs of the portfolio require that the security be sold.

6. Authorized Investment Institutions and Dealers

Goodhue County will conduct investment transactions only with authorized broker/dealers that have met the following criteria:

- a. They act as primary or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1(Uniform Net Capital Rule).
- b. Submit annually to the Finance Director a Minnesota State Auditor Broker Certification Form.

All broker/dealers relationships, providing they meet the above requirements, will be approved by the County Board and maintained at the discretion of the Finance Director. The County will maintain no less than two broker /dealers in order to seek to diversify and allow for comparable quotes on investment transactions.

Goodhue County may enter into contracts with third-party investment advisory firms when their services are deemed to be beneficial to the County’s Investment Program. The contract must be reviewed and approved by the County Board. The advisor must comply with this Investment Policy.

7. Authorized Depositories

Based on the investment objectives as defined in this policy, the County will limit its investments to the following types of securities:

- a. **United States Securities** including bonds, notes, bills, mortgages or other securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress. Mortgage-backed securities that are defined as high risk or in certificates of deposit secured by letters of credit issued by federal home loan banks are not permissible investments.
 - General obligation bonds of state or local governments rated A or better by a national bond rating services.
 - Revenue obligations of state or local governments rated AA or better by a national bond rating agency.
 - General obligation bonds of the Minnesota Housing Finance Agency rated A or better by a national bond rating service.
 - General obligations of the Housing Finance Agency of any state rated AA or better and if it includes the moral obligation of the state.
- b. **Certificates of Deposits (Time Deposits)** that are fully insured by the Federal Deposit Insurance Corporation (FDIC).
- c. **Bankers Acceptances** of United States banks, eligible for purchase by the Federal Reserve System, that mature in 270 days or less. Evaluation of the financial strength of the accepting bank is necessary through purchasing acceptances only from banks with a minimum A (very strong bank) rating by a nationally recognized rating agency.
- d. **Commercial Paper** issued by United States corporations or their Canadian subsidiaries that is rated A-1, P-1, or F-1 or better by at least two nationally recognized rating agencies and matures in 270 days or less.
- e. **Money Market Mutual Funds** which are rated Aa or higher, by at least one nationally recognized statistical rating organization, invests in securities with a final maturity no longer than 13 months, are generally government backed and do not have a floating Net Asset Value (NAV).
- f. **The Minnesota Association of Governments Investing for Counties (MAGIC)** is a local government investment pool that is a joint powers entity for the purpose of allowing Minnesota Counties and instrumentalities of Counties to pool their investment funds to seek the highest possible investment yield, while maintaining liquidity and preserving capital.
- g. **Repurchase Agreements** consisting of collateral allowable in Minnesota Statute, section 118A.04, and reverse repurchase agreements may be entered into with any of the following entities:
 - A financial institution qualified as a “depository” of public funds of the government entity.
 - Any other financial institution which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds \$10,000,000.

- A primary reporting dealer in the United States government securities to the Federal Reserve Bank of New York.
 - A securities broker-dealer licensed pursuant to chapter 80A, or an affiliate of it, regulated by the Securities and Exchange Commission and maintaining a combined capital and surplus of \$40 million or more, exclusive of subordinated debt.
 - Reverse agreements may only be entered into for a period of 90 days or less and only to meet short-term cash flow needs. In no event may reverse repurchase agreements be entered into for the purpose of generating cash for investments, except as stated in Minnesota Statute, section 118.04, Subd. 3. State and local securities.
- h. **Securities Lending Agreements.** Securities lending agreements, including custody agreements, may be entered into with a financial institution meeting the qualifications of Minnesota Statute, section 118A subdivision 2, clause (1) or (2). Securities lending transactions may be entered into with entities meeting the qualifications of subdivision 2 and the collateral for such transactions shall be restricted to the securities described in section 118A.05 Subd.3 and section 118A.04.
- i. **Guaranteed Investment Contracts.** Agreements or contracts for guaranteed investment contracts may be entered into if they are issued or guaranteed by United States commercial banks, domestic branches of foreign banks, United States insurance companies, or their Canadian subsidiaries, or the domestic affiliates of any of the foregoing. The credit quality of the issuer's or guarantor's short and long-term unsecured debt must be rated in one of the two highest categories by a nationally recognized rating agency. Should the issuer's or guarantor's credit quality be downgraded below "A", the government entity must have withdrawal rights.
- j. **Mortgage-backed Securities,** which include any collateralized mortgage obligations (CMOs) or real estate mortgage investment conduits (REMICs) that pass a three tier Federal Financial Institution Examination Council (FFEIC) stress test which includes the following:
- No average life > 10years.
 - Security may not be shorter than 6 years in a down 300 basis points parallel shift in interest rates nor lengthen more than 4 years in an up 300 basis point shift in rates.
 - Price cannot change more than 17% in a +/- 300 basis point shift.

8. Diversification

The County will substantially reduce the risk of loss by diversifying its investments by investment instrument, type, issuer, and maturity scheduling. A majority of the County's reserve funds will be invested in securities maturing in 5 years or less, with no more than 10% of the County's reserve funds being invested in securities maturing 10 years or more. Portfolio maturities shall be staggered to avoid undue concentration of assets within a specific sector and timeframe. Maturities selected shall provide for stability of income and reasonable liquidity. To comply with the principle of proper financial diversification, the following percentage guidelines are set forth with regard to eligible securities to be used at the time of purchase of each security investment:

a) US Government Obligations	100%
b) US Federal Agency Securities	100%
c) FDIC – Insured Certificates of Deposit	100%
d) MAGIC Funds	50%
e) Municipal Bonds/Other Obligations	40%
f) Commercial Paper	10%
g) Repurchase Agreements	10%
h) Overnight excess cash deposit (sweep)	as needed

9. Safekeeping and Custody of Securities

Investments, contracts, and agreements may be held in safekeeping with:

- a. Any Federal Reserve Bank.
- b. Any bank authorized under the laws of the United States or any state to exercise corporate trust powers including, but not limited to, the bank from which the investment is purchased.
- c. Primary reporting dealer in the United States government securities to the Federal Reserve Bank of New York.
- d. A securities broker/dealer licensed under chapter 80A, or an affiliate of it, and regulated by the Securities and Exchange Commission; provided that the government entity's ownership of all securities is evidenced by written acknowledgements identifying the securities by the names of the issuers, maturity dates, interest rates, CUSIP number, or other distinguishing marks.
- e. The County's ownership of all securities in which the fund is invested should be evidenced by written acknowledgements identifying the securities by:
 - The names of the issuers.
 - The maturity dates.
 - The interest rates.
 - Any serial numbers or other distinguishing marks.

The County may NOT invest in securities that are both uninsured and not registered in the name of the County and are held by either the counterparty or the counterparty's trust department or agent, but not in the name of the County.

10. Collateralization

Collateralization will be required on the following types of investments:

- a. Certificates of Deposits (Time Deposits) / Demand Deposits > \$250,000.
- b. Repurchase agreements (for investments held beyond seven days).
- c. Bank Deposits held over \$250,000 in each institution.

In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value of principal and accrued interest. The

underlying securities will be subject to periodic (monthly) market valuations to ensure there is no market exposure.

The County chooses to limit collateral to the authorized forms as follows:

- a. U.S. Government Treasury Bills, Treasury Notes, and Treasury Bonds;
- b. Issues of U.S Government agencies and instrumentalities as quoted by a recognized industry quotation service available to the County;
- c. General obligation securities of any state or local government with taxing powers which is rate "A" or better by a national bond rating agency service, or revenue obligation securities of any state or local government with taxing powers which is rate "AA" or better by a national bond rating service;
- d. Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the banks public debt is rated "AA" or better by Moody's Investors Service, Inc.; or Standard & Poor's Corporation; and
- e. Time deposits that are fully insured by the Federal Deposit Insurance Corporation.

For cash deposits on hand collateral will always be held by an independent third party with whom the entity has a current custodial agreement. Clearly marked evidence of ownership (safekeeping receipt) must be supplied by the entity and retained. Collateralization shall be in the form of specific securities held for the County. The only exceptions are federal Depository Insurance Corporation (FDIC), Securities Investor Protection Corporation (SIPC) and pre-approved insurance coverage. The County may collateralize its repurchase agreements using longer-dated investments not to exceed 5 years to maturity. The right of collateral substitution is granted, subject to approval from the Finance Director or their designee.

11. Internal Controls

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft or misuse. 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 the costs and benefits requires estimates and judgments by management.

Accordingly, the Finance Director shall have the Investment Policy and Internal Control Procedures reviewed annually by an independent auditor to assure compliance. The internal controls shall address the following points:

- a. Control of collusion. Collusion is a situation where two or more employees are working in conjunction to defraud the employer.
- b. Separation of transaction authority from accounting and recordkeeping. By separating the person who authorizes the recording of the journal transaction from the person who performs the purchase of the transaction, a separation of duties is achieved.
- c. Custodial safekeeping. Securities purchased from any bank or dealer including appropriate collateral (as defined by State law) may be placed with an independent third party for custodial safekeeping.

- d. Avoidance of physical delivery of securities. Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
- e. Clear delegation of authority to subordinate staff members. Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- f. The addition of new accounts to the approved wire and electronic transfer list shall require written authorization of the Finance Director and shall be reviewed by the County Board.
- g. Development of a wire or electronic transfer agreement with the lead bank or third party custodian. This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire or electronic transfers.

12. Reporting

The Finance Director is charged with the responsibility of preparing a quarterly investment report that includes a management summary providing an analysis of the current investment portfolio. The County Board shall meet biannually or as needed to review the following:

- a. Review updates and changes to Investment Policy.
- b. Review the overall County investment activities and current portfolio positions.
- c. Evaluate compliance with the investment policy and all investment guidelines
- d. Review selection and authorization of all broker/dealers used for investment transactions.
- e. Review selection and performance of all third-party contracted asset managers.
- f. Evaluate banking services and depositories.
- g. Consider any other matters related the County's investment and banking program.

The County Board shall review, amend if necessary, and approve the Investment Policy every two years at a minimum or as needed.

13. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from conducting personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment officials shall annually disclose to the County Auditor any material financial interests as required by state statute on an annual basis. Officer and employees shall subordinate their personal investment transactions to those of the County, particularly with regard to the time of purchases and sales, and shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the County.

DEBT MANAGEMENT POLICY

1. Purpose

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

- a. Define the role of debt in the County's total financial strategy to avoid using debt in a way that weakens other parts of the financial structure of the County.
- b. Provide for limits on debt to avoid potential pitfalls in servicing the debt.
- c. Maintain a credit rating of A1 or higher. The County currently holds an Aa2 Credit Rating from Moody's Investors Service.

2. Policy

In developing, offering and administering its debt obligations, Goodhue County will adhere to the following guidelines:

- a. The County will not use short-term borrowing to finance operating needs except in the case of an extreme financial emergencies which is beyond the County's control or reasonable ability to forecast.
- b. The County may only use long-term debt financing when all of the following conditions exist:
 1. When non-recurring capital improvements are desired, and
 2. When it can be determined the future citizens will receive a benefit from the improvement, and
 3. When the cost benefit of the expenditure, including interest cost, is positive.
- c. The issuance of long-term debt is generally limited to capital expenditures that cannot be financed from current revenues or resources. Exceptions will usually involve an unforeseen liabilities. For purposes of this policy, current resources are defined as that portion of fund balance in excess of appropriate required reserves and designations.
- d. Every effort will be made to limit the payback period of the bonds or notes for capital related borrowing to the estimate useful life of the capital asset constructed or purchased.
- e. The County will try to keep the average maturity of general obligation bonds at or below ten years.
- f. Total general obligation debt shall not exceed two percent (2%) of the market value of taxable property. According to MN Statutes 475.53, Subd. 1, Limit on debt; debt shall be limited to 3% of the estimated market value.

- g. The Finance Director will inform the County Board of potential debt refinancing which may become possible due to such things as market changes or legislative decisions.
- h. The maintenance of the best possible credit rating shall be a major factor in all financial decisions.
- i. The County will maintain good communications about its financial condition with credit rating agencies.
- j. The County will conservatively project the revenue sources that will be utilized to repay the debt (i.e. taxes for G.O. debt are levied at 105% of the required debt service).
- k. In considering a total debt load beyond \$20,000,000 the County will have a financial analysis performed prior to approving the debt.
- l. Refunding and advance refunding opportunities will be monitored and action taken when determined financially advantageous.
- m. Debt will be issued based on needs identified in the Capital Plan to minimize fluctuations in the annual levy committed to advance and maintain the infrastructure of the County.
- n. The County will follow a policy of full disclosure in the annual Financial Statements and official statement.

FUND BALANCE POLICY

1. Purpose

This policy is to help ensure that the County maintains adequate fund balances to provide the basis for a stable financial environment and to allow the County to provide quality services to its residents. Fund balances as described in this policy will provide working capital for regular ongoing operations and reserves for emergency situations to avoid service disruptions.

2. Scope

This policy applies to all of the County's governmental funds and all types of fund balances.

3. Fund Balance Categories

Non-spendable: Amounts that cannot be spent because the resources the fund balance represents are either not in a spendable form (inventory, prepaid expenses or long-term receivables) or cannot be spent due to legal or contractual requirements (endowment fund principal).

Restricted: Amounts that can only be used for a specific purpose due to restrictions placed on the funds by external parties such as granting agencies, creditors or governmental bodies. Examples include revenues restricted by state statute (e.g. Recorder's Technology Fund), unspent bond proceeds, Sheriff's K-9 donations and treatment court grant funds.

Committed: Funds that can be used only for specific purposes as determined by the County Board of Commissioners. To be classified as committed balances, the purpose restraint must be put in place prior to the end of a fiscal year; the specific amount can be determined at a later date. Rescinding a commitment also requires a formal Board resolution. Examples include amounts set aside for employee vacation balance payouts at termination or debt service, as well as specific general fund balances as set forth in Section 6 of this policy.

Assigned: Amounts that are intended to be used for a specific purpose that are neither restricted nor committed. Fund assignments can be made directly by the Board (formal resolution is not required) or by an official or body to whom the Board has designated the authority to make such assignments. Decisions to assign funds for a particular year can be made at any time, including after the last day of the year (but prior to finalization of audited financial statements).

Unassigned: Remaining fund balance that is spendable, and is not restricted, committed or assigned. Other than target levels of unassigned fund balance as defined in this policy, there are no restrictions on the use of these balances.

4. Fund Types and Fund Balance Categories

The County has three types of funds: general revenue, special revenue and debt service.

The general revenue fund is where the majority of property tax receipts are deposited and is the main operating fund that accounts for all activity not in other funds (e.g. finance and

administration, law enforcement). There are no restrictions upon use of these funds other than those imposed by adoption of the County's annual budget or specific limitations on other funding sources (other than property tax revenues) received into this fund.

Special revenue funds account for activities that are funded by resources that are restricted for use for those specific purposes/activities as well as specifically-levied property tax revenues - e.g. Road and Bridge and Health and Human Services funds.

Positive unassigned balances can exist only in the general fund. By definition, balances in special revenue funds that are not otherwise restricted (non-spendable, restricted or committed) are inherently restricted to the purpose of that fund and are considered to be assigned. Commitments and assignments cannot be negative balances in any fund, nor can commitments or assignments cause a negative unassigned fund balance. Any negative fund balance should be recorded in the unassigned category.

5. Order of Resource Use

When an expenditure is incurred for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, restricted resources will be used first, followed by unrestricted. When multiple types of unrestricted resources are available, committed balances will be used first, followed by assigned, then unassigned.

6. Reserve Balances – Types, Target Levels & Allowable Uses

The County will maintain operating reserves for the general fund and all special revenue funds, several other reserves within the general fund and a debt service fund reserve. All uses of reserves require approval from the Board of Commissioners. Requests to use reserve funds should include a replenishment plan that addresses funding sources and timelines.

General Fund

Operating: At the end of the year, the County will strive to maintain an unassigned fund balance between of 35-50% of the subsequent year's budgeted operating expenditures (including transfers out). In addition to providing working capital prior to receipt of first half tax settlement amounts, allowable uses of these reserves include:

- Avoidance of service disruptions due to short-term unexpected revenue shortfalls or additional expenditures,
- Funding for temporary transitional periods during extended economic downturns as expenditure reductions are implemented, and
- To act as the County's emergency reserve to be used for unforeseen, rare and catastrophic events that result in significant physical damage or major service disruptions – e.g. flooding, tornado/other storms, terrorist attacks, public health epidemics.

27th Payroll: Through regular incremental amounts included in the annual levy, the County will work to build a balance that approximates the cash payout of one payroll cycle - \$1 million. This balance will be used to fund the payout of the rare occurrence of a 27th payroll period in a fiscal year.

Capital: Based on historical capital spending (adjusted for inflation), the County will maintain a capital reserve balance of \$2.5 million. This reserve will be funded through incremental amounts included in the annual levies and will be used to fund annual capital plan purchases as included in each year's approved budget. Pending review of funding availability, this reserve can also be used for purchase of items not included in the current year capital plan that do not meet the criteria for use of contingency funds.

Special Revenue Funds

For each of its special revenue funds (Road & Bridge, Health & Human Services, Waste Management and Economic Development), the County will strive to maintain an operating reserve balance of 30-40% of the subsequent year's budgeted operating expenditures (including transfers out) as measured at the end of each fiscal year. Balances in the Road & Bridge fund may not be within the target range due to planned projects and will be evaluated as needed to ensure reserves are sufficient. Operating reserves in the special revenue funds have the same allowable uses as the operating reserves in the general fund.

Debt Service Fund

The County will maintain sufficient debt service fund reserves to fund the subsequent year's scheduled principle and interest payments, as well as any principle payments that have been funded in prior or current years but are not due and payable until subsequent years. These reserves will also support the State of Minnesota statutory requirement that available funds for debt service requirements be at 105% of the amounts due in a given year.

7. Funding of Reserves

Initial Funding

- Operating: Operating reserves in all funds are funded through the ongoing surplus of revenues over expenditures or receipt of one-time revenues
- 27th Payroll and Capital: Funded through ongoing incremental amounts included in annual tax levies
- Contingency: Funded in the same manner as operating reserves, but from the General Fund only

Replenishment

- Funding sources: Operating and contingency reserves can be replenished through reduction of recurring operating expenditures or transfer of excess amounts from other categories of reserve balances. The 27th payroll and capital reserves will be replenished through the regular budgeted levy amounts.
- Priority: If multiple reserves are used, Contingency reserves should be replenished first, followed by Capital and 27th payroll (if the levy was reduced/eliminated), then Operating.
- Timeline: Operating reserves should be replenished over a period of one to five years, depending on the amount used. For amounts used down to 35%, replenishment should occur within one year, for amounts used down to 25%, replenishment should occur within five years. Contingency reserves should be replenished over a period of no more than five years.

8. Excess Reserves

Any reserve balances in continued and significant excess of stated policy amounts should be addressed in one of the following manners, with assurance given that resolution is in compliance with any funding restrictions on reserve balance resources:

- Transfer to another existing reserve in the same fund, or a different fund
- Use for one-time expenditure that does not require additional future expense outlays
- Use for one-time expenditures that can reduce future operating costs
- Start-up funds for new programs that are consistent with the County's mission and will have other future revenue funding sources
- Transfer to new reserve type due to changes in circumstances (e.g. lawsuit)

9. Reserve Deficiencies

All reserve balances will be assessed after the close of each fiscal year. Any deficiencies, including a replenishment plan, will be reported to the County Administrator and the Board of Commissioners. The replenishment plan should follow the timelines in the Replenishment section. Deficiencies in the 27th payroll or Capital reserves will be addressed during the annual budget process.

10. Authority

All uses of fund balance reserves must be approved by the County Administrator, with final approval from the Board of Commissioners. Requests to use reserve amounts must include a replenishment plan and be consistent with approved uses as stated in this policy. For regular use of capital reserves (annual capital plan expenditures) and 27th payroll reserves, Board approval will be given through their approval of the County's annual budget.

11. Review

All reserve balances will be reviewed at the end of each fiscal year. Actual ending balances and any replenishment plan (if applicable) will be reported to the board for review and approval. Interim balance reviews may also be done as part of the annual budget process.

In addition, the policy target levels will be reviewed periodically for reasonableness and adequacy as compared to historical revenue/expense activity, historical use of reserves and expected future cash flows. Any changes to policy target amounts will be approved by the Board.

12. Recording Reserves in the Financial Statements

Fund Balances are recorded on the Balance Sheet by category: Non-spendable, Restricted, Committed, Assigned and Unassigned. General fund operating reserves are in the Unassigned category while special revenue fund operating reserves are in the Assigned category. Contingency, Capital and 27th payroll reserves are classified as Committed.

13. Responsibilities

Finance

- Annual review and report to Board of ending fund balance reserve amounts
- Periodic policy and target level review

- Request annual Board approval of other committed and assigned balances
- Present request to use reserve funds to Board

Departments

- Request fund balance commitments and assignments through Finance

County Administrator

- Approve use of reserve requests prior to presentation to Board

Board of Commissioners

- Final approval of reserve use requests
- Approval of other annual fund balance commitments and assignments
- Approval of policy changes
- Approval for plan to resolve reserve balance excesses and deficiencies

PURCHASING POLICY

1. Purpose

The purpose of this policy is to maximize the purchasing value of public funds by ensuring these funds are used in a fiscally responsible manner and in accordance with all applicable State and Federal laws.

2. Scope

This policy applies to all departments and all procurement actions of the County unless superseded by Federal or State law or regulations of other funding sources.

3. Ethical Purchasing

To maintain a fair and open procurement process, the County must be free of both actual and apparent conflicts of interest. All County representatives must adhere to the County's Code of Ethics: <https://www.co.goodhue.mn.us/DocumentCenter/View/9376/Code-of-Ethics---2015?bidId=>

Full and Open Competition

All procurement actions will be conducted in a fair and responsible manner, with all responsible sources being permitted to compete in the purchasing process. Information that is known to be false or not public shall not be disclosed to any potential vendor or other entity by any employee or official responsible for a particular procurement transaction.

Conflict of Interest

No employee or other official shall knowingly use confidential information for personal gain. Personal purchases from County suppliers must be clearly separated from county purchases, must be paid for from personal funds and cannot be made on a county contract.

No County employee, board member or other agent may participate in the analysis, selection and awarding of contracts in which they have a real or apparent financial or other interest in one or more of the potential vendors. Any employee who identifies an actual or potential conflict of interest must immediately disclose that conflict to the Finance department and must ensure they remove themselves from the purchasing process.

Gratuities and Gifts

No County employee, board member or other agent shall ask for or accept gifts, gratuities or favors from any contractor or potential contractor, with the exception of marketing or promotional-type items (pens, notebooks, cups, etc.) of \$25 or less. (MN statute §471.895)

4. General Guidelines

- Dollar limits referenced in this policy apply to the total purchase price of all items in a transaction, before discounts or trade-ins
- Under no condition should orders be split into separate transactions in order to circumvent the approval and processing requirements of this policy

- Availability of funding must be ensured prior to making all purchases
- For any contracts over \$25,000, entities must review and consider the availability of state cooperative contracts prior to pursuing other sources (MN statute §471.345, sub. 15)

5. Quick Reference

This is a **general** guide for determining required approvals and acceptable purchasing methods. Depending on the specific good/service being purchased, the types of funding being used and the existence of other contracts, different requirements may apply (see section 6).

Threshold	Method	Approval
< \$10,000	Direct purchase; formal quotes not required --if practicable, get 2 (informal) quotes (verbal or written)	--Department Head
\$10,000 - \$25,000	Informal quotes (at least 2 if practicable)	--Department Head
\$25,001 - \$50,000	Formal quotes/direct negotiation <or> sealed bids	--Department Head --Finance Director
\$50,000 - \$100,000	Formal quotes/direct negotiation <or> sealed bids	--Department Head --Finance Director --County Administrator --County Board (if deemed appropriate by the County Administrator)
\$100,001 - \$175,000	Formal quotes/direct negotiation <or> sealed bids	--Department Head --Finance Director --County Administrator --County Board
\$175,001 +	Sealed bids	--Department Head --Finance Director --County Administrator --County Board

Note: if there are significant variations from budgeted revenues (under) or expenditures (over) in a given fiscal year, management reserves the right to require approvals at lower thresholds for a specified time period.

6. Separate/Specific Requirements

Capital Plan Items

Items included in the current year capital plan do not require Board approval at the time of purchase if:

- The item is included in the current year capital plan budget, as approved by the Board
- The purchase amount is within 5% (over) the budgeted amount
- The purchase is for an item and not a project (e.g. construction contract); contracts over \$100,000 will still require Board approval

Emergency Purchases

An emergency purchasing situation exists when an unforeseen event occurs that presents a threat to the health, welfare or safety of the County's employees, citizens or other constituents that must be remedied immediately. Note: failure of a department to adequately plan or budget for its operations does not meet these requirements.

Emergency purchases must be referred to the County Administrator or other responsible official prior to making a purchase. Any emergency purchases over \$50,000 must be submitted to the County Board for action/resolution at their next scheduled meeting.

Federal or Other Grant Funding

If any purchasing requirements of grant funding documents conflict with this policy, the requirements in the grant documents supersede this policy. Purchases involving federal funds must comply with the County's Federal Procurement policy (included in this policy manual) as well as any other requirements in the Code of Federal Regulations, Title 2, Part 200, subparts 318-326: https://ecfr.io/Title-02/pt2.1.200#sq2.1.200_1316.sq3.

Health & Human Services

Health and Human Services (HHS) is governed by a separate Board, the majority of which is made up of the regular County Board of Commissioners. Therefore, while HHS is subject to this policy, any Board-level approvals will be made by the separate HHS Board. HHS should notify Finance of any large purchases or contracts for reporting and cash flow management purposes.

Information Technology

For purposes of this policy, the information technology category includes computer hardware and software (including maintenance and programming agreements), information technology consulting and cell phones. All information technology items must be reviewed and approved by the Information Technology Department prior to purchase to ensure the purchases are in compliance with the County's Technology User and Cellular Device policies and to ensure new items are compatible with existing devices, software and network.

Joint/Cooperative Contracts

Purchases made in the following situations are excluded from the competitive bidding/quote process:

- State of Minnesota Cooperative Purchasing Venture (CPV)
<http://www.mmd.admin.state.mn.us/process/contract/CPVContractsList.asp>
- Contracts entered into by other government agencies that were subject to a competitive bid process and that allow (as stipulated by the contract or by separate request/agreement in writing) other government agencies to make purchases under the same terms and conditions.

Leases

All potential leases of a term longer than one year must be evaluated to determine if leasing is the best value for the County's funds (lease vs. buy decision). Per Minnesota Statute §465.71, any lease agreement with a purchase option must contain a statement saying the County "must have the right to terminate a lease-purchase agreement at the end of any fiscal year during its term."

Professional Services

Professional services are specialized services that are typically intellectual in nature. Examples include architectural/engineering, accounting/auditing, legal, financial and other consulting arrangements. These services are often used when specialty services are needed and can be more efficiently and effectively be provided by an outside party or when services are required to be performed by an outside/independent provider (e.g. audit).

Professional services are exempt from formal competitive bid requirements, but departments are encouraged to obtain multiple quotes and/or use request for proposals when practicable. Contracts should be awarded based on best vendor qualifications with the existence of reasonable price. All agreements are subject to the internal approvals as specified in this policy and must be fully approved *before* the start of services.

Sole Source

Contracts may be negotiated and awarded without a full competitive bid or negotiation process if:

- Only a single company can provide the good or service due to the uniqueness or proprietary nature (copyright, patent, etc.) of the good or service <or>
- The full competitive bidding process will provide no advantage (price, etc.) because of the noncompetitive nature of the goods or services being purchased

Because sole source purchasing reduces or eliminates competition, this method should be used infrequently, in specific situations, and only after all other procurement or purchasing methods have been fully evaluated and exhausted.

Departments making sole source purchases must provide written documentation justifying their sole source decision. All sole source purchases are still subject to the internal approvals as defined in this policy.

State-Defined Bid Exceptions

Per Minnesota Statute §471.425 subd. 4a, goods and services procured from the following vendor types are exempt from bidding requirements: economically disadvantaged persons, rehabilitation facilities, small or veteran-owned small business or energy efficiency projects. Any contracts awarded under this category are still subject to the internal approvals as stated in this policy.

Unbudgeted Items

Purchases of items (both capital and operating) not included in the approved and adopted County budget require approvals at lower amount thresholds than budgeted items. Approval of all unbudgeted purchases is subject to availability of budgeted funds and all purchases must follow the purchasing methods as prescribed in this policy.

Threshold	Approval
< \$10,000	--Department Head
\$10,000 - \$24,999	--Department Head --Finance Director
\$25,000 - \$75,000	--Department Head --County Administrator
\$75,001 +	--Department Head --County Administrator --County Board

Note: The County Board designates their specific authority for approval of unbudgeted items in the Records Compliance Fund up to \$50,000 to the County Administrator.

Utilities

Because there is no reasonable basis for competitive procurement of these services, utilities are exempt from this purchasing policy.

7. Bidding

Bidding and contract requirements are governed primarily by Minnesota Statute §471.345 – *Uniform Municipal Contracting Law*. Additional information can be found in the following statutes:

- §16C.28 – *Contracts; Award*
- §16C.285 – *Responsible Contractor Requirement Defined*
- §375.21 – *Contracts of County Boards*
- §331A – *Qualified Newspapers*
- §429.041 – *Council Procedure*

Requests for bids must be advertised in a qualified legal newspaper of the County and/or via an approved alternative method for a period of two weeks (three weeks for construction/repair of roads, bridges and buildings) prior to the bid opening date.

For all construction contracts of \$50,000 or more, contractors must meet certain minimum requirements, including, but not limited to: compliance with state workman's compensation and unemployment insurance laws, authority to conduct business in Minnesota and compliance with federal wage and hour requirements.

Opening of bids must be performed publicly, at a publicly stated time and place. Bid results should be tabulated and the contract awarded to the lowest responsive and responsible bidder (see section 8 below).

8. Awarding a contract

Contracts should be awarded to the lowest responsive and responsible bidder.

- Responsiveness: the degree to which the vendor met the specifications set in the bid request. Some examples that could indicate non-responsiveness include offering a product or service different than requested, not following specified bid procedures or submitting information after the bid deadline.
- Responsibility: the extent to which the vendor can reasonably be expected to fulfill the terms of an awarded contracts. Considerations include integrity, compliance with public policy, record of past performance and financial and technical resources. (See also MN Statute §16C.285).

Minnesota Statute 16C.28 allows for awards to be made based on a "best value" basis for construction, alteration, improvement or repair work. "Best value" considers price, along with other vendor criteria such as quality and timeliness of performance on previous projects, ability to minimize change orders and stay within budget, and technical skills/abilities of personnel, when making the decision to award.

9. Policy Violations

The County will not be responsible for any purchase or agreement to purchase made by a County employee or official who did not comply with the terms of this purchasing policy. Any such purchase or agreement to purchase will be considered null and void and will be considered a personal liability of the employee or official.

10. Responsibilities

Departments

- Management of procurement actions within policy and operating budget
- Maintain oversight of department contracts to ensure contractors perform within accepted terms and specifications of agreements
- Accurate coding of invoices and timely submission of invoices to Finance to ensure prompt payment/acceptance of discounts/avoidance of late fees

Finance

- Director approve purchases as defined in this policy
- Assist departments as needed
- Process invoice payments in timely manner
- Maintain policy
- Enforce policy

County Administrator

- Approve purchases as defined in this policy
- Recommend purchases to Board of Commissioners as deemed appropriate

Board of Commissioners

- Approve purchases as defined in this policy
- Approve policy revisions
- Final approval of annual operating budget

FEDERAL PROCUREMENT POLICY

1. Purpose

The purpose of this policy is to ensure that goods and services purchased for the performance of a federal grant or award are obtained in a cost-effective manner and in compliance with federal regulations.

2. Scope

This policy applies to anyone (“Buyer”) authorized to procure, initiate, and/or approve purchases paid with federal funds (grant/award) at Goodhue County. This policy is also subject to the Goodhue County Purchasing policy (included in this policy manual). If there are any conflicts between this policy and the Purchasing policy, this policy supersedes.

3. Responsibilities

The Buyer is responsible for determining whether a purchase is allowable under the terms of the federal grant or award and will ensure purchases are in accordance with this policy as well as the County’s Purchasing Policy. The Buyer will also serve as the final repository for purchase transaction records specific to federal funds for a minimum of three (3) years. Any exceptions to this policy must be approved in writing by the County Administrator.

4. Rules of Conduct / Code of Ethics

As representatives of Goodhue County, all officers, employees or agents are expected to adhere to the County’s Rules of Conduct/Code of Ethics:

<https://www.co.goodhue.mn.us/DocumentCenter/View/9376/Code-of-Ethics---2015?bidId=>

5. Process Overview

To promote compliance with Federal regulations, the County requires buyers to perform a cost/price analysis when making purchases under federal grants when over the Simplified Acquisition Threshold (SAT) of \$150,000. For purchases under the SAT, the buyer should make a determination as to reasonableness of the cost; these purchases are still subject to the remainder of this policy, process and its procedures.

Before beginning vendor selection, buyers should be sure that they have a clear and accurate description of the requirements for the material, product or service being acquired so that a fair and equitable comparison of price and/or cost can be made.

Buyers shall avoid purchasing unnecessary items. All vendor bids, proposals and quotations must be evaluated on the basis of product quality, technical compliance with specifications, total cost and the vendor’s acceptance of the County’s terms and conditions.

6. Detailed Process and Procedures

This is a brief summary of the guidelines that need to be followed when procuring goods and services with Federal funds. The governing document for these guidelines is the Code of Federal

Regulations (CFR), Section 200. It is the responsibility of the Buyer to adhere to this policy and all of the requirements included in CFR §200.

Additional responsibilities occur when a sub-recipient is involved in carrying out part of a federal award program, as compared to a contractor. The Buyer must determine if a vendor is a contractor or sub-recipient of Goodhue County before accepting any proposal. To document this determination, the buyer should complete the checklist in the appendix. If the Buyer determines that the vendor is a sub-recipient, then the sub-recipient Risk Assessment Tool in the appendix must be completed.

A. Methods of Procurement Under a Federal Award (CFR §200.320)

- Micro-Purchases (\$1 - \$3,500)
 - No quotations needed if price is reasonable
 - Equitable distributions among qualified suppliers
 - Department head (or designee) signs invoices for payment
- Small Purchases (\$3,501 - \$100,000)
 - Price or rate quotations must be solicited from at least two (2) qualified sources
 - No cost or price analysis needed
 - Follow County Purchasing policy for required approvals
- Sealed Bids (\$100,001 +)
 - Lowest reasonable price is determined by looking at all factors in combination (time, quality, price, stability, reputation, etc.) This is the preferred method for procuring construction
 - Request for bids must be publicly solicited from at least two (2) qualified sources
 - In order for sealed bidding to be feasible, refer to conditions in §200.320(c)(1)
 - Follow County Purchasing policy for required approvals
- Competitive Proposals (\$100,001 +, used when conditions are not appropriate for the use of sealed bids)
 - Request for proposals must be solicited from at least two (2) qualified sources
 - If this method is used, the conditions in §200.320(d) apply
- Non-Competitive Proposals
 - Procurement through solicitation of proposal from only one source. May be used when one or more of the circumstances in §200.320(f) apply

B. General Standards for Federal Procurement (CFR §200.318)

- It is the County's responsibility to ensure contractors are performing in accordance with the terms, conditions and specifications of their contracts. Contracts should only be awarded to responsible contractors who have the ability to perform successfully under the terms and conditions of the procurement.

- To reduce costs, the use of value engineering clauses is encouraged for large projects, such as construction.
- Consideration should be given to make the most economical procurements possible. Avoid acquisition of unnecessary or duplicative items and analyze the value of a lease versus a purchase when applicable.
- The County is encouraged to enter into cooperative agreements, agreements with other entities when appropriate or use common or shared goods and services to promote a cost-effective use of shared services. Also, the use of Federal excess and surplus property in lieu of purchasing new is encouraged when feasible.
- The following records must be maintained to detail the history of the procurement: reason for the method of procurement, selection of contract type, contractor selection or rejection, along with bids or quotes and basis for contract price.
- Time and materials type contract may be used only after it is determined there is no other suitable contract and if the contract includes a ceiling price that the contractor exceeds at its own risk. If this contract is used a high degree of oversight is required to ensure the contractor is using efficient methods and effective cost controls.
- The County is responsible for the settlement of all contractual and administrative issues arising out of the procurements, which include, but are not limited to: source evaluation, protests, disputes and claims.

C. Competition (CFR §200.319 and §200.321)

Per federal regulations, Goodhue County must engage in full and open competition for all procurement transactions. Records that sufficiently detail the history of all procurements, including small purchases, must be kept on file by the Buyer.

Contractors that draft specifications, requirements, statements of work or invitations for bids or requests for proposals must be excluded from competing for procurements.

Some examples of situations considered to be restrictive of competition include:

- Placing unreasonable requirements on firms for them to qualify to do business with the County
- Requiring unnecessary experience and excessive bonds
- Noncompetitive pricing practices and contracts
- Organizational conflicts of interest
- Specifying only a “brand name” instead of allowing “an equal” product to be offered
- Any arbitrary action in the procurement process

In addition, the County must conduct procurements in a manner that prohibits the use of statutorily or administratively imposed state, local or tribal geographical preferences in the evaluation of bids or proposals, except in those cases where applicable federal statutes expressly mandate or encourage geographic preferences, or for state licensing law (§200.319).

The Buyer must take all necessary affirmative steps to assure that minority businesses, women's business enterprises and labor surplus firms are used when possible (§200.321). A directory of those targeted groups is available on the State of Minnesota – Office of State Procurement website: <http://www.mmd.admin.state.mn.us/process/search/>. A list of persons, firms or products which are used in acquiring goods and services must be kept current and include enough sources to ensure free and open competition.

All procurements under a federal award must ensure that all solicitations have the following:

- Clear and accurate description of the technical requirements for the material, product or service to be procured
- Identification of all requirements which the potential vendors must fulfill and all other factors to be used in evaluating bids or proposals.

D. Procurement of Recovered Materials (CFR §200.322)

When a purchase of a single item or a quantity of functionally equivalent items purchased in a preceding fiscal year exceeds \$10,000, the County must comply with §6002 of the Solid Waste Disposal Act. The requirements of §6002 include procuring only items designated in the guidelines of the Environmental Protection Agency (EPA) CFR §40.247 that contain the highest percentage of recovered materials practicable, procuring solid waste management services in a manner that maximized energy and resource recovery, and establishing an affirmative procurement program for procurement of recovered materials identified in the EPA guidelines.

E. Cost and Price Analysis (CFR §CFR 200.323)

- Every procurement action in excess of the Simplified Acquisition Threshold (SAT) of \$150,000, including contract modifications, must have a cost or price analysis. The County must make independent estimates before receiving bids or proposals.
- Profit must be negotiated as a separate element of price for each contract in which there is no price competition and in all cases where cost analysis is performed.
- For information on costs or prices based on estimated costs for contracts, refer to CFR §200.400.
- The cost plus a percentage of cost and percentage of construction costs methods of contracting are not allowed.

See Appendix for further details.

F. Suspension and Debarment (CFR §200.212 and §180.300)

The Buyer will review all federal grant transactions and potential contractors to verify that purchases will not be made nor contracts awarded to contractors that are on the Debarment or Suspension list supplied by the federal government. This list is available here: <https://www.sam.gov/SAM/>. All results of searches should be attached to the procurement documentation as verification the search was performed. All purchases also require the contractor to certify in writing that they have not been suspended or disbarred from doing business with any federal agency.

G. Federal Awarding Agency or Pass-Through Entity Review (CFR §200.324)

The County must make available, upon request from the federal awarding agency or pass-through entity, technical specifications, pre-procurement review and all other documents related to the proposed procurements.

H. Bonding Requirements (CFR §200.325)

The Buyer must ensure that the both the Federal and the County interests are protected.

For construction or facility improvement contracts or subcontracts exceeding the SAT of \$150,000, the minimum requirements are as follows:

- A bid guarantee from each bidder equivalent to five (5) percent of the bid price. The bid guarantee must consist of a firm commitment such as a bid bond, certified check or other negotiable instrument accompanying a bid as assurance that a bidder will, upon acceptance of the bid, execute such contractual documents as may be required within the time specified.
- A performance bond on the part of the contractor for 100 percent of the contract price. A performance bond is one executed in connection with a contract to secure fulfillment of all the contractor's obligations under such contract.
- A payment bond on the part of the contractor for 100 percent of the contract price. A payment bond is one executed in connection with a contract to ensure payment as required by law to all persons supplying labor and material in execution of the work provided by the contract.

I. Contract Provisions (CFR §200.326)

The County will include the following provisions, as applicable, in all contracts (including those for small purchases) with contractors and for sub-awards:

- Remedies: All contracts in excess of the small purchase threshold fixed at 41 U.S.C. §403.11 (currently at \$150,000) shall contain contractual provisions or conditions that allow for administrative, contractual or legal remedies in instances in which a contractor violates or breaches the contract terms.
- Termination: All contracts in excess of \$10,000 shall contain suitable provisions for termination by the County, including the manner by which

terminations shall be effective and the basis for settlement. In addition, such contracts shall describe the conditions under which the contract may be terminated for default as well as conditions where the contract may be terminated due to circumstances beyond the control of the contractor.

- Equal Employment Opportunity: All contracts shall contain a provision requiring compliance with E.O. 11246, "Equal Employment Opportunity," as amended by E.O. 11375, "Amending Executive Order 11246 Related to Equal Employment Opportunity," and as supplemented by regulations at 41 CFR §60, "Office of Federal Contract Compliance Programs, Equal Employment Opportunity, and Department of Labor."
- Davis-Bacon Act, as amended (40 U.S.C. §3141-3148): When required by federal program legislation, all construction contracts of more than \$2,000 awarded by the County and its sub-recipients shall include a provision for compliance with the Davis-Bacon Act (40 U.S.C. §276a to a-7) as supplemented by Department of Labor regulations (29 CFR §5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction.") Under this Act, contractors are required to pay wages to laborers and mechanics at a rate not less than the minimum wages specified in a wage determination made by the Secretary of Labor. In addition, contractors shall be required to pay wages not less than once a week. It is the policy of the County to place a copy of the current prevailing wage determination issued by the Department of Labor in each solicitation and the award of a contract shall be conditioned upon the acceptance of the wage determination. The County shall report all suspected or reported violations to the federal awarding agency.
- Contract Work Hours and Safety Standards (40 U.S.C. §327-333): Where applicable, all contracts awarded by the County in excess of \$100,000 that involve the employment of mechanics or laborers shall include a provision for compliance with 40 U.S.C. §3702 and 3704, as supplemented by Department of Labor regulations (29 CFR §5). Under 40 U.S.C. §3702 of the Act, each contractor is required to compute the wages of every mechanic and laborer on the basis of a standard work week of 40 hours. Work in excess of the standard work week is permissible provided that the worker is compensated at a rate of not less than one and a half times the basic rate of pay for all hours worked in excess of 40 hours in the work week. The requirements of U.S.C. §3704 are applicable to construction work and provide that no laborer or mechanic can be required to work in surroundings or under working conditions which are unsanitary, hazardous or dangerous. These requirements do not apply to the purchases of supplies or materials or articles ordinarily available in the open market, or contracts for transportation or transmission of intelligence.
- Rights to Inventions Made Under a Contract or Agreement: Contracts or agreements for the performance of experimental, developmental or research work shall provide for the rights of the Federal Government and the County in any resulting invention in accordance with 37 CFR §401, "Rights to Inventions Made by Nonprofit Organizations and Small Business Firms

Under Government Grants, Contracts and Cooperative Agreements,” and any implanting regulations issued by the awarding agency.

- Clean Air Act (42 U.S.C. §7401-7671q and the Federal Water Pollution Control Act (33 U.S.C. §1251-1387), as amended: Contracts and sub-awards of amounts in excess of \$150,000 shall contain a provision that requires the recipient to agree to comply with all applicable standards, orders or regulations issued pursuant to the Clean Air Act and Federal Water Pollution Control Act, as amended by 33 U.S.C. §1251 et seq). Violations shall be reported to the Federal awarding agency and the Regional Office of the Environmental Protection Agency (EPA).
- Debarment and Suspension (E.O’s 12549 and 12689): For all contracts, the County shall obtain from the contractor a certification that neither the contractor nor any of its principal employees or subcontractors is listed on the Excluded Parties list in SAM.
- Byrd Anti-Lobbying Amendment (31 U.S.C. §1352): For all contracts or sub-grants of \$100,000 or more, the County shall obtain from the contractor or sub-grantee a certification that it will not and has not used federal appropriated funds to pay any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, or an officer or employee of Congress, in connection with obtaining any federal contract, grant or any other award covered by 31 U.S.C. §1352. Likewise, since each tier provides such certifications to the tier above, the County shall provide such certifications in all situations in which the County is a sub-recipient of a grant of \$100,000 or more.

7. Appendix

Determination of Sub-recipient or Contractor (Vendor)

These links are for two examples of checklists to help determine whether a potential contractor is a sub-recipient or a vendor:

- <https://ojp.gov/training/pdfs/Subrecipient-Procure-cklist-B.pdf>
- https://research.jhu.edu/jhura/wp-content/uploads/sites/2/2017/11/Sub-Determination-Form_11012017.pdf

Sub-recipient Risk Assessment

These links are for examples of risk assessment forms/questionnaires:

- <https://www.wisconsin.edu/financial-administration/grant-accounting/subrecipient-risk-assessment/>
- https://financialservices.wustl.edu/wp-content/uploads/2016/03/SPA_WP_SubrecipientMonitoringRiskAssessmentPolicy_v2.0-1.pdf

Cost and Price Analysis

Some form of price or cost analysis should be performed in connection with every procurement action, regardless of whether the organization is a vendor or sub-recipient. The form and degree of analysis, however, are dependent on the particular subcontract or purchase and the pricing situation. Determination price reasonableness through price or cost analysis is required even though the procurement is source directed by the contracting officer of the sponsoring agency.

In some purchases, price analysis alone will be sufficient; in others, price analysis will be used to corroborate the conclusions arrived at through cost analysis. The form and degree of analysis are dependent on facts surrounding a particular subcontracting or purchasing situation. The scope of price analysis performed and the particular techniques used will depend on whether or not cost analysis is done, as well as on such factors as type of product or service, dollar value, purchase method, and extent of competition. The words “vendor” and “subcontractor” used herein are interchangeable.

- **Price Analysis:** This is the process of deciding if the asking price for a product or service is fair and reasonable, without examining the specific cost and profit calculations the vendor used in arriving at the price. It is basically a process of comparing the price with known indicators of reasonableness. When adequate price competition does not exist, some other form of analysis is required. Some reasons that could affect adequate price competition are: specifications not definitive, tolerances are restrictive or production capacity limits those eligible to bid. Examples of other forms or price analysis information include:
 - Analysis of previous prices paid
 - Comparison of a vendor’s price with the in-house estimate
 - Comparison of quotations or published price lists from multiple vendors
 - Comparisons with GSA prices
- **Cost Analysis:** This is the element-by-element examination of the estimated or actual cost of contract performance to determine the probable cost to the vendor. The goal is to form an opinion on whether the proposed costs are in line with what reasonable economical and efficient performance should cost. Cost or pricing data, which should be provided by the subcontractor, are the means for conduction cost analysis. Such data provide factual information about the costs that the subcontractor says may be incurred in performing the contract. Cost analysis should be performed in those situations where price analysis does not yield a fair and reasonable price and where cost data are required in accordance with prime contract clauses.

Cost analysis techniques are used to break down a contractor’s cost or pricing data so as to verify and evaluate each component. Some of the cost elements examined for necessity and reasonableness are material costs, labor costs, equipment and overhead. These costs can be compared with actual costs previously incurred for similar work, the cost or pricing data received from other vendors and dependent cost estimate breakdowns.