



CITY OF NEW HOPE, MINNESOTA
FINANCIAL MANAGEMENT PLAN

Last reviewed by City Council on
November 20 , 2023

Prepared by Abdo Financial Solutions, LLC.

City of New Hope, Minnesota
Financial Management Plan
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INTRODUCTORY SECTION

CITY OF NEW HOPE, MINNESOTA FINANCIAL MANAGEMENT PLAN

NOVEMBER 20, 2023

November 20, 2023

Honorable Mayor and City Council City of New Hope
4401 Xylon Avenue North
New Hope, Minnesota 55428

Introduction

As requested by the City Manager, we have updated the City's Financial Management Plan in conjunction with input from the City Clerk and department directors. A Financial Management Plan is a document that encompasses all of the City's major financial policies. The development and maintenance of a Financial Management Plan is an important part of the overall financial well-being of the City.

From time to time, changes in Statute and other management processes may require an update to the City's Financial Management Plan. We present to you, this updated Plan which incorporates changes by the State Legislature. We recommend the Financial Management Plan be adopted by Resolution of the City Council. In doing so, the policies set forth in this Plan will supersede previously adopted financial management policies.

If you have any questions or wish to discuss any of the policies contained in the Financial Management Plan, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

Sincerely,

Abdo Financial Solutions, LLC

POLICY SECTION

**CITY OF NEW HOPE, MINNESOTA FINANCIAL
MANAGEMENT PLAN**

NOVEMBER 20, 2023

Auditor Independence Policy

Last reviewed by City Council on November 20, 2023.

1. In accordance with the Government Accountability Office, the authority on local government audits, in all matters relating to audit work, the external auditor shall be free both in fact and appearance from personal external and organizational impairments to independence.
 - A. The City's external audit organization shall not be responsible for designing, developing and/or installing the City's accounting system or its operating system where this system generates information used in preparing financial statements for the City of New Hope.
 - B. External auditors shall not develop a performance measurement system or any other system relied upon in developing financial statements.
 - C. The external auditors may prepare draft financial statements, schedules or perform other duties as long as they are based on management's direction and the work results in a recommendation to management.
 - D. Decisions based on the external auditor's recommendations must be approved by City management.
 - E. External auditors shall provide routine advice to the City of New Hope and to management to assist them in activities such as establishing internal controls or implementing audit recommendations and can answer the technical questions and provide training, however, they may not direct or unduly influence management with those decisions.
2. Any non-audit work related to tax rulings, arbitrage, attestation, compilation, sales tax audits, counted value audits and financial report assistance proposed by the auditors must be approved by the City Council prior to hiring them.

Budgetary and Financial Control Policy

Last reviewed by City Council on November 20, 2023.

1. General budgetary and financial control is to be centralized in one department whose functions shall include, but not be limited to, the following:
 - A. Budget compilation
 - B. Budget monitoring
 - C. Income and expenditure projections
 - D. Capital improvement financing
 - E. Risk management (see Risk Management Policy)
 - F. Screening of Conduit Debt applications (see Conduit Debt Policy)
 - G. Cash and investment management (see Investment Policy)
 - H. Monitoring financial data for warning signals or trends
 - I. Preparation of financial summary reports for key funds at least quarterly
 - J. Maintain a detailed inventory listing of all material fixed assets so as to adequately ensure proper accounting of assets.
 - K. "Project Financial Analysis" to be presented as part of any proposal to the Council in connection with any new or expanded operating or capital improvement programs and other projects. The objective of the financial analysis is to provide the best possible estimate of expenses/expenditures, revenues, and staffing impacts of a proposed project. The financial analysis should be factual, informative, and concise which should enable the Council to make intelligent and informed decisions.
 - L. Payroll
 - M. Accounts Receivable
 - N. Receipts, Collections, and Customer Billing
 - O. Accounts Payable
2. The City will maintain a program for the investment of funds consistent with the City's Investment Policy.
3. Operating Budget
 - A. The City will always adopt a balanced operating budget for the General Fund. A balanced budget is one in which revenues and other financing sources are equal to expenditures and other financing uses.
 - B. The City will pay for current expenditures with current revenues.
 - C. The City will avoid, if possible, balancing current revenues with funds needed for future expenditures.
 - D. The City will not budget to accrue future revenues.

- E. Excess revenue from a specific fiscal year will be placed into the City's reserves in a manner consistent with the City's fund balance reserve policies.
- F. The City will avoid postponing expenditures, rolling over short-term debt, and using reserves to balance the operating budget.
- G. The City will review step and grade plans annually and provide for a cost of living adjustment to compensation plans when it is determined that an adjustment is needed to align employee compensation with comparable market wages. From time to time, the City will review the overall compensation plan and commission a market analysis to determine if realignment of the plan is needed.
- H. To protect against unforeseen events, the City Council may budget for and maintain a contingency reserve in accordance with the City's fund balance reserve policies.
- I. The City may apportion its administrative and general government costs to all its funds as appropriate and practical. These charges will be identified in the annual budget.
- J. The City Council, City Manager and department directors will monitor revenues and departmental expenditures to ensure adherence to budgeted amounts. Budget appropriations are by department total within each fund rather than by line item (i.e., account.) Budget changes that involve the transfer of appropriations among accounts only require the approval of the City Manager or designee.
- K. The City will also review and update, the schedule of fund balances, reserves, and working capital in all other operating funds of the City and determine adequacy of those money balances, using specified guidelines and criteria in conjunction with the budgets set annually.
- L. The operating budget policies ensure that the City's annual operating expenditures are consistent with past expenditures and respond to long-term objectives rather than short-term benefits. The policies allow the City to maintain stable levels of service, expenditures, and tax levies over time. These policies are most critical to programs funded with property tax revenue because accommodating large fluctuations in this revenue source can impose hardship on the citizens.
- M. Department Directors will be responsible for administration of their respective Department Budgets and are to submit requests for any required budget adjustments, such as supplemental appropriations, to the Finance Director and City Manager before the program incurs cost overruns for the annual budget period.
- N. Primary responsibility in the management of budgeted funds lies with the Department Directors. Such management includes, but is not limited to, reviewing expenditures before authorization, reviewing monthly financial reports to detect errors and assess progress, and staying within expense or expenditure budget authorization. All costs incurred must be reasonable and necessary. Department Directors shall be responsible for contacting the Finance Director or City Manager should there be any questions regarding financial management or if the issue or concern is related to internal controls. The Finance Director and City Manager will routinely monitor overall budget operating progress throughout the year.
- O. The City will not use one-time accounting principle changes to balance the budget for any fund.
- P. The City will provide ample time and opportunity for public input into its Budget deliberations each year.
- Q. Council approval is required for budget changes that involve a transfer of appropriations between funds or from contingency accounts. The budget changes can be made at any Council meeting.

- R. The modified accrual basis will be used for all of the governmental funds in the budget. Under this basis, revenues are recognized in the accounting period that they become available and measurable. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable. The accrual basis will be used for the budgets of the enterprise funds in the operating budget. Under this basis, revenues are recognized in the accounting period that they are earned and measurable. Expenses are recognized in the accounting period that they are incurred, if measurable. The basis of budgeting is the same as the basis of accounting used in the City's audited financial statements.
4. The City will establish and maintain the highest standard of accounting practices, in conformity with Generally Accepted Accounting Principles (GAAP) and with recommended best practices as promulgated by the Government Finance Officers Association (GFOA).
 5. The City will arrange for an annual audit of all funds and account types by independent certified public accountants qualified and licensed to issue such reports.
 6. The City will strive to obtain each year the annual GFOA Certificate of Achievement for Excellence in Financial Reporting.
 7. Regular monthly reports will present a summary of financial activity by major type of funds as compared to budget. Department Directors will review monthly reports comparing actual revenues and expenditures to the budgeted amounts.
 8. The City integrates performance measurement and productivity indicators to measure operational performance where practical. Performance data for individual departments is included in the budget document and/or in the performance measurement report. Performance data should be directly related to the stated goals and objectives of the department and focus on results and accomplishments rather than inputs. Performance measures should provide a meaningful way to assess the effectiveness and efficiency of each department.

Business Assistance Policy

Last reviewed by City Council on November 20, 2023.

Last reviewed by EDA on November 20, 2023.

1. PURPOSE

- A. The purpose of this policy is to establish the City of New Hope and the New Hope Economic Development Authority's (City/EDA) position as it relates to the use of Tax Increment Financing, Tax Abatement and other business assistance programs for private development. This policy shall be used as a guide in processing and reviewing applications requesting business assistance.
- B. The City shall have the option of amending or waiving sections of this policy when determined necessary or appropriate. *Minnesota Statutes 116J.994, Subd. 2*, allows the City to deviate from its criteria by documenting in writing the reason for the deviation and attaching a copy of the document to its next annual report to the department.

2. STATUTORY LIMITATIONS

In accordance with the City/EDA Business Assistance Policy, assistance requests must comply with applicable State Statutes.

3. ELIGIBLE USES FOR THE RECEIPT OF BUSINESS ASSISTANCE

As a matter of adopted policy, the City/EDA will consider using a business assistance tool to assist private developments only in those circumstances in which the proposed private projects meet one or more of the following uses:

- A. To meet the following housing related uses:
 - To provide a diversity of housing not currently provided by the private market.
 - To provide a variety of housing ownership alternatives and housing choices.
 - To promote affordable housing for low or moderate income individuals.
 - To promote neighborhood stabilization and revitalization by the removal of blight and the upgrading in existing housing stock in residential areas.
- B. To remove blight and encourage redevelopment in the commercial and industrial areas of the City in order to encourage high levels of property maintenance and private reinvestment in those areas; including façade improvement.
- C. To increase the tax base of the City in order to ensure the long-term ability of the City to provide adequate services for its residents while lessening the reliance on residential property tax.
- D. To retain local jobs, increase the local job base, and provide diversity in that job base.
- E. To increase the local business and industrial market potential of the City of New Hope.
- F. To encourage additional unsubsidized private development in the area, either directly, or through secondary "spinoff" development.
- G. To offset increased costs of redevelopment, over and above the costs that a developer would incur in normal development.
- H. To accelerate the development process and to achieve development on sites which would not be developed without this assistance.

4. BUSINESS ASSISTANCE PROJECT APPROVAL CRITERIA

All new projects approved by the City/EDA should meet the following mandatory minimum approval criteria. However, it should not be presumed that a project meeting these criteria will automatically be approved. Meeting these criteria creates no contractual rights on the part of any potential developer.

- The assistance shall be provided within applicable state legislative restrictions, State Auditor interpretation, debt limit guidelines, and other appropriate financial requirements and policies.
- The project should meet one or more of the uses identified in Section 3, Eligible Uses for the Receipt of Business Assistance.
- The project must be in accord with the Comprehensive Plan and Zoning Ordinances, or required changes to the Comprehensive Plan and Zoning Ordinances which would accommodate the project must be under active consideration by the City at the time of approval.
- The assistance will not be provided to projects that have the financial feasibility to proceed without the benefit of the assistance. Assistance will not be provided solely to broaden a developer's profit margins on a project. Prior to consideration of a business assistance request, the City may undertake an independent underwriting of the project to help ensure that the request for assistance is consistent as set forth in Appendix A.
- Prior to approval of business assistance, the developer shall provide any required market and financial feasibility studies, appraisals, soil boring, information provided to private lenders for the project, and other information or data that the City or its financial consultants may require in order to proceed with an independent underwriting.
- Any developer requesting business assistance should be able to demonstrate past successful general development capability as well as specific capability in the type and size of development proposed.
- It is desirable if the developer retains ownership of the project at least long enough to complete construction, to stabilize its occupancy, to establish the project management, and to initiate repayment of the business assistance.
- The level of business assistance funding should be reduced to the lowest possible level and least amount of time by maximizing the use of private debt and equity financing first, and then using other funding sources or income producing vehicles that can be structured into the project financing, prior to using additional business assistance funding.

5. BUSINESS ASSISTANCE PROJECT EVALUATION CRITERIA

- A. All projects will be evaluated by the City/EDA on the following criteria (as set forth in Section 5.03) for comparison with other proposed business assistance projects reviewed by the City and for comparison with other subsidy standards (where appropriate). It is realized that changes in local markets, costs of construction, and interest rates may cause changes in the amounts of business assistance subsidies that a given project may require at any given time.
- B. Some criteria, by their very nature, must remain subjective. However, wherever possible, "benchmark" criteria have been established for review purposes. The fact that a given proposal meets one or more "benchmark" criteria does not mean that it is entitled to funding under this policy, but rather that the City is in a position to proceed with evaluations of (and comparisons between) various business assistance proposals, using uniform standards whenever possible.

C. Following are the evaluation criteria that will be used by the City/EDA:

- All proposals should, in the opinion of the City/EDA, optimize the private development potential of a site.
- All proposals should, in the opinion of the City/EDA, create the highest feasible number of jobs on the site. All proposals will meet the Business Assistance Project Approval Criteria established by the City/EDA.
- When considering business assistance for a relocating or new business request, the City/EDA should weigh the impact on existing competition/businesses which are already established in the community.
- All proposals should, in the opinion of the City/EDA, create the highest possible ratio of property taxes paid before and after redevelopment. Given the different assessment circumstances in the City, this ratio will vary widely.
- Proposals should usually not be used to support speculative industrial, commercial, and office projects.
- Assistance will usually not be used in a project that involves an excessive land and/or property price.
- All business assistance projects will need to meet the "but for" test. Assistance will not be used unless the need for the City/EDA's economic participation is sufficient that, without that assistance the project could not proceed in the manner as proposed.
- Business assistance will not be used when the developer's credentials, in the sole judgment of the City/EDA, are inadequate due to past track record relating to: completion of projects, general reputation and/or bankruptcy, or other problems or issues considered relevant by the City/EDA.
- Business assistance will not normally be used for projects that would generate significant environmental problems in the opinion of the local, state, or federal governments.
- Business assistance funding should not be provided to those projects that fail to meet good public policy criteria as determined by the City/EDA, including: poor project quality; projects that are not in accord with the Comprehensive Plan, zoning, redevelopment plans, and city policies; projects that provide no significant improvement to surrounding land uses, the neighborhood, and/or the City in the opinion of City/EDA; projects that do not have significant new, or retained, employment; projects that do not meet financial feasibility criteria established by the City/EDA; and projects that do not provide the highest and best desired use for the property.
- Applicants may refer to the following related policies, Tax Increment Financing Policy and Tax Abatement Policy, and the Forms Section.

Capital Assets Policy

Last reviewed by City Council on November 20, 2023.

Purpose

It is the policy of the City of New Hope to maintain appropriate procedures regarding the procurement, management, and disposal of all capital assets in accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34). The Capital Assets Policy addresses classes of assets, determination of useful lives, and calculation of depreciation.

1. DEFINE CAPITAL ASSETS AND CAPITALIZATION THRESHOLDS

Capital assets include land, land improvements, buildings, building improvements, construction in progress, machinery and equipment, vehicles, infrastructure, easements, works of art and historical treasures acquired by the City for use in providing services to its citizens. A capital asset is to be reported and depreciated in government-wide financial statements. In the government- side financial statements, assets that are not capitalized are expended in the year of acquisition.

Infrastructure assets are long-lived capital assets that can be preserved for a significant number of years, greater than most capital assets that are stationary in nature. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems and dams. Infrastructure assets do not include buildings, driveways, parking lots or any examples given above that are incidental to property or access to the property.

Another criterion for recording capital assets is capital-related debt. Capitalize capital assets purchased with debt proceeds and depreciate over their estimated useful life. Capitalizing these assets will minimize the potential of reporting negative net assets in the statement of net assets. In most cases, these assets will meet the thresholds and guidelines for recording as a capital asset.

For financial reporting purposes only, the City will classify and establish capitalization thresholds for each asset class as follows:

CAPITAL ASSET CLASSIFICATION	CAPITALIZATION THRESHOLD
Land and land improvements;	\$1
Land Improvements;	\$10,000
Other improvements;	\$10,000
Building and building improvements;	\$15,000
Machinery and equipment;	\$5,000
Vehicles;	\$5,000
Infrastructure;	\$50,000
Construction-in-progress;	and capitalize if over \$25,000 when complete.
Other assets;	\$5,000

All information in regards to the City asset acquisition, retention, and disposal is maintained and reported to the finance department.

2. REPORTING CAPITAL ASSETS

Report capital assets at historical costs, which includes most costs necessary to placing a capital asset into its intended use or state of operation. Historical cost includes the vendor’s invoice, the value of any trade-in or allowance, sales tax, initial installation cost (excluding in-house labor), modifications, attachments, accessories or apparatus; and ancillary charges such as freight and transportation charges, site preparation costs, and professional fees.

In the event the historical cost of a capital asset is not determinable, it will be necessary to record an estimated historical cost of the asset using alternative methods. Alternative methods include standard costing and normal costing. Standard costing estimates the historical cost of a capital asset by establishing the average cost of obtaining the same or a similar asset at the time of acquisition.

Normal costing estimates historical cost based on the current cost to either reproduce or replace the capital asset, indexed by a reciprocal factor from the estimated acquisition date, i.e., taking the value of acquiring the asset new today and then discounting that amount by an appropriate inflation factor back to the date of acquisition.

Capital assets donated to the City shall be reported at fair value. Fair value is the amount at which an asset could be exchanged in a current transfer at *arm's length* between willing parties, other than in a forced or liquidation sale. Donations are defined as voluntary contributions of resources to the City by a non-governmental entity. A voluntary contribution of resources between governmental entities is not a donation.

3. DEPRECIATION CAPITAL ASSETS

Depreciation is the process of allocating the cost of a tangible asset to the periods of benefit. Capital assets shall be depreciated over their estimated useful life with exception of the following:

- A. Inexhaustible assets, i.e., land, and land improvements that do not require maintenance or replacement, e.g., certain works of art and historical treasures;
- B. Infrastructure assets reported using the modified approach; and
- C. Construction work-in-progress.

For financial purposes the City will use the straight-line method of depreciation, which allocates the cost evenly over the life of the asset. Generally, at the end of an asset's life, the sum of the amounts charged for depreciation in each accounting period, or accumulated depreciation, will equal the original cost less salvage value.

A significant issue when recording capital assets is the question of when is an expenditure capitalized as an improvement versus recorded as repairs or maintenance expense. The key consideration for determining whether to capitalize expenditures depends on whether the cost incurred, significantly extends the asset's useful life, increases its capacity, or improves its efficiency. Therefore, capitalize capital asset improvement costs if:

- A. The costs exceeds the capitalization thresholds; and
- B. One of the following criteria is met:
 - The value of the asset or estimated life is increased by 25% of the original cost or life period;
 - The cost results in an increase in capacity of the asset; or
 - The efficiency of the asset is increased by more than 10%;

4. CAPITAL ASSET DEFINITIONS AND CATEGORIES

Land - is to be capitalized but not depreciated. It is recorded at historical cost and remains at that cost until disposal. If there is a gain or loss on the sale of land it is reported as a special item in the statement of activities.

Land Improvements - consist of betterments, site preparation, and site improvements (other than buildings) that ready land for its intended use. The costs associated with improvements to land are added to the cost of the land. Land improvements can be further categorized as inexhaustible, not requiring maintenance or replacement; or exhaustible, e.g., parking lots, landscaping and fencing.

Examples of items to be capitalized as land and land improvements include:

- A. Purchase price or fair value;
- B. Commissions;
- C. Professional fees, includes title searches, architect, legal, engineering, appraisal, surveying, environmental assessments;
- D. Land excavation, fill, grading, and drainage;
- E. Demolition of existing buildings and improvements, less salvage;
- F. Removal, relocation or reconstruction of property owned by others, i.e., power, telephone and railroad lines;
- G. Interest on mortgages accrued at date of purchase;
- H. Accrued and unpaid taxes at date of purchase;
- I. Other costs incurred in acquiring the land;
- J. Water wells, including initial cost for drilling, the pump and its casing; and
- K. Permanent right-of-way;

Other Improvements - include land improvements that are exhaustible in nature and enhance the quality or facilitate the use of land for a specific purpose.

Examples of items to be capitalized as other improvements include:

- A. Fencing and gates;
- B. Landscaping;
- C. Parking lots, driveways, and parking barriers;
- D. Outdoor sprinkler and irrigation systems;
- E. Recreation areas and athletic fields, including bleachers;
- F. Golf courses;
- G. Paths and trails;
- H. Septic systems;
- I. Stadia;
- J. Swimming pools, tennis courts, basketball courts, skate parks;
- K. Fountains;
- L. Plazas and pavilions; and
- M. Retaining walls;

Buildings - refer to a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable. Certain buildings or structures that are an ancillary parts of infrastructure networks, such as well houses and pumping stations will be reported as infrastructure rather than as buildings.

Example of items to be capitalized as building:

Purchased Buildings:

- A. Original purchase price;
- B. Expenses for remodeling, reconditioning, or altering a purchased building to make it ready for its intended purpose;
- C. Environmental complies, i.e., asbestos abatement;
- D. Professional fees, includes architect, engineer, management fees for design and supervision, legal;
- E. Cancellation or buyout of existing leases; and
- F. Other costs required to place or render the asset into operation;

Constructed Buildings:

- A. Completed project costs;
- B. Cost of excavation or grading or filling of land for a specific building;
- C. Expenses incurred for the preparation of plans, specifications, blueprints;
- D. Building permits;
- E. Costs of temporary buildings used during construction;
- F. Additions to buildings, i.e., expansions, extensions, or enlargements;

Building Improvements - include capitalized costs that materially extend the useful life of a building or increase the value of a building, or both, beyond one year. Building improvements should not include maintenance and repairs done in the normal course of business.

Examples of items to be capitalized as building improvements include:

- A. Installation or upgrade of heating and cooling systems, including ceiling fans and attic fans;
- B. Original installation or upgrade of wall or ceiling covering such as carpeting, tiles, paneling, or parquet;
- C. Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing;
- D. Installation or upgrade of window or door-frames, upgrading windows or doors, built-in closet and cabinets;
- E. Interior renovation of casings, baseboards, light fixtures, ceiling trim;
- F. Installation or upgrade of plumbing and electrical wiring; and
- G. Installation or upgrade of telecommunication system

Example of items considered repairs or maintenance in nature and should not be capitalized as buildings or building improvements include:

- A. Adding, removing and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building;
- B. Improvement projects of minimal or no added life expectancy and/or value to the building;
- C. Plumbing or electrical repairs;
- D. Cleaning; pest extermination, or other periodic maintenance;
- E. Interior decoration, i.e., draperies, blinds, curtain rods, wallpaper;
- F. Exterior decoration, i.e., detachable awnings, uncovered porches, decorative fences;
- G. Maintenance-type interior renovation including repainting, touch-up plastering, replacement of carpet, tile, or pane sections, and refinishing of sinks and fixtures;
- H. Replacement of a part or component of a building with a new part of the same type and performance capabilities, e.g., replacement of an old boiler with a new one of the same type and performance capabilities;
- I. Any other maintenance-related expenditure, which does not increase the value of the building;

Equipment, Machinery, and Vehicles - refer to fixed or movable tangible assets used for operations, the benefits of which extend beyond one year from date of receipt.

Examples of expenditures to be capitalized as equipment, machinery, and vehicles include:

- A. Original contract or invoice price;
- B. Freight charges;
- C. Handling and storage charges;
- D. In-transit insurance charges;
- E. Sales, use and other taxes imposed on the acquisition;
- F. Installation charges;
- G. Charges for testing and preparation for use;
- H. Cost of reconditioning used items when purchased; and
- I. Parts and labor associated with the construction of equipment, machinery, or vehicle;

Note that the cost of extended warranties and/or maintenance agreements, which can be separately identified from the cost of the equipment, machinery, or vehicle shall not be capitalized.

Infrastructure Assets – are long-lived capital assets that are linear and stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

Examples of infrastructure assets include:

- A. Roads, streets, curbs, gutters, sidewalks;
- B. Bridges;
- C. Water and sanitary sewer systems;
- D. Drainage and storm water systems;
- E. Street light systems; and
- F. Signage;

Infrastructure assets shall be capitalized and depreciated unless the modified approach is used. The modified approach is an alternative to reporting depreciation for infrastructure assets that meet the following criteria:

- A. The assets are managed using a qualifying asset management system; and
- B. It is documented that the assets are being preserved at or above a condition level established by the City.

Under the modified approach the infrastructure, assets are not depreciated, and only the costs that increase the capacity or efficiency of the asset are capitalized, while all other expenditures that preserve the useful life of the assets are expensed. Only infrastructure assets that comprise a network or subsystem of a network can be reported using the modified approach.

Other Capital Assets - includes computer software that is either purchased or developed for internal use, which should be capitalized, if the cost of the software exceeds the capitalization threshold and depreciated over the software's estimated useful life. Capitalization of computer software includes software license fees if the total dollar amount of the fee divided by the number of units or terminals exceeds the threshold.

Examples of expenditures to be capitalized as computer software include:

- A. External direct costs of materials and services, i.e., third-party fees for services;
- B. Costs to obtain software from third parties;
- C. Travel costs incurred by employees in their duties directly associated with development;
- D. Payroll and payroll-related costs of employees directly associated with or devoting time to encoding, installing, or testing; and
- E. Costs to develop or obtain software that allows for access or conversion of old data by new information systems;

Note that upgrades and enhancements should only be capitalized to the extent that they increase the functionality of the product.

Leased Property - Any transaction meeting the definition of long-term leased property as defined by GASB standards, would be recorded as a lease payable and will be measured at the present value of the payments under the provisions of the lease. The asset would equal the lease liability plus any prepayments and certain initial direct costs. An exception is made for a short-term lease arrangement.

In the governmental funds, which report on a modified accrual basis, capital assets and long-term liabilities are not reported. Rather, when a lease is entered into the government reports an expenditure equal to that present value amount and another financing source – capital lease agreement.

5. CAPITAL ASSETS ESTIMATED USEFUL LIFE

OTHER IMPROVEMENTS	
Fencing and gates;	20 years
Landscaping;	10 years
Parking lots, driveways, and parking barriers;	20 years
Outdoor sprinkler and irrigation systems;	20 years
Recreation areas and athletic fields, including bleachers;	20 years
Golf courses;	40 years
Paths and trails;	20 years
Swimming pools, tennis courts, basketball courts, skate parks;	20 years
Outdoor lighting;	20 years
BUILDINGS and BUILDING IMPROVEMENTS	
Buildings;	40
Roof;	20
HVAC (heating, ventilation, air conditioning);	20
Electrical;	30
Plumbing;	30
Sprinkler system;	20
Security and fire alarm system;	10
Cabling;	10
Floor covering other than carpet;	15
Carpeting;	10
Interior construction;	15
Interior renovation;	10
Elevators;	20
EQUIPMENT, MACHINERY, and VEHICLES	
Audio visual equipment;	5 years
Business machines and office equipment;	5 years
Telecommunication equipment;	5 years
Computer equipment and software;	5 years
Fire Department equipment;	10
Furniture and fixtures, excluding structural components of a building;	10 years
Grounds equipment (mowers, tractors, bobcats);	8 years
Kitchen equipment (appliances);	10
Lab equipment;	10
Law enforcement equipment;	5 years
Machinery, tools and other equipment;	5 years
Outdoor equipment (playgrounds, scoreboards);	15
Photocopiers;	5 years
Cars, light general purpose trucks (actual weight less than 13,000	10 years
Heavy general purpose truck and equipment e.g., front loaders, graders (actual weight greater than 13, 000 pounds);	15 years
Firefighter trucks;	15
INFRASTRUCTURE	
Roads, streets, curb and gutter;	20
Parking lots;	20
Sidewalks;	20
Water, sanitary sewer, storm sewer systems;	50

¹ Estimated useful life values derived from the Internal Revenue Service Alternative Depreciation System (ADS) but adjusted by staff for the needs of the City of New Hope.

Capital Improvement Program Policy

Last reviewed by City Council on November 20, 2023.

The City will develop a multi-year plan for capital improvements and capital equipment replacement and update it annually. Capital improvements and equipment replacement for the upcoming year will be incorporated into the operating budget.

The City will identify the estimated cost and potential funding sources for each capital project or equipment purchase before the proposal is submitted to the Council for approval and in that process will determine the most effective financing method for the proposed project or equipment purchase.

The City will make all capital improvements or equipment purchases in accordance with the adopted capital improvement program, or as it is amended by the Council. Capital purchases, not otherwise funded through an approved budget, shall require City Council approval.

The City will enact each five-year capital improvement program based on a rolling multi-year capital improvement plan update.

The City will coordinate development of the capital improvement and equipment replacement budget with the development of the operating budget. Future operating costs associated with new capital improvements or capital equipment will be projected and included in operating budget forecasts.

The City will use inter-governmental assistance to finance only those capital improvements or equipment purchases that are consistent with the capital improvement plan and City priorities, and whose operating and maintenance costs have been included in operating budget forecasts.

The City will maintain all its assets at a level adequate to protect the City's and its citizens' capital investment and to minimize future maintenance and replacement costs.

Conduit Debt Policy

Last reviewed by City Council on November 20, 2023.

General

Under the Minnesota Municipal Industrial development Act, Minnesota Statutes, Sections 469.152 to 469.1655 (the "Industrial Development Act"), the City of New Hope, Minnesota has authority to issue revenue bonds or notes to attract or promote economically sound industry and commerce to the City, including the development of facilities by qualified 501(c)(3) organizations.

Under Minnesota Statutes, Chapter 462C (the "Housing Act") the City is authorized to issue housing revenue bonds to finance multi-family residential housing projects for low and moderate income persons and elderly persons.

The City Council is aware that such financing for certain private activities may be of benefit to the City and will consider requests for tax exempt financing subject to these Guidelines. The City Council considers tax exempt financing to be a privilege, not a right.

It is the judgment of the City Council that tax exempt financing is to be used on a selective basis to encourage certain development that offers a benefit to the City as a whole, including employment and housing opportunities. It is the applicant's responsibility to demonstrate the benefit to the City. The applicant should understand that although approval may have been granted by the City for the issuance of financing for a similar project or a similar debt structure that is not a basis upon which approval will be granted. Each application will be judged on the merits of the project as it relates to the public purposes of the Housing Act or the Industrial Development Act and the benefit to the City at the time the request for financing is being considered.

Policy

1. The City Council will consider tax exempt financing for manufacturing and health care facilities, and other facilities operated by qualified 501(c)(3) organizations, under the Industrial Development Act; and housing projects under the Housing Act. An applicant for tax-exempt financing pursuant to the Industrial Development Act must submit to the City the application on the form prescribed by the City Clerk.
2. The project must be a positive benefit to the City. The project must be of a nature that the City wishes to attract, or an existing business which the City wishes to retain or expand within the City, considering employment opportunities, incentive for further development, impact on City services, and support for the industrial, commercial or health care operations currently located in the City. A housing project must provide significant housing opportunities for low and moderate income persons or the elderly.
3. City staff, upon request, may grant an applicant a pre-application review. The purpose of the pre-application review is to inform applicants of the possibility of rejection or the possible basis for such a rejection. The fact that the project is not rejected at the pre-application stage is not to be construed as approval of the project or as an indication that the project will be approved upon formal request to the Council. Requests for tax-exempt financing may be rejected by the City whether or not the project was submitted to a pre-application review and regardless of the outcome or recommendation of that pre-application review.

A request for pre-application review must be in writing, addressed to the City Manager, and set forth the name of the project, the type of project intended and the name, address and telephone number of the person who will be representing the applicant at the pre-application review, together with such additional information as the applicant desires to submit.

The City will appoint bond counsel for the bond issue, which will normally be the City's regularly retained bond counsel.

4. Pursuant to the Industrial Development Act and the Housing Act, consideration of an application for tax exempt financing must be done at a public hearing held by the Council.

5. The City is to be reimbursed and held harmless for and from any out-of-pocket expenses related to the tax-exempt financing including, but not limited to, legal fees, financial advisor fees, and bond counsel fees, the City's expenses in connection with the application, and any deposits or application fees required under state law in order to secure allocation of bonding authority. A non-refundable application fee in the amount of \$750 must be included with the submission of the application, and a \$5,000 refundable fee to be applied to the expenses of the City, the unspent portion of the refundable fee will be refunded to the applicant when the City is satisfied that all such expenses have been paid.

Projects within City limits - 0.5% of bond issue amount

Prior to closing and delivery of the bonds for the project, the applicant must pay to the City, or commit to pay, as the case may be, a one-time administrative fee equal to 0.5% of bond issue amount for any project commencing within City limits.

Projects outside of City limits - 1.0% of bond issue amount

Revenue bonds issued for projects outside of the City limits shall be charged a one-time administrative fee equal to 1.0% of the bond issue amount. Notwithstanding anything to the contrary herein, the administrative fees required by this paragraph will be reduced to the extent needed to ensure that the fee does not affect the tax-exempt status of the bonds under Internal Revenue Code of 1986, amended and related regulations.

6. Should the tax exempt financing request cause the City's total bonding for the year to exceed \$10,000,000 in a year that the City would otherwise be eligible to issue bank qualified bonds, (bonds with tax incentives to banks), any interest rate differential between bank qualified and non-bank qualified bonds shall be estimated and the difference paid by the borrower. If the City would have exceeded this amount without the tax-exempt issue, no differential would be calculated or paid by the borrower.
7. Applications for financing must be made on the forms attached to these Guidelines. In addition, the applicant must furnish a description of the project, together with a brief description of applicant and the proposed financing in such form as required at the time of application. The City will not review financial statements, nor form any opinions as to the financial success of the proposed businessplan.
8. The City may, in its sole discretion, withdraw its preliminary approval of a project any time if in its judgment the purposes of the Act will not be served by going forward with the project and its financing.

Miscellaneous

1. Ratings. The City will give its most favorable consideration to proposed tax-exempt bond issues that have the rating of "A" or better by Moody's Investment Service, Standard & Poor's Corporation, Fitch Ratings or Kroll Ratings. Issues carrying lower ratings or non-rated issues may be sold only to institutional or other investors on a private placement basis and must be in denominations of at least \$100,000. A lower denomination, but not less than \$25,000, may be allowed if specifically authorized by the City Council in cases where the bonds are rated above investment grade and the bonds are sold only to institutional or accredited investors as defined under the Securities Act of 1933. The City Council may depart from this guideline when, in its judgment, the project is of a level of merit and public purpose to justify the departure; and in the case of such a departure, the City Council must state its reasons therefore in the resolution awarding the sale of bonds.
2. Refundings. The City Council will normally approve the refunding of a tax-exempt issue but only upon a showing by the applicant of (i) substantial debt service savings, (ii) the removal of bond covenants significantly impairing the financial feasibility of the project, or (iii) both (i) and (ii). In the case of refunding of bonds a one-time administrative fee of .025% of the bond issue amount and the non-refundable application fee of \$2,500 must be paid together with reimbursing the City of all out of pocket costs. If the original financing was not completed with the City of New Hope, a fee of 0.50% of the bond issue amount shall be charged for the refunding. Such fees must be paid in full prior to closing the refunding bonds.

3. Subsequent Proceedings. Where changes to the underlying documents or credit facilities of outstanding bond issues are to be made and require Council action (including changes that are a “deemed reissuance” under Internal Revenue Service regulation), no administrative fee is charged but a non-refundable fee of \$2,000 must be deposited with the City to cover administrative costs. No formal application form is required.
4. Issue by Another Political Subdivision. The City may consider requests for tax-exempt financing of projects in the City by other political subdivisions in cases where the project is done in conjunction with other communities, the financing needed for the New Hope portion is small as compared to the total multi-jurisdictional project and the financed portion located within the City of New Hope is not more than \$5,000,000 or where the development provides community services to the vicinity including New Hope. In these cases the non-refundable application fee must be paid and all procedures through the approval of the preliminary resolution followed.
5. City Contact. Initial contacts about tax exempt financing are made by contacting:

City of New Hope
City Manager
4401 Xylon Avenue
New Hope, MN 55428
(763) 531-5100

6. Deadlines. The City Council conducts all tax-exempt financing matters at regularly scheduled City Council meetings held on selected Mondays of each month. Documents for City Council consideration must be at the City office no later than 10 calendar days prior to the next City Council meeting at which the matter is to be considered. In the case of a publicly offered bond issue, the documents, when submitted, may specify a maximum price and maximum effective interest rate if prices and rates have not yet been established.

Contract Policy & Procedure

Last reviewed by City Council on November 20, 2023.

1. Policy

Contracts are an essential component of the purchasing process. Not only does the contract detail agreed upon activity, it also provides insurance and indemnity provisions. New Hope is a statutory City and all contracts, leases, and agreements must be signed by the Mayor and City Manager. Per Minnesota State Statute 412.691 the City Manager may approve contracts up to \$20,000. Contracts exceeding \$20,000 must be approved by the City Council. Refer to the "Purchasing Policy" for purchase and bidding information.

2. Organizations

Affected All departments.

3. Procedure:

A. Contract Form

- o Complete a standard City contract form and submit it to the City Clerk. After the City Council awards the contract, the City Clerk will secure signatures of the contractor and City officials.
- o All construction projects exceeding \$20,000 require a contract. See 3C regarding Performance and Labor and Materials Bond info. Construction contracts include park projects, public works projects, public improvements, etc. for construction, alteration, repair or maintenance of real or personal property.
- o Commodities costing \$20,000 to \$175,000 may require entering into a contract (at discretion of City Manager). Any purchase above \$175,000 does require a contract. Construction projects over \$20,000 requires entering into a contract. The only exception applies to purchases under a county/state contract or consortium agreement.
- o Depending on the scope of the services to be provided to the City, a liquidated damages clause may be included in the contract. The liquidated damages amount set forth in the contract must be reasonable.
- o A signed copy of each contract will be filed by the City Clerk as part of the official records of the City. No City contract is valid, nor may work commence, until the City Clerk secures signatures from all parties stated in the contract. A copy of signed contract shall then be forwarded to City staff responsible for managing the contract. The City representative will then issue to the contractor "notice to proceed".

B. Amendments

The contract cost, once established by the Council, shall represent the maximum obligation to the City. Any change orders which affect the cost of the contract shall be reviewed by the City Manager and City Representative managing the contract, who then will forward the justification for the change order to the City Council for approval. In no event will payment in excess of the contract cost be made until such approval has been obtained.

C. Bond Requirements

- o The vendor must execute to the City a performance bond and a payment bond for public work over \$100,000 to protect the City and all people furnishing work, equipment, materials, or supplies. An irrevocable letter of credit may be accepted in lieu of a performance bond.
- o No City contract is valid, nor may work commence, until the contractor provides a Performance Bond and a Labor and Materials Bond to the City in accordance with state statute.

D. Certificate of Insurance

Before beginning work on a Contract, the Contractor must submit to the City, and obtain City's approval, on a certificate of insurance. This certificate shall be composed of a Standard Form C.I.C.C.-701 or an ACORD 25 form. The certificate of insurance shall list the City as the policies additional insured, and shall be maintained at all time throughout the life of the contract, and provide for the following minimum coverage

- o *Comprehensive General Liability:* *\$1,000,000.00 per occurrence;
\$2,000,000 aggregate*
- o *Automobile Liability for all automobiles:* *\$1,000,000.00 combined single limit*
- o *Workman's Compensation:* *Statutory Amounts*

The Insurance cancellation language should state that the company will provide the City 30 days' written notice of cancellation (include this requirement in bid specifications if applicable).

4. Exceptions:

Any deviation from this policy must be approved by the City Manager.

Debt Management Policy

Last reviewed by City Council on November 20, 2023.

1. Purpose

- A. To define the role of debt in the City's total financial strategy so as to avoid using debt in a manner that weakens the City's overall financial condition.
- B. To establish limits on the amount of City debt which will allow for manageable debt service costs.
- C. To maintain the best possible credit rating.

2. Policy

- A. The City will confine long-term borrowing to capital improvements, equipment or projects that have a life of more than 5 years and cannot be financed from current revenues.
- B. The City will strive to keep the total maturity length of general obligation bonds below 15 years with at least 50% of the principal being retired within 10 years. In all cases, the maturity shall be shorter than the life of the related assets.
- C. The City will strive to keep the direct debt per capita and direct debt as a percent of estimated market value at or below the median set out by the credit rating agencies.
- D. Total general obligation debt will not exceed the statutory limit of three percent of the estimated Full Market Value of taxable property in the City as required by Minnesota State Statute.
- E. The City will not use long-term debt for current operations.
- F. The City will maintain frequent and regular communications with bond rating agencies about its financial condition and will follow a policy of full disclosure in every financial report and bond prospectus. The City will comply with Securities Exchange Commission (SEC) reporting requirements.
- G. Refinancing or bond refunding will only be undertaken when there is significant economic advantage to the City, and when it does not conflict with other fiscal or credit policies.
- H. Interfund borrowing shall have a reasonable repayment schedule and be approved by Council resolution. Refer to the policies set for in the Interfund Loan Policy.
- I. The maintenance of the best possible credit rating shall be a major factor in all financial decisions. For the purposes of issuing debt, bond rating categories shall be used as a means of assessing the City's financial condition.

Donations Policy

Last reviewed by City Council on November 20, 2023.

Purpose

The City of New Hope in partnership with neighboring communities, the school district, and community non-profit organizations cooperate to provide social and recreational activities to area residents.

Policy

The City shall make small donations to community non-profits and other civic organizations to support their programs which provide social and recreational benefits to residents.

The goal of the donations is to allow people who may not otherwise use a City facility to see them, use them, and perhaps become a regular customer of the facility.

The City will provide limited staff time without charge for park maintenance personnel to monitor, transport, or otherwise safeguard City property while promoting the cooperative social and recreational programs.

Due to Statutory limitations on the use of public funds for non-public purposes, donations made under this policy shall be limited to organizations determined by the Attorney General's office to be a proper use of public funds.

Examples of donations that may be made under this policy include: staff time, daily passes to the municipal pool, passes to the municipal golf course, and small safety related items.

Examples of eligible events for which a donation may be made under this policy include: school carnivals, senior party on graduation night, and annual festivals such as Duk Duk Daze or the Twin West Business Council event at the City golf course.

Fund Balance Policy

Last reviewed by City Council on November 20, 2023.

1. PURPOSE

The purpose of this policy is to establish specific guidelines the City of New Hope (the City) will use to maintain an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids are received in the second half of the City's fiscal year. This policy also establishes specific guidelines the City will use to classify fund balances into categories based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in these funds can be spent. The elements of the policy are created by the City for its own purposes and may, therefore, be revised by the City as needed in the future.

2. CLASSIFICATION OF FUND BALANCE/PROCEDURES

A. Nonspendable

This category includes fund balance that cannot be spent because it is either (i) not in spendable form or (ii) is legally or contractually required to be maintained intact. Examples include inventories and prepaid amounts.

B. Restricted

Fund balance should be reported as restricted when constraints placed on those resources are either (i) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (ii) imposed by law through constitutional provisions or enabling legislation.

C. Committed

- Fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority. The committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action it employed to commit those amounts.
- The City Council will as deemed necessary commit specific revenue sources for specified purposes by resolution. This formal action must occur prior to the end of the reporting period, however, the amount to be subject to the constraint, may be determined in the subsequent period.
- To remove the constraint on specified use of committed resources the City Council shall pass a resolution

D. Assigned

- Amounts that are constrained by the City's intent to use for specified purposes, but are neither restricted nor committed. Assigned fund balance in the General fund includes amounts that are intended to be used for specific purposes.
- The City Council has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the Finance Director.

E. Unassigned

- Unassigned fund balance represents the residual classification for the General fund. This includes amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General fund. The General fund should be the only fund that reports a positive unassigned fund balance amount.
- The City will maintain an unassigned fund balance in the General fund of an amount not less than 42% of the next year's budgeted expenditures of the General fund. This will assist in maintaining an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids are received in the second half of the City's fiscal year.

3. MONITORING AND REPORTING

- A. The Finance Director shall monitor the status of fund balances in relation to this policy and present to the City Council. When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed.
- B. When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.
- C. A negative residual amount may not be reported for restricted, committed, or assigned fund balances in the General fund.

4. GENERAL FUND UNASSIGNED FUND BALANCE

Each year a calculation of the General Fund Unassigned Fund Balance will be prepared to determine if there are adequate funds to transfer out of the General Fund for capital needs. The City Manager will review this calculation and make a recommendation.

Interfund Loan Policy

Last reviewed by City Council on November 20, 2023.

Purpose

The interfund loan policy provides the parameters by which the City may alleviate cash shortages in the various City funds with temporary loans from other funds. Interfund loans are intended to be a temporary internal financing mechanism which may be used to alleviate the need for debt issuance on a project that requires only short-term financing and/or to provide temporary internal financing on a project for which permanent financing will take place at a later date.

Policy

It is the policy of the City Council that interfund loans between the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds or the Enterprise Funds may be used to alleviate a temporary cash deficiency. The loan shall be accounted for as a temporary borrowing between funds or accounts and shall not be available for appropriation or be considered revenue to the borrowing fund or account. Amounts transferred shall be repaid within 180 calendar days or as approved by Council resolution. Borrowing shall occur only when the fund or account receiving the money will earn sufficient revenue during the current fiscal year, to repay the amount transferred. No more than 75 percent of the maximum of moneys held in any fund or account during a current fiscal year may be loaned or transferred.

Such loans shall not be used to balance the budget of the borrowing fund, nor shall they deter any function or project for which the loaning fund was established.

The City Council must adopt a resolution before any interfund loan transaction takes place. The resolution shall contain the exact amount of the loan, the funds involved, the purpose of the loan, the specific source of funds for repayment, the schedule for repayment and any interest rate involved.

Investment Policy

Last reviewed by City Council on November 20, 2023.

1. Investment Policy Statement of Purpose

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

2. Scope

This Investment Policy applies to all financial assets of the City. All cash and investments are pooled together to achieve economies of scale for each entity. These funds are accounted for in the Comprehensive Annual Financial Report and include all City and Economic Development Authority funds:

- A. General Fund
- B. Special Revenue Funds
- C. Capital Project Funds
- D. Debt Service Funds
- E. Enterprise Funds
- F. Internal Service Funds
- G. Trust and Agency Funds

3. Prudence

Investments shall be made with judgment and care under circumstances existing at the time the investment is made. The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The prudent person standard requires that a fiduciary exercise discretion and average intelligence in making investments that would be generally acceptable as sound. 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 for the Finance Department must be complied with by those with access to and management responsibilities for City investments.

4. Objective

The primary objective of the City of New Hope's investment activities shall be:

- A. Safety - Safety of principal is of critical importance to the investment program. Investments of the City 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.

- Credit Risk - the risk of loss due to failure of the security issuer or backer will be minimized by:
 - Limiting investments to the types of securities listed in Section 8 of this investment policy.
 - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business in accordance with Section 7.
 - Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized. Insurance or collateral may be required to ensure return of principal.
- Interest Rate Risk – the risk that the market value of securities in the portfolio will fall due to changes in market interest rates will be minimized to:
 - Provide for liquidity by reviewing cash flow requirements and make investments to meet the shorter cash flow needs, thereby avoiding the need to sell securities in the open market prior to maturity.

Total weighted average maturity of total funds will not exceed 5 years.

- B. Liquidity - The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements as reasonably anticipated. The portfolio will be structured so that the liquid component, , of the portfolio will be invested only in short-term securities maturing in less than thirty days. Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Furthermore, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same day liquidity for short- term funds.
- C. Yield/Return on Investment - The City's investment portfolio shall be designed with the objective of attaining a market rate of 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.

5. Delegation of Authority

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

- A. Minnesota Statutes 118A, Municipal Funds

Management responsibility for the investment program is hereby delegated to the City Manager, who shall establish procedures for the operations of the Investment Program consistent with this Investment Policy. The Finance Director, with assistance from finance department staff, shall:

- A. Monitor performance of the investment portfolio;
- B. Ensure funds are invested in accordance with the policy;
- C. Analyze, recommend and implement policy and operational procedures that will enhance the City's investment program;
- D. Ensure that proper internal controls are developed to safeguard investment assets.

Procedures should include reference to: safekeeping, delivery versus payment (DVP), and investment accounting. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. 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 establish a system of controls to regulate the activities of subordinates. The City Manager is responsible for oversight and authorization of investment transactions.

6. Ethics and Conflicts of Interest

The City Manager, Finance Director, EDA and Finance staff 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 staff shall annually disclose to the City Clerk any material financial interests as required by state statute on an annual Statement of Economic Interest form. Investment staff shall subordinate their personal investment transactions to those of the City, 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 City.

7. Financial Service Providers:

The Finance Director will maintain a list of financial institutions authorized to provide investment services. Public deposit shall be made in a qualified public depository as established by state laws. The purchase of all investments must be from qualified financial service providers via established bid procedures.

Financial service providers who desire to become qualified bidders for investment transactions must supply the City Council with the following upon request:

- A. Audited Financial Statements
- B. Completed Broker/Dealer Certificate
- C. Certification of Having Read City's Investment Policy
- D. Depository Contracts
- E. Credit Report
- F. Proof of FINRA (Financial Industry Regulatory Authority) membership
- G. Proof of State Registration
- H. Evidence of Adequate Insurance Coverage
- I. Compliance with Municipal Securities Regulations Board (MSRB) if investing bond proceeds.

8. Authorized and Suitable Investments

Based on the investment objectives as defined in section 4 of this policy, the City will limit its investments to the following types of securities:

- A. **Money Market Funds** may be held with next day withdrawal capacity to provide for daily liquidity requirements. These money markets must be AA. They may only invest in securities with a final maturity no longer than 13 months and for which the City has obtained and reviewed the fund prospectus.
- B. **Savings/demand deposits.** A financial institution that is qualified as a “depository” of public funds of government entities. The City may hold balances in qualified bank deposits. Funds may be held in savings accounts at approved depository banks. If balances are greater than the FDIC limit, collateral of 110 percent will be held for the excess balances. Non-interest bearing deposits will be held at a minimum. However, the interest bearing demand deposit programs that banks provide for next day access to funds will be utilized.
- C. **Bankers acceptances** purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. Maximum maturity will be 270 days. If the banker’s acceptance is rated by more than two NRSROs, it must have the highest rating from all the organizations.
- D. **Commercial paper.** Short term unsecured debt which has been issued by a United States corporation or their Canadian subsidiaries and is not a limited liability corporation (LLC) to fund their day to day operational needs. Maturities typically range from one day to 270 days. The City may only buy paper that meets the Minnesota Statute 118A with the exception that no Asset Backed or Structured Investment Vehicle (SIV) Commercial Paper are allowed. Only commercial paper with two of the three highest quality ratings of A1, P1, F1.
- E. **U.S. Treasury obligations** including bonds, notes, Treasury bills, or other securities which are direct obligations of the United States. Instruments sold and issued by the U.S. Government carry the full faith guarantee of the U.S. Government. These instruments provide the highest quality available to purchase and are highly liquid.
- F. **U.S. Agency securities GSE’s (Government Sponsored Enterprises)** are instrumentalities, or organizations created by an act of Congress. Government Sponsored Enterprise securities have the implied guarantee of the United States Government and are privileged to certain access to capital and support of government programs. The issuers are generally considered to have the second highest credit quality in the fixed income markets and provide higher yields than U. S. treasury obligations. The ratings on all the agencies that the City can invest are the highest available and include the following specific issuers:
 - FHLB: The Federal Home Loan Bank System (FHLB) was created by Congress in 1932 and acts as a source of funds for its nearly 8,000 member banks. FHLB does not purchase home mortgages to the same extent as Freddie Mac and Fannie Mae, but primarily lends money to homeowners through its member financial institutions. FHLB System members include commercial banks, thrifts, credit unions and insurance companies. Each member is a shareholder in one of the 12 regional Federal Home Loan Banks; each regional bank is an individual corporate entity, which must meet strict management and capitalization criteria befitting its GSE status. The FHLB System is regulated by the Federal Housing Finance Board (FHFB) and the Office of Finance (OF).
 - FHLMC: The Federal Home Loan Mortgage Corporation encompasses Freddie Mac; it is a housing GSE created by Congress in 1970 to provide liquidity and stability in the home mortgage market, thereby increasing the flow of funds available to mortgage borrowers. In order to accomplish this goal, Freddie Mac does not make individual mortgage loans to consumers. Rather, Freddie Mac purchases mortgages from lenders, thereby allowing them to lend the proceeds to more homebuyers. Freddie Mac is regulated by the Secretary of Housing and Urban Development (HUD) and by the Office of Federal Housing Enterprise Oversight (OFHEO).

- FFCB: The Federal Farm Credit Bureau is an agency of the Federal government set up to supply credit to various classes of institutions and individuals such as farmers and farm cooperatives.
 - FNMA: Federal National Mortgage Association chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal.
 - Other issuers: There are other GSE issuers, however, they issue fewer securities and are less active in the marketplace. Therefore, yields typically are slightly higher but they provide less liquidity. The City may purchase other GSE names but will limit the amount held in the portfolio.
- G. **Municipal Securities** are registered securities of state/county/local and other governmental agencies. Bonds of the state/county/local and other governmental agencies which have at the time of investment one of the three highest credit ratings of nationally recognized rating agency are allowable investments. They must have a taxing power rating of A, AA or AAA. The City will typically buy only AA or better to provide for quality investments in the portfolio. Any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service is allowed. Any security which is a revenue obligation of any state or local government which is rated AA" or better by a national bond rating service. Tax exempt or taxable bonds qualify as long as they meet the rating standards.
- H. **Repurchase agreements** consisting of collateral allowable in Minnesota Statute, section 118A, 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 United States government securities to the Federal Reserve Bank of New York; or
 - 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
 - \$40,000,000 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 118A.
- I. **Guaranteed investment contracts.** Specific project monies may be invested in 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 guarantors 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. Each type of security listed above in Sections E, F and G may have various structures such as non-callable, callable and variable rate debt.

- Non Callable – A debt instrument issued for the purpose of raising capital by borrowing. They typically pay semi-annual coupons and have a stated final maturity.
- Callable – Debt in which the issuer has the right to redeem prior to its maturity date, under certain conditions.
- Variable – Debt in which the issuer has the right to reset the coupon rate based on specified market conditions and terms.

9. Securities Lending Agreements

Securities lending agreements, including custody agreements, may be entered into with a financial institution meeting the qualifications of Minnesota Statute 118A and further restricted within this investment policy. Securities lending transactions may be entered into with entities meeting the qualifications and the collateral for such transactions shall be restricted to the securities described in Minnesota Statute 118A. Any future security lending contract would be subject to City Council approval.

10. Prohibited Investments and Transactions

Prohibited investments include high-risk mortgage-backed securities. These are:

- A. Interest-only or principal-only mortgage-backed securities; and
- B. Any mortgage derivative security that:
 - a. Has an expected average life greater than ten years;
 - b. Has an expected average life that:
 - i. Will extend by more than four years as a result of an immediate and sustained parallel shift in the yield curve of plus 300 basis points; or
 - ii. Will shorten by more than six years as the result of an immediate and sustained parallel shift in the yield curve of minus 300 basis points; or
 - c. Will have an estimated change in price of more than 17 percent as the result of an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

11. Collateralizations

Collateralization will be required on the following types of investments:

- A. Certificates of Deposit
- B. Demand Deposits
- C. Repurchase Agreements (for investments held beyond seven days)

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.

A. Collateral is limited to the following U. S. government securities:

- o Treasury Issues
- o Treasury Bills
- o Treasury Notes
- o Treasury Bonds
- o Agency Notes and Bonds
- o Federal National Mortgage Association
- o Federal Home Loan Bank
- o Federal Farm Credit Bank
- o Federal Home Loan Mortgage

For cash deposits on hand, clearly marked evidence of ownership (safekeeping receipt) must be supplied and retained. Collateralization shall be in the form of specific securities with an active secondary market for the City held by an independent third party. The only exceptions are Federal Depository Insurance Corporation (FDIC), Securities Investor Protection Corporation (SIPC) and pre- approved insurance coverage. The City may collateralize its repurchase agreements using longer- dated investments not to exceed 5 years to maturity.

B. Safekeeping and Custody

Securities purchased may be held in a segregated account for the City's benefit at a third party trustee as safekeeping agent. The investment dealer or bank in which the security is purchased shall issue a confirmation ticket to the City listing the specific instrument, issuer, coupon, maturity, CUSIP number, purchase or sale price, transaction date, and other pertinent information. The financial service provider which executes the transaction on the City's behalf shall deliver all securities on a delivery versus payment method (DVP) to the designated third party. Delivery versus payment (DVP) is a way of controlling the risk to which securities market participants are exposed. Delivery of securities (i.e. the change in their ownership) is done simultaneously with payment. This means that neither the buyer nor the seller is exposed to the risk that the other will default.

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

- o any Federal Reservebank;
- o 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.

The City's ownership of all securities should be evidenced by written acknowledgments identifying the securities by:

- o The names of issuers
- o The maturity dates
- o The interest rates
- o Any serial numbers or other distinguishing marks.

Securities will be held in the City's designated accounts under their street names.

C. Investment Credit Rating Degradation

Credit updates should be completed on all non-insured general obligation (GO's), bankers' acceptances and commercial paper with a credit rating that has declined. Credit analysis is necessary to determine if a particular investment is eligible for the City to own as part of prudent portfolio management. As determined on any date that the security is held within the portfolio. If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the City shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The City will apply the general objectives of safety liquidity and yield to make the decision.

D. Diversification:

The City will substantially reduce the risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, institution, or class of securities.

Diversification strategies will be implemented with the following constraints:

ISSUER TYPE	% OF TOTAL PORTFOLIO
Certificates of Deposit	100%
Money Market Funds	25%
Savings/Demand Deposits	10%
Bankers Acceptance	10%
Commercial Paper	20%
US Treasury Obligations	100%
GSE – Agency Securities	100%
Municipal Securities: With Component Unites Repurchase Agreements	40%
Guaranteed Investment Contracts	10% by Project

Due to fluctuations in the value of the portfolio, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase or maturity of a particular security. Securities need not be liquidated to realign the portfolio; however, attention should be given to this matter when future purchases are made.

Market conditions may precipitate the need to deviate from the maximum percentages outlined in this policy. The Finance Director and City Manager may elect to purchase securities in excess of the maximum percentage to obtain preferable portfolio yields at a point in time. Attention should be given to this matter when future purchases are made.

E. Maximum Maturities Fund Specific:

- o A minimum of five percent of the portfolio will mature under 30 days,
- o Total funds will be invested to a maximum maturity of ten years,
- o Maturities will be diversified to avoid undue concentration of assets in a specific sector.
- o Exception to maximum maturity is in reserve funds (per bond indentures), which may be invested to a maturity date that coincides as nearly as practicable with the expected use of the funds.
- o Should interest rates rise to a level of four percent on the ten-year Treasury, with written approval of the City Manager, the Finance Director will have the authority of extending a maximum of 20 percent of the City Portfolio between five and ten-year maturities.

F. InternalControl

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments. The internal controls are addressed in the procedures manual.

The City will engage an external auditor for an annual independent review to assure compliance with policies and procedures.

G. Performance Standards

The investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs. The City will have at least 98% of its cash funds earning interest or on deposit to reduce bank fees. The investment portfolio will be structured to meet specific criteria addressing safety, liquidity and yield. The City's reporting system will provide information concerning cash position, investment performance, and percentage of the portfolio that is invested by security issuers and maturity structure.

12. MarketYield/Benchmark

The City's investment strategy is conservative. The City, based on appropriate current indexes and yields reported by similar entities with similar restrictions on investments, will review whether market yields are being achieved.

13. Responsibilities of External Investment Managers

The City may enter into contracts with third-party investment advisory firms when their services are deemed to be beneficial to the City. The advisor must comply with this Investment Policy and may have authority to transact investments on behalf of the City.

14. Reporting

The Finance Director is charged with the responsibility of preparing a periodic investment report, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last period in the City's Financial Reports. Reports will include listing of individual securities held at the end of the reporting period, name of broker agent, listing of investments by maturity date, yield, percentage of the total portfolio which each type of investment represents, gains or losses mark to market of all securities and other information as requested by the City.

Post-Issuance Tax Compliance Procedures For Tax-Exempt Bonds

Last reviewed by City Council on November 20, 2023.

1. PURPOSE

- A. These procedures are adopted by the Issuer to ensure that interest on tax-exempt bonds of the Issuer (the "Bonds") remains excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code").
- B. These written procedures are intended to formally memorialize certain policies and practices of the Issuer previously adopted or followed by the Issuer in connection with its issuance of Bonds. The Issuer reserves the right to use its discretion as necessary and appropriate to make exceptions to these procedures as facts and circumstances warrant.

2. EXPENDITURE/USE OF BOND PROCEEDS

- A. Expenditure of Bond proceeds will be regularly reviewed by the City Manager for consistency with the Bond documents, including any Bond Resolution and the Issuer's Tax Certificate.
- B. The Issuer has separately established procedures for preparation and review of requests for Bond proceeds as part of its accounting system.
- C. Requests must identify the Bond-financed property in conformity with the Issuer's Tax Certificate executed at closing of the Bonds, including the character of the Bond-financed property. Such information is contained as part of the Issuer's accounting system coding.
- D. None of the proceeds of the Bonds will be used to reimburse the Issuer for costs paid prior to the date of issuance of the Bonds unless the Issuer shall have fully complied with Section 1.150-2 of the Treasury Regulations with respect to such reimbursed amounts, which section is summarized in Exhibit A hereto.
- E. Staff costs may be financed with Bond proceeds only to the extent that they are properly capitalized as a cost of a capital project under generally accepted accounting principles and federal tax law.
- F. Requests for expenditures will be summarized in a "final allocation" of Bond proceeds to uses not later than 18 months after the in-service date of the Bond-financed property (and in any event not later than 5 years and 60 days after the issuance of the Bonds and not later than 60 days after earlier retirement of the issue) in a manner consistent with the Code and Treasury Regulations and the applicable Tax Certificate.
- G. Expenditure of proceeds of the Bonds will be measured against the Issuer's Tax Certificate expectation to spend or commit 5% of net sale proceeds within 6 months, to spend 85% of net sale proceeds within 3 years, and to proceed with due diligence to complete the capital project and fully spend the net sale and investment proceeds. In the event that exceptions under the Code are not met, calculations of rebate liability will be performed or caused to be performed by as provided herein.
- H. If there are any Bond proceeds remaining other than in a reserve or debt service fund established pursuant to the Bond Resolution after completion of the projects, such proceeds shall be applied in a manner consistent with the applicable Bond Resolution and Tax Certificate or pursuant to advice from Bond Counsel.
- I. In the event that Bond proceeds are to be used to make a grant to an unrelated party, a grant agreement will be reviewed prior to execution for compliance with the Code. Such agreement will be approved by the City Manager, with advice or consent of Bond Counsel, as necessary. The repayment of any portion of a grant by the grantee shall be treated as unspent Bond proceeds.

- J. In the event that Bond proceeds are to be loaned to a conduit borrower, such conduit borrower will be required to agree to all terms of the Tax Certificate and provide evidence of post-issuance tax compliance procedures deemed adequate and consistent with those set forth herein; and all such obligations for post-issuance tax compliance shall be assumed by such conduit borrower. The City Manager shall be the primary contact for all conduit borrowers and related compliance matters.
- K. Incurrence of a financial obligation of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the issuer or obligated person, any of which affect security holders, if material; and,
- L. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the issuer or obligated person, any of which reflect financial difficulties.

3. USE OF BOND FINANCED PROPERTY

- A. Use of Bond-financed property when completed and placed in service will be reviewed by the City Manager. Appropriate ci/facility managers, including staff responsible for asset management, shall be trained regarding restrictions on the use of Bond proceeds and facilities financed thereby and instructed to consult with the City Manager regarding any third-party contract concerning use of the facilities, including without limitation leases, use, management or service contracts, and research contracts.
- B. Upon issuance of Bonds, there shall be no expectation that the Bond-financed property will be sold or otherwise disposed of by the Issuer during the term of the Bonds, except for replacement due to normal wear and tear or obsolescence.
- C. Agreements with third parties for lease, use, management, or any other service agreement or research contract with respect to, or non-governmental use in respect of, Bond-financed property will be reviewed prior to execution for compliance with the Code. Such agreement will be approved by the City Manager, who will be responsible for determining whether the proposed agreement (1) results in private business use of the facilities, and (2) if applicable, meets the compensation, term and other requirements under Revenue Procedures 97-13 (included as Exhibit B hereto) and 2007-47; all upon advice of Bond Counsel, as necessary.
- D. No item of Bond-financed property will be sold or transferred by the Issuer without approval of the City Manager, who shall seek advice of Bond Counsel as necessary, to provide guidance as to "remedial action" that may be required under the applicable Treasury Regulations if Bonds financing such property remain outstanding as of the date of sale or transfer of such property. Remedial action is summarized in Exhibit C hereto.
- E. The Issuer acknowledges that any sale, transfer, change in use, or change in users of the Bond-financed property may require remedial action, as previously described, or resolution pursuant to the IRS Voluntary Closing Agreement Program (or "VCAP") to assist in resolving violations of the federal tax laws applicable to the Bonds.

4. INVESTMENTS

- A. Investment of Bond proceeds in compliance with the arbitrage and rebate requirements of the Code and applicable Treasury Regulations will be managed and supervised by City Finance Staff.
- B. Guaranteed investment contracts ("GICs") will be purchased according to the fair market value provisions of applicable Treasury Regulations, including bid requirements and fee limitations.
- C. Calculations of rebate liability will be performed annually by the City Manager or by outside consultants as delegated by the City.

- D. Upon final expenditure of the gross proceeds of Bonds, and in any event promptly following the fifth anniversary of the date of issuance of the Bonds or earlier retirement of the Bonds, the City Manager will consult a qualified professional to prepare a spending exception report or an arbitrage rebate computation (as applicable) for the issue of Bonds.
- E. Rebate payments, as required based upon the advice of a qualified professional, will be made with Form 8038-T no later than 60 days after (a) each fifth anniversary of the date of issuance of the Bonds and (b) the final retirement of the Bond issue.

5. RECORD MANAGEMENT AND RETENTION

- A. Management and retention of records related to Bond issues will be maintained by the City Manager.
- B. Records for Bonds will be retained for not less than the life of the Bonds, plus any refunding bonds, plus three years. Such records may be in the form of documents or electronic copies of documents, appropriately indexed to specific Bond issues and compliance functions.
- C. Retainable records pertaining to Bond issuance shall include a transcript of documents executed in connection with the issuance of the Bonds and any amendments; and copies of rebate calculations and records of payments, including Forms 8038-T.
- D. Retainable records pertaining to expenditures of Bond proceeds include requisitions; trustee statements, if applicable; and final allocation of proceeds.
- E. Retainable records pertaining to use of Bond-financed property include all third-party contracts concerning use of the facilities, including (without limitation) leases, use, management or service contracts, and research contracts.
- F. Retainable records pertaining to investments include GIC documents under the Treasury Regulations, records of purchase and sale of other investments, and records of investment activity sufficient to permit calculation of arbitrage rebate or demonstration that no rebate is due.

6. OVERALL RESPONSIBILITY

- A. Overall administration and coordination of this policy and the procedures set forth herein are the responsibility of the City Manager.
- B. Review of compliance with this policy and the procedures set forth herein shall be undertaken periodically, and in any event, not less than annually.
- C. The Issuer understands that failure to comply with these policies and procedures could result in the retroactive loss of the exclusion of interest on Bonds from federal gross and Minnesota taxable net income; and, thus, it would be advisable to consult with Bond Counsel in advance regarding deviations from the facts and expectations as set forth in the closing certifications relating to any issue of Bonds.
- D. Any violations or potential violations of federal tax requirements shall promptly be reported to the City Manager, and the City Manager will engage qualified consultants and bond counsel to further investigate potential violations or undertake appropriate remedial actions, which actions shall be approved by the governing body of the Issuer.

EXHIBIT A

REIMBURSEMENT BOND SUMMARY

Following is a general summary of the requirements relating to bonds that are issued to reimburse expenditures that were paid prior to the date of issuance of bonds ("Reimbursement Bonds").

Reimbursement Bond proceeds cannot be used to reimburse expenditures paid more than 60 days prior to the adoption of the declaration of official intent/reimbursement resolution, which must contain:

- a general functional description of the property to which the reimbursement relates or an identification of the fund or account from which the expenditure is to be paid and a general functional description of the purposes of such fund or account; and
- the maximum principal amount of debt to be issued.

Reimbursement Bonds must be issued not later than 18 months after the later of (i) the date on which the original expenditure is paid, or (ii) the date on which the property is placed in service, but in any case not more than three years after the date on which the original expenditure is paid. If possible, actual reimbursement should be made within 30 days of the date of issuance of the Reimbursement Bonds.

Note that there are exceptions for "de minimis" amounts (not in excess of the lesser of \$100,000 or 5% of proceeds of the issue) and for "preliminary expenditures" (such as architectural, engineering, surveying, soil testing and similar costs and costs of issuance), so long as such preliminary expenditures do not exceed 20% of the aggregate issue price.

Exhibit B

SUMMARY OF REVENUE PROCEDURE 97-13

Background

A management, service or incentive payment contract with a private service provider with respect to tax exempt bond-financed property may result in private business use of that property, based on all facts and circumstances. None of the compensation may be based on a share of net profits.

Revenue Procedure 97-13 establishes conditions under which a management contract generally does not result in private business use. Issuers and bond counsel typically attempt to satisfy, or substantially satisfy, one of these “safe harbors” because of uncertainty as to the treatment of nonconforming contracts. Below is a brief summary of the provisions of Rev. Proc. 93-17, as modified by Rev. Proc. 2001-39.

Rev. Proc. 93-17 establishes conditions based on (1) the compensation arrangements and the term of the agreement, and (2) whether the service provider has any role or relationship with the “qualified user”¹ that substantially limits the qualified user’s ability to exercise its rights under the contract.

General Rules

In all events, the contract must provide for reasonable compensation for services rendered, with no compensation based, in whole or in part, on a share of net profits from the operation of the facility. Reimbursement of the service provider for actual and direct expenses paid by the service provider to unrelated parties is not by itself treated as compensation.

The compensation, with the percentage determined by the term of the contract, subject to additional conditions, as described under “Compensation Safe Harbors” below, generally may be computed by:

- (A) a periodic fixed fee, which is a stated dollar amount for a specified period of time²;
- (B) a percentage fee, which is a percentage of gross revenues (or adjusted gross revenues) of the facility or a percentage of expenses of the facility, but not both;
- (C) a capitation fee, which is a fixed periodic amount for each person for whom the service provider or the qualified user assumes the responsibility to provide all needed services for a specified period so long as the quantity and type of services actually provided to covered persons varies substantially³;
- (D) a per-unit fee, which is a fee based on a unit of service specified in the contract or otherwise specifically determined by an independent third party or the qualified user⁴; or
- (E) a productivity reward equal to a stated dollar amount based on increases or decreases in gross revenues (or adjusted gross revenues), or reductions in total expenses (but not both increases in gross revenues (or adjusted gross revenues) and reductions in total expenses) in any annual period during the term of the contract.

¹ A “qualified user” of the financed property is a state or local governmental unit (or instrumentality thereof) or a 501(c)(3) organization if the financed property is not used in an unrelated trade or business under section 513(a) of the Internal Revenue Code.

² A periodic fixed fee may include an automatic increase based on a specific, objective, external standard that is not linked to the output or efficiency of the facility in question.

³ A capitation fee may include an automatic increase based on a specified, objective, external standard that is not linked to the output or efficiency of the facility. A capitation fee may also include a variable component of up to 20 percent of the total capitation fee designed to protect the service provider against risks such as catastrophic loss.

⁴ A periodic fee may include an automatic increase based on a specified, objective, external standard that is not linked to the output or efficiency of the facility.

The service provider must not have any role or relationship with the qualified user that, in effect, substantially limits the qualified user's ability to exercise its rights, including cancellation rights, under the contract based on all facts and circumstances. The relationship does not limit the qualified user's ability to exercise its rights if the following conditions are satisfied: (1) not more than 20 percent of the voting power of the governing body of the qualified user in the aggregate is vested in the service provider and its directors, officers, shareholders, and employees, (2) overlapping board members do not include the chief executive officers of the service provider or its governing body or the qualified user or its governing body, and (3) the qualified user and the service provider are not related parties.

COMPENSATION SAFE HARBORS

A management contract generally will not result in private business use if the compensation arrangement meets the criteria in one of the following categories:

50% Periodic Fixed Fee Contracts

- At least 50 percent of the compensation for services for each annual period during the term of the contract is based on a periodic fixed fee;
- the term of the contract, including all renewal options⁵ in favor of the service provider, does not exceed 5 years; and
- the contract is terminable by the qualified user of the facility on reasonable notice, without penalty or cause, at the end of the third year of the contract term.

80% Periodic Fixed Fee Contracts

- At least 80 percent of the compensation for services for each annual period during the term of the contract is based on a periodic fixed fee; and
- the term of the contract, including all renewal options in favor of the service provider, does not exceed the lesser of 80 percent of the reasonably expected useful life of the financed property and 10 years.

For purposes of this safe harbor (but not the 50% periodic fixed fee safe harbor), a one-time incentive award during the term of the contract under which compensation automatically increases by a single, stated dollar amount when a gross revenue or expense target (but not both) is reached may be considered part of a fixed fee arrangement.

95% Periodic Fixed Fee Contracts

- At least 95 percent of the compensation for services for each annual period during the term of the contract is based on a periodic fixed fee; and
- the term of the contract, including all renewal options in favor of the service provider, does not exceed the lesser of 80 percent of the reasonably expected useful life of the financed property and 15 years.

For purposes of this safe harbor (but not the 50% periodic fixed fee safe harbor), a one-time incentive award during the term of the contract under which compensation automatically increases by a single, stated dollar amount when a gross revenue or expense target (but not both) is reached may be considered part of a fixed fee arrangement.

⁵ A provision under which a contract is automatically renewed absent cancellation by either party is not a renewal option (even if it is expected to be renewed).

Capitation Fee Contracts (with or without fixed fees)

- All of the compensation for services is based on a capitation fee or a combination of a capitation fee and a periodic fixed fee;
- the term of the contract, including all renewal options in favor of the service provider, does not exceed 5 years; and
- the contract is terminable by the qualified user of the facility on reasonable notice, without penalty or cause, at the end of the third year of the contract term.

Per-unit Fee Contracts (with or without fixed fees)

- All of the compensation for services is based on a per-unit fee or a combination of a per-unit fee and a periodic fixed fee;
- the term of the contract, including all renewal options in favor of the service provider, does not exceed 3 years; and
- the contract is terminable by the qualified user of the facility on reasonable notice, without penalty or cause, at the end of the second year of the contract term.

Percentage of Revenue or Expenses

- All the compensation for services is based on a percentage of fees charged or a combination of a per-unit fee and a percentage of revenue or expense fee;
- the term of the contract, including all renewal options in favor of the service provider, does not exceed 2 years; and
- the contract is terminable by the qualified user of the facility on reasonable notice, without penalty or cause, at the end of the first year of the contract term.

During the start-up period, however, compensation may be based on a percentage of either gross revenues, adjusted gross revenues, or expenses of a facility. The contract must be terminable by the qualified user on reasonable notice, without penalty or cause, at the end of the first year of the contract term. This safe harbor applies only to contracts under which the service provider primarily provides services to third parties and management contracts involving a facility during an initial start-up period for which there have been insufficient operations to establish a reasonable estimate of the amount of the annual gross revenues and expenses (for example, a contract for general management services for the first year of operations).

Revision of Compensation Arrangements

Please note that if the compensation arrangements of a management contract are materially revised, the compensation arrangements are “retested” as of the date of the material revision, and the management contract is treated as one that was newly entered into as of the date of the material revision.

EXHIBIT C

REMEDIAL PROVISIONS APPLICABLE TO BONDS

The Issuer acknowledges that any deliberate action by the Issuer after Bond issuance that results in a satisfaction of the private business tests or the private loan test will result in private activity bond status unless one or more qualifying remedial actions are taken by the Issuer. Specifically, Treasury Regulations provide that actions are not treated as deliberate actions if (A) five conditional requirements are met, and (B) one of three remedial actions is taken, with respect to the disposition proceeds and nonqualified bonds⁸.

CONDITIONAL REQUIREMENTS

1. Reasonable Expectations – The Issuer reasonably expected on the issue date that it would not meet the private business tests or the private loan test for the whole term of the bonds; and
2. Reasonable Bond Maturity – The term of the issue must not be unreasonably long; this requirement is met if the weighted average maturity of the bond issue is not greater than 120% of the expected economic life of the property financed; and
3. Fair Market Value Consideration – The terms of any agreement (relating to satisfaction of a private activity bond test) must be bona fide and at arm's-length, and the new user must pay a fair market value consideration for the use of the bond- financed property; and
4. Disposition Proceeds Are Gross Proceeds – The Issuer must treat any disposition proceeds as gross proceeds subject to arbitrage/rebate restrictions; and
5. Proceeds Spent for Authorized Purpose – Except as described with respect to redemption and defeasance options below, prior to deliberate actions, the affected proceeds must have been spent for the authorized purposes under the applicable bond documents.

REMEDIAL ACTIONS – Under Treasury Regulations, Sections 1.141-12(d), (e) and (f):

1. Redemption of Non-Qualified Bonds – Under the general rule, all nonqualified bonds of the issue must be redeemed. Tax- exempt bond proceeds (i.e., refunding bond proceeds) cannot be used unless the tax-exempt bonds are qualified bonds, taking into account the purchaser's use of the facility. The bonds must be redeemed within 90 days of the date of the deliberate action or a defeasance escrow for the bonds must be established within such 90-day period. Special rules apply to transfers exclusively for cash and to defeasance escrows.
2. Alternative Use of Disposition Proceeds – To meet this requirement, all disposition proceeds must be in cash, the issuer must reasonably expect to expend the proceeds within 2 years, the new use must not meet the private business tests or the private loan test (and the issuer cannot take any action subsequent to the date of the deliberate action to cause the tests to be met), and any unused proceeds must satisfy the redemption requirement in the preceding paragraph.

* The portion of the outstanding bonds in an amount that, if the remaining bonds were issued on the date on which the deliberate action occurs, the remaining bonds would not satisfy the private business use test or the private loan financing test, as applicable. The amount of private business use is the highest percentage of business use in any one-year period, commencing with the deliberate action

3. Alternative Use of Facility – This remedial action is satisfied if the bond-financed property itself (as distinguished from the proceeds of the issue) is used in an alternative manner (e.g., for a different purpose or by a different person); the nonqualified bonds are treated as reissued on the date of the deliberate action and independently meet all of the requirements for tax exemption under Sections 141 through 150 of the Code, except the arbitrage and rebate rules of Section 148, for the remaining term of the nonqualified bonds; the deliberate action does not involve a transfer of the property to a purchaser that finances the acquisition with the proceeds of another issue of tax-exempt bonds; and any disposition proceeds, other than those arising from an agreement to provide services, resulting from the deliberate action are used to pay debt service on the bonds on the next available payment date or escrowed within 90 days of receipt and yield restricted to pay debt service on the next available payment date.

The above is only a brief summary of remedial actions, and additional special rules may be applicable. As provided in the Issuer's Compliance Procedures for Tax-Exempt Bonds, the City Manager shall seek advice of Bond Counsel as necessary to provide guidance as to "remedial action" that may be required under the applicable Treasury Regulations.

The Commissioner of the IRS may, by publication, provide for additional remedial actions. In addition, the IRS provides a program in which issuers/borrowers which cannot meet a listed remedial action can enter into a closing agreement with the IRS to avoid private activity bond status. The closing agreement program includes several conditions, including providing for the redemption of the bonds and paying the IRS an amount based on an assumption that the non-qualified bonds are taxable from the date of the subsequent act until they are redeemed.

Purchasing Policy

Last reviewed by City Council on November 20, 2023.

1. Policy

The budget allocates funds for the purchase of personnel, supplies, other services and capital. Requests cannot be made for items outside the budget except under special circumstances. These special circumstances will have to be approved by the City Manager. The Purchasing Agent is the City Manager. Purchases less than \$5,000 may be purchased by Department Directors; purchases between \$5,000-\$20,000 may be approved by the City Manager (without Council approval); and purchases exceeding \$20,000 must be approved by the City Council.

2. Organization Affected: All Departments

3. Procedure

A. Purchase & Bidding Requirements:

Amount of Purchase:	Type of quote required per individual	Approval required by:	Written bid specifications:	Sealed bids required:	Contract required:
Purchases under \$5,000	two telephone quotes are preferred	Dept. Director	not required	no	no
Purchases over \$5,000 up to \$20,000	two written quotes required unless special circumstances are	City Manager	as required based on type of purchase	no	no
Purchases over \$20,000 up to \$175,000	three written quotes required unless special circumstances are noted	City Council	as required based on type of purchase	no	commodities at discretion of City Manager, construction projects, yes
Purchases greater than \$175,000	City Clerk must advertise in City's legal newspaper	City Council	required	yes	yes

Capital Improvement Program (CIP) Purchases – see next page

B. Environmental Preferred Products:

Purchasing decisions should reflect the City's commitment to sustainability and the protection of human health and the environment. The City shall accept up to a 10% price preference for products purchased with new construction or when replacements or repairs are needed, when meeting the following standards:

- **Recycled Paper** – Office paper supplies shall contain at least 30% post-consumer recycled content. This includes, but is not limited to copy paper, letterhead, and envelopes.
- **Energy Star Label** – Appliances and equipment shall be Energy Star certified. This includes, but is not limited to appliances, electronics, heating and cooling systems, lighting systems, fans, office equipment, computers, exit signs, and water heaters.
- **WaterSense Certification** – Fixtures and products that use water shall be WaterSense certified. This includes, but is not limited to sinks, toilets, urinals, showerheads, and water softeners.
- **Cleaning Products** – Supplies shall meet Green Seal, EcoLogo, and/or US EPA Design for the Environment (DfE) cleaning product standards.

The environmental preferred purchasing standards shall apply to products that are practicable, available, and perform to an acceptable standard. Authorization from the City Manager shall be required if the purchase price for the environmental preferred product is greater than \$1,000 total or 10% more as compared to the standard product model.

C. Cooperative Purchasing Program

Many cities purchase a variety of equipment and supplies from state contracts. The Department of Administration operates a cooperative purchasing program that cities can join. In fact, for contracts estimated to exceed \$25,000 the City must consider the availability, price, and quality of supplies, materials, or equipment available through the State Cooperative Purchasing venture before buying from another source.

D. Guaranteed Energy Savings Agreements:

State Statutes authorize the City to enter into a guaranteed energy savings agreement with a qualified provider for the purpose of implementing comprehensive utility cost-saving measures to improve the energy efficiency of various municipal facilities within the City so long as the implementation costs will not exceed the amount to be saved in utility and maintenance costs over a twenty year period with said utility and maintenance cost savings guaranteed in writing by the qualified provider. The City shall follow all requirements as prescribed in Statute related to this authority to enter into Guaranteed Energy Savings Agreements.

E. Responsible Contractor Compliance:

A contractor responding to a solicitation document of a contracting authority shall submit to the contracting authority a signed statement under oath by an owner or officer verifying compliance with each of the minimum criteria in subdivision 3 of Minnesota Statute 16C.285, with the exception of clause (7), at the time that it responds to the solicitation document. A contracting authority may accept a signed statement under oath as sufficient to demonstrate that a contractor is a responsible contractor and shall not be held liable for awarding a contract in reasonable reliance on that statement. A prime contractor, subcontractor, or motor carrier that fails to verify compliance with any one of the required minimum criteria or makes a false statement under oath in a verification of compliance shall be ineligible to be awarded a construction contract on the project for which the verification was submitted. A false statement under oath verifying compliance with any of the minimum criteria may result in termination of a construction contract that has already been awarded to a prime contractor or subcontractor or motor carrier that submits a false statement. A contracting authority shall not be liable for declining to award a contract or terminating a contract based on a reasonable determination that contractor failed to verify compliance with the minimum criteria or falsely stated that it meets the minimum criteria. A verification of compliance need not be notarized. An electronic verification of compliance made and submitted as part of an electronic bid shall be an acceptable verification of compliance under this section, provided that it contains an electronic signature as defined in section 325L.02, paragraph (h) of Minnesota Statutes 16C.285.

F. Bidding Requirements:

When supplies or equipment are competitive in nature, specifications cannot exclude all but one type of equipment or supplies. Proposals and specifications must allow free and full competition. Bidding requirements cannot be avoided by splitting a contract into several contracts, each of which is below the minimum amount requiring sealed bids. For example, the City cannot purchase \$200,000 of lumber in several transactions, each involving an expenditure of less than \$175,000. However, if materials or work logically fall into two separate contracts because they involve separate transactions, as for the service of contractors specializing in different kinds of work, there is no reason why the City cannot negotiate the contracts individually without sealed bids if the bids do not exceed the \$175,000 minimum.

- **Capital Improvement Program (CIP) purchases** – the CIP is not an adopted budget document, therefore, the expenditure has not been formally authorized. A resolution should be adopted listing the funding source to give the formal authorization to expend the funds for the equipment purchase.
- **Sales tax** – Beginning January 1, 2015 purchases made by the City of New Hope are generally exempt. The general exemption for cities, however, does not apply to purchases made by the City to provide the following goods and services: golf courses, solid waste, and cafes. Certain other exclusions are listed in Statute and should be reviewed on a regular basis. Bidders should specify whether their bid includes sales tax or not. After the work is completed and a purchase order is processed, if the invoice does not itemize sales tax you must obtain a corrected invoice from the vendor if sales tax is applicable on the item purchased. The City is not subject to the Hennepin County Sales and Use Tax of 0.15% that went into effect January 1, 2007.
- **Consultant services** – state law does not require cities to competitively bid contracts for professional services (i.e. attorney, architect, engineer, accountant, cleaning company, or other person with technical, scientific, or professional training such as refuse hauling).
- **Sealed bids** are required for purchases exceeding \$175,000, and bids must be advertised by the City Clerk in the City's legal newspaper (Notice to Bidders) and publicly opened and approved by Council resolution. In addition to the legal notice, the City must prepare instructions to bidders and general specifications for sealed bids. Attaching a copy of the proposed contract to the instructions to bidders is required. Sealed bids, including the number of bids received prior to bid opening, are nonpublic. Once opened, the name of the bidder and the dollar amount of the bid are public (all other data is private until completion of the selection process).
- **Bids vs. Quotes terminology** – always use term quotation unless referring to a sealed bid.

- **Bid security** (for sealed bids for purchases over \$175,000) in the amount of five percent (5%) of the bid shall be submitted to the City Clerk. The bid security guarantees that in the event the bidder's offer is accepted, the bidder will enter into a contract in accordance with the proposal. Bid security of the successful bidder will be returned upon execution of the contract documents. Bid securities of unsuccessful bidders will be returned within a reasonable time period (Minnesota Statute §574.27). Failure of the successful bidder to execute the Contract and furnish applicable bonds within ten (10) days after receiving written notice of the award shall cause the bid security to be forfeited as liquidated damages to the City. The City Council at this time may award the contract to the next lower competent bidder unless the Council determines that public interest will be better served by accepting a higher bid, or the contract may be re-advertised.

As a statutory City, contracts and bids must be awarded to the lowest responsible bidder. It should be noted that the bidder who submits the lowest bid in dollars is not necessarily the "lowest responsible bidder" and the quoted phrase gives the Council reasonable discretion in choosing among bidders. Responsibility, in bid statutes, means not only financial responsibility but also integrity, skill, and the likelihood that the bidder will perform faithful and satisfactory work.

- **Rejecting Bids (and related Data Practices laws)** - the City has the right to reject any and all bids (requests for proposals, requests for bids, sealed bids). All data submitted in response to bid requests are private until bids are opened. If bids are rejected prior to the completion of the evaluation or selection process, all data, other than that made public at the bid opening, remain private until a re-solicitation of bids results in completion of the selection process. If the rejection occurs after the completion of the selection process, the data remain public. If a re-solicitation of bids does not occur within one year of the bid opening date, the remaining data become public

Revenue Policy

Last reviewed by City Council on November 20, 2023.

Purpose

1. To provide a diversified and strong set of revenues to ensure a stable revenue system for City programs and services.
2. To match revenues with similar uses to ensure adequate funding for the various City services and programs over the long-term.

Policy

The City will endeavor to maintain a diversified and stable revenue system to shelter it from annual fluctuations in any one revenue source.

The City will conservatively estimate and budget for its annual revenues by an objective, analytical process. All existing and potential revenue sources will be re-examined annually.

Absent any outside legal restrictions, all Federal, State, County, or other governmental financial aids, should be formally designated, by resolution, towards a specific program or service. When possible, general purpose aids shall only be used for capital or non- recurring expenditures and not for on-going operations.

The City will strive to establish all user charges and fees for General Fund program activities at a level related to the full cost of providing the services, or as adjusted for particular program goals. The City will review the full cost of activities supported by user fees to identify the impact of inflation and other cost increases and will review these fees along with the resulting net property tax costs during the budget process. Sensitivity to market rates will also be considered in setting fees.

The City will set fees and user charges for each enterprise fund such as water, sewer, or other enterprise funds such as golf and ice at a level that fully supports the total direct and indirect cost of the activity, including depreciation of capital assets and debt service, to maintain a positive cash flow and provide adequate working capital. Replacement (or bonding for replacement) of enterprise infrastructure will be paid for from accumulated (or annual) earnings of the respective system.

Revolving Loan Fund

Last reviewed by City Council on November 20, 2023.

A local unit of government may establish a Revolving Loan Fund (RLF) with funds from a variety of sources. The guidelines outlined in this document pertain only to a RLF seeded with funds received through the repayment of a loan provided from the state-funded Minnesota Investment Fund (MIF) or Economic Recovery Fund programs administered through the Department of Employment and Economic Development or its predecessors.

The local government must follow the RLF guidelines that were submitted with the initial MIF application and approved by your DEED Senior Loan Officer. Although the guidelines provide the policies and procedures for the reuse of these funds, the RLF policies and procedures must also adhere to the same requirements that are followed by the state's Minnesota Investment Fund program. In addition to the local government's underwriting criteria, the guidelines from Minn. Stat. 116J.8731 (some of which is summarized below) and from the Minnesota Business Subsidy Law (Minn. Stat. 116J. 993 and 116J.994) must be included in the policies and procedures

General Purposes and Guidelines for RLFs Seeded by the Minnesota Investment Fund

Purpose and Goals

The purpose of the RLF is to provide financial and technical assistance for the creation and retention of new employment. These objectives may be accomplished through the following means:

1. Create/retain permanent private sector jobs to fuel above-average economic growth consistent with environmental protection;
2. Investment in technology and equipment that increase productivity and provide for higher wages;
3. Leverage of private investment to ensure economic renewal and competitiveness;
4. Increase the local tax base to guarantee a diversified industry mix;
5. Improve the quality of existing jobs, based on increases in wages or improvements in the job duties, training, or education associated with those jobs;
6. Improve employment and economic opportunities and create a reasonable standard of living; and
7. Enhance productivity growth through improved manufacturing or new technologies.

One way to meet these objectives is to assist businesses that have location options outside Minnesota. These firms bring income into the state and raise the overall standard of living.

Eligible Expenditures

The MIF-seeded funds may be used in a variety of ways include example noted below. More information is available in Minn. Stat. 116J.8731 and through conversations with your loan officer.

1. Provide loans, loan guarantees, interest buy-downs, and other forms of participation, ensuring that RLF funds are matched by private financing.
2. Fund strategic investments in renewable energy market development. Any expenditure for external marketing for renewable energy market development is not subject to the matching requirements listed above.
3. Provide entrepreneurs with training, other technical assistance, and financial assistance as defined by federal guidelines.

Eligible Projects

Assistance must be evaluated on the existence of the following conditions as noted in Minn. Stat. 116J.8731:

1. Creation or retention of jobs, or the improvement of jobs as measured by wages, skills or knowledge;
2. Increase in the tax base;
3. Attraction of private funds to the project;
4. Incapacity of local communities and finance partners to finance project;
5. Results in higher wage levels or workforce skills;
6. Supports development of microenterprises, as defined by federal guidelines, through technical assistance or financial assistance.
7. Need for assistance to retain existing business;
8. Importance of assistance to attract out-of-state business; and
9. The project promotes or advances the green economy.

The assistance cannot meet solely 7. or 8.; other conditions must also be present.

Eligible Activities

RLF's may be used to fund a variety of business activities including:

1. Acquisition of land
2. Construction or rehabilitation of facilities
3. Site improvements
4. Utilities or infrastructure
5. Machinery and Equipment
6. Training
7. Working capital

Advance approval from DEED is necessary if the local government would like to provide financing for activities not listed above. Approval is more likely to occur in projects that relate to business development and involve other local government funds.

Ineligible Activities

In contrast to federal MIF funds, there are industry limitations on how state MIF RLFs may be used. State MIF RLFs may not be used for the operation, construction or expansion of a casino, a sport facility that has a professional sports team as a principal tenant or any firm engaged in retailing merchandise. All assistance should follow the approved RLF guidelines. Please call your loan officer to discuss any prospective financing.

Wage Goals

Businesses receiving RLF-State MIF assistance must pay each employee total compensation, including benefits not mandated by law, that on an annualized basis is equal to at least 110 % of the federal poverty level for a family of four, which as of February 1, 2015 is \$12.82 per hour. Each year's compensation level changes and can be found on DEED's Business Finance MIF website.

Other Eligible Uses of the Funds

Minn. Stat. 116J.8731 allows local governments to loan or grant RLF funds to a regional development commission, other regional entities, or a certain statewide community capital funds to provide the local match required for capitalization of a regional or statewide RLF. Unlike federal MIF funds, state MIF funds held by local governments never lose their state identify and must follow all applicable laws and regulations.

The local government must request permission from the DEED before it can commit to providing funds to any of these organizations. The local government does not have the authority to turn over to another entity, such as Port Authority, Economic Development Authority, Housing Authority, etc. revolving loan funds for any purpose; these entities may administer MIF transactions provided the MIF grantee still maintains control over the RLF.

Conflict of Interest

Minn. Stat. 471.87 and 471.88 provide guidance on conflict of interest in a MIF transaction. An actual conflict of interest shall be deemed to exist when a decision on a MIF transaction would compromise a duty to another party or if special advantage is deemed to occur. Potential conflict of interests should also be considered.

Business Subsidy Law

As mentioned on page 1, Minn. Stat. 116J.993 and 116J.994 must be followed in the administration of RLF-State MIF. These sections pertain to the definition of a business subsidy, public purpose of the subsidy, criteria, subsidy agreements, wage and job goals, timing of the project, public notice and hearing requirements, failure to meet goals, and reporting of information regarding the outcomes of the subsidy.

Job Listing Requirements

Per Minn. Stat. 116L.66, a business that receives grants or loans in an amount greater than \$200,000 must agree to list any vacant or new positions related to the financial assistance on the MinnesotaWorks.net job bank website.

Prevailing Wage

Per Minn. Stat. 116J.871, laborers and mechanics at the project site during construction, installation, remodeling, and repairs must be paid the state prevailing wage if the financial assistance is greater than \$500,000 for a loan. All contracts for publicly owned infrastructure using the RLF must comply with the prevailing wage provisions.

Data Privacy

The provision of any information related to any applications for assistance is guided by Minn. Stat. 13.591, particularly Subd 1 and 2.

These operating guidelines provide a summary of how to administer revolving loan funds seeded with repayments from Minnesota Investment Fund loans. Specific transactions and RLF administration should be discussed with your DEED Senior Loan Officer. Other applicable state and federal laws and rules must also be followed.

Risk Management Policy

Last reviewed by City Council on November 20, 2023.

Purpose

To maintain a risk management program that will minimize the impact of legal liabilities, natural disasters or other emergencies through the following activities:

1. Loss prevention - prevent losses where possible
2. Loss control - reduce or mitigate losses
3. Loss financing - provide a means to finance losses
4. Loss information management - collect and analyze data to make prudent prevention, control and financing decisions

Policy

The City will review and analyze all areas of risk in order to, whenever possible, avoid and reduce risks or transfer risks to other entities. Of the risks that must be retained, it shall be the policy to fund the risks which the City can afford and transfer all other risks to insurers.

The City will periodically conduct educational safety and risk avoidance programs within the various departments.

The City will, on an ongoing basis, analyze the feasibility of self-funding and other cooperative funding options in lieu of purchasing outside insurance in order to provide the best and most economical loss coverage available.

Staff will report to the Council, at least annually, on the results and costs of the City's risk management program for the preceding year.

The City will maintain the deductible amount considered prudent in light of the relationship between the cost of insurance and the City's ability to sustain the loss.

Tax Abatement Policy

Last reviewed by City Council on November 20, 2023.

1. PURPOSE

The purpose of this policy is to establish the City of New Hope and the New Hope Economic Development Authority's (City/EDA) position as it relates to the use of Tax Abatement for private development. This policy shall be used as a guide in processing and reviewing applications requesting business assistance, and in conjunction with the City's Business Assistance Policy. The City shall have the option of amending or waiving sections of this policy when determined necessary or appropriate.

2. STATUTORY LIMITATIONS

In accordance with the City/EDA's Tax Abatement Policy, assistance requests must comply with applicable State Statutes. MN Statutes, Sections 469.1812 through 469.1815, authorizes a political subdivision to utilize property tax abatement on certain parcels of land within its boundaries.

3. POLICY BACKGROUND

- A. The City/EDA recognizes that local government plays a critical role in enhancing the vitality of our community. This is particularly true as the City reaches full development.
- B. All reasonable means shall be utilized to leverage private business development and redevelopment in the City consistent with this and other policies. Tax abatement is an important and useful tool in attracting and retaining businesses.
- C. The tax abatement tool provides the ability to capture and use all or a portion of the property tax revenues within a defined geographic area. In practice, it is a tax "rebate" rather than an exemption from paying property taxes. Tax abatement is an important economic development tool that when used appropriately can be useful to accomplish the City/EDA's development and redevelopment goals and objectives. Requests for tax abatement must serve to accomplish the City's targeted goals for development and redevelopment. These goals include, but are not limited to projects that will result in the creation or retention of a significant number of jobs that pay wages adequate to support households, projects that will assist with the retention and expansion of businesses, and projects that will expand the City's tax base. Projects must meet the requirements established by the Business Assistance Policy of the City/EDA, to the extent it is applicable, in order to receive abatement.

4. PROJECT ELIGIBILITY

Projects eligible for consideration of property tax abatement include but are not limited to the following:

- Mixed use projects including new and redevelopment projects
- Commercial and industrial redevelopment projects
- New commercial and industrial developments
- Residential business properties (with some restrictions as defined in this policy)

5. OBJECTIVES

- A. A property tax abatement must meet at least one of the following public purposes:

Increase or preserve the tax base

- Provide employment opportunities in the City
- Provide or help acquire or construct public facilities
- Help redevelop or renew blighted areas
- Help provide access to services for City residents
- Finance or provide public infrastructure

- B. The developer/landowner shall be able to demonstrate a market demand for a proposed project.
- C. Tax abatement shall not be used for projects that would place extraordinary demands on City services or for projects that would generate significant environmental impacts.
- D. Because it is not possible to anticipate every type of project, which may in its context and time present desirable community building, development, or redevelopment goals and objectives, the City/EDA retains the right in its discretion to approve projects and tax abatements that may vary from the principles and criteria of this policy.

6. DETERMINATION OF AMOUNT OF ASSISTANCE

- A. Tax abatement assistance available shall generally be limited to the incremental taxes generated on the improvements to the property. The City/EDA may consider a greater level of financial assistance, up to the maximum allowed under Minnesota Statutes, in limited circumstances. The level of assistance will be evaluated on a case-by-case basis and may reflect an increase or decrease in requested financial assistance from the applicant.
- B. The amount of tax abatement assistance provided to an applicant shall be based on a review of the following:
- Request for Financial Assistance Form
 - Review of Applicant Pro Forma
 - Amount of Increment Generated by the Project
- C. In any year, the total amount of property taxes abated (City-wide) may not exceed (1) ten percent of the current levy, or (2) \$200,000, whichever is greater. The limit does not apply to an uncollected abatement from a prior year that is added to the abatement levy.
- D. The developer/landowner must adequately demonstrate, to the City/EDA's sole satisfaction, an ability to complete the proposed project based on past development experience, general reputation, and credit history, among other factors, including the size and scope of the proposed project. The developer/landowner must provide adequate financial guarantees to ensure completion of the project, including, but not limited to: assessment agreements and letters of credit.

7. FORMS OF ASSISTANCE

- A. Tax abatement shall generally be provided on a “pay-as-you-go” basis wherein the City/EDA compensates the applicant for a predetermined amount for stated number of years. In all cases, semi-annual abatement payments are based on available (as approved by agreement) tax revenue from the property and issued to the applicant after payment of property taxes by the applicant.
- B. Another form of assistance that shall be considered only in extraordinary circumstances is an “up-front payment” to the applicant. This may be in the form of a revenue or general obligation bond or an internal loan. (The City/EDA would consider revenue bond financing where the terms of the financing are satisfactory to the City/EDA.) The tax increment generated from the applicant’s project is a source of revenue for repayment of the bonds or loan. This form of assistance is not one the City/EDA will generally consider because under this form of assistance the taxpayers assume the risk that the tax increment will be sufficient for repayment of the bonds or the interfund loan.

8. DURATION AND RESTRICTIONS

- A. The City/EDA may grant an abatement for a period no longer than 15 years, except as provided under 8.02. The City/EDA may specify in the abatement resolution a shorter duration.
- B. The City/EDA, when proposing to abate taxes for a parcel, may make a written request to Hennepin County or a Independent School District 281 in which a parcel is located to grant an abatement of county or school taxes for the property. If one of the two political subdivisions declines, in writing, to grant an abatement or if 90 days pass after receipt of the request to grant an abatement without a written response from one of the political subdivisions, the duration limit for an abatement for the parcel may be increased to 20 years.
- C. The City/EDA may not enter into a property tax abatement agreement that provides for abatement of taxes on a parcel, if the abatement will occur while the parcel is located in a tax increment financing district.

9. APPLICATION

- A. The City/EDA will require a deposit in the amount of \$5,000 from the applicant to investigate the feasibility of providing assistance to the applicant. If the City/EDA incurs additional expense beyond the \$5,000 prior to execution of the Developer’s Agreement, the City/EDA shall notify the applicant in writing and the applicant must deposit additional funds for work on the application to continue. If the project is approved and the applicant proceeds with the project, the applicant’s deposit may be reimbursed as an eligible project cost to the extent permissible under MN Statutes.
- B. In addition to the \$5,000 deposit fee, the applicant must submit the following forms and documentation at time of application for the application to be complete and review of the application to begin:
 - Request for Financial Assistance Form
 - Project Pro Forma Documentation (Developed by Applicant)

Tax Increment Financing Policy

Last reviewed by City Council on November 20, 2023.

1. PURPOSE

The purpose of this policy is to establish the City of New Hope and the New Hope Economic Development Authority's (City/EDA) position as it relates to the use of Tax Increment Financing (TIF) for private development. This policy shall be used as a guide in processing and reviewing applications requesting business assistance, and in conjunction with the City/EDA's Business Assistance Policy. The City/EDA shall have the option of amending or waiving sections of this policy when determined necessary or appropriate.

2. STATUTORY LIMITATIONS

In accordance with the City/EDA's Tax Increment Financing Policy, assistance requests must comply with applicable State Statutes. Minnesota Statutes, Section 469.174 through 469.179 (Tax Increment Finance Act), as amended, authorizes local governments to utilize Tax Increment Financing to assist development and redevelopment of certain parcels within its boundaries.

3. POLICY BACKGROUND

- A. The City/EDA recognizes that local government plays a critical role in enhancing the vitality of our community. This is particularly true as the City reaches full development.
- B. All reasonable means shall be utilized to leverage private business development and redevelopment in the City consistent with this and other policies. Tax increment financing is an important and useful tool in attracting and retaining businesses.
- C. The fundamental principle that makes tax increment financing viable is that it is designed to encourage development that would not otherwise occur. The City/EDA shall be responsible to determine that (1) a project would not occur "but for" the assistance provided through tax increment financing; and (2) no other development would occur on the relevant site without tax increment assistance, that could create a larger market value increase than the increase expected from the proposed development (after adjusting for the value of the tax increment).
- D. The City/EDA shall consider tax increment financing in cases that serve to accomplish targeted City goals for development and redevelopment as they may change over time. These goals include, but are not limited to projects that will (1) foster and support redevelopment; (2) result in the creation or retention of a significant number of jobs that pay wages adequate to support households; or (3) assist with the retention and expansion of businesses, and (4) expand the City's tax base.

4. CREATION OF TIF DISTRICTS

- A. The City/EDA shall consider the creation of any of the general types of TIF Districts allowed by Minnesota Statutes or the creation of other types of TIF Districts allowed by Special Legislation, when doing so is consistent with the development and redevelopment goals of the City/EDA.
- B. TIF Districts are the specific parcels within a Project Area from which tax increment is captured. MN Statutes currently defines five general types of TIF Districts which the City/EDA shall consider:
 - o Redevelopment District
 - o Renewal and Renovation District
 - o Soils Condition District
 - o Housing District
 - o Economic Development District

- C. In addition to these five general types of TIF Districts, defined by Minnesota Statutes, the City/EDA may also consider the creation of TIF Districts as authorized by applicable special tax increment financing legislation.
- D. The City/EDA shall consider the creation of a TIF District based on qualifications and term restrictions, as defined in Minnesota Statutes. The City/EDA shall consider a range of attributes including but not limited to the following:
 - o Projects consistent with development and redevelopment goals of the City/EDA
 - o Development of office, office/corporate headquarters, office/service/warehouse and manufacturing
 - o Maximized use of other financial resources
 - o Projects that provide funding for appropriate public improvements that may benefit numerous development projects
 - o Low percentage of public investment; high percentage of private investment
 - o Analysis of detailed business pro forma with reasonable timeline for completion and occupancy
 - o Project has potential to enhance spin-off development and redevelopment
 - o Exceeds minimum design standards per City Ordinance
 - o Presents minimal risk to the City/EDA
 - o Maximizes increased tax base and contributes to higher market values
 - o Number of jobs and pay level of positions will be a consideration but not a requirement if other appropriate public purpose(s) is met

5. ELIGIBLE COSTS

The City/EDA shall consider the use of tax increment financing to cover project costs as allowed for under Minnesota Statutes. The types of project costs that are eligible for tax increment financing (under current state law) are as follows:

- | | |
|-------------------------------------------------------------------------|------------------------------------------------------|
| o TIF application deposit | o Site related permits |
| o Architectural and engineering fees directly attributable to site work | o Soils correction |
| | o Utilities (sanitary sewer, storm sewer, and water) |
| o Earthwork/excavation | o Street/parking lot paving |
| o Landscaping | o Curb and gutter |
| o Streets and roads | o Land acquisition |
| o Street/parking lot lighting | o Legal (acquisition, financing, and closing fees) |
| o Sidewalks | o Surveys |
| o Special assessments | o Title insurance |
| o Soils test and environmental studies | |

6. DETERMINATION OF AMOUNT OF ASSISTANCE

- A. Whether in a new or existing TIF District, the amount of tax increment financing provided to an applicant shall be based on a review of the following:
 - o Request for Financial Assistance Form
 - o Review of Applicant Pro Forma
 - o Amount of Increment Generated by the Project
- B. The level of assistance shall be evaluated on a case-by-case basis and may reflect an increase or decrease in requested financial assistance. When considering a request for tax increment financing for a project, there shall be consideration of the level of financial assistance provided for other previously approved projects in the TIF District or Project Area.

7. FORMS OF ASSISTANCE

- A. Tax increment financing shall generally be provided on a “pay-as-you-go” basis wherein the City/EDA compensates the applicant for a predetermined amount for a stated number of years. The City/EDA shall have the option to issue a TIF Note with or without interest, where the principal amount of the TIF Note is equal to the amount of eligible project costs incurred and proven by the developer. In all cases, semi-annual TIF payments shall be based on available increment generated from the project. TIF payments shall be made after collection of property taxes.
- B. Another form of assistance that shall be considered only in extraordinary circumstances is an “up-front payment” to the applicant. This may be in the form of revenue or general obligation bond or an internal loan. The tax increment generated from the applicant’s project is a source of revenue for repayment of the bonds or loan. This form of assistance is not one the City/EDA will generally consider because under this form of assistance the City/EDA assumes the risk that the tax increment will be sufficient for repayment of the bonds or interfund loan.

8. APPLICATION

- A. The City/EDA will require a deposit in the amount of \$10,000 from the applicant to investigate the feasibility of providing assistance to the applicant. If the City incurs additional expense beyond the \$10,000 prior to execution of the Developer’s Agreement, the City/EDA shall notify the applicant in writing and the applicant must deposit additional funds for work on the application to continue. If the project is approved and the applicant proceeds with the project, the applicant’s deposit may be reimbursed as an eligible project cost to the extent permissible under MN Statutes.
- B. In addition to the \$10,000 deposit fee, the applicant must submit the following forms and documentation at time of application for the application to be complete and review of the application to begin:
 - o Request for Financial Assistance Form
 - o Project Pro Forma Documentation (Developed by Applicant)

FORMS SECTION

CITY OF NEW HOPE, MINNESOTA
FINANCIAL MANAGEMENT PLAN

NOVEMBER 20, 2023



REQUEST FOR FINANCIAL ASSISTANCE FORM

1. Provide a brief project description and the following information:

A. Existing Building square footage:

B. Building addition square footage:

C. Size of property:

D. Description of building:

E. Materials and other additional relevant building information:

2. Provide a brief description of your business and the following information:

A. Business Name:

B. Address:

C. Telephone:

D. Contact Name:

E. E-mail:

3. Provide information on the present ownership of the site:

A. Name:

B. Address:

C. Phone Number:

D. Contact Name:

E. E-mail:

4. Estimated Project Costs

- A. Land Acquisition \$ _____
- B. Site Development \$ _____
- C. Building Cost \$ _____
- D. Equipment \$ _____
- E. Architectural/engineering fee \$ _____
- F. Legal fees \$ _____
- G. Off-site development costs \$ _____
- TOTAL ESTIMATED COSTS** \$ _____

5. Estimated Project Funding

- A. Private financing institution \$ _____
- B. Tax increment/abatement funds \$ _____
- C. Other public funds \$ _____
- D. Developer equity \$ _____
- TOTAL ESTIMATED SOURCES** \$ _____
(Should equal Total Estimated Costs)

6. Describe amount and purpose for which TIF or Tax Abatement is required.

7. State specific reasons why TIF or Tax Abatement is necessary for the project ("but for" test).

8. List project costs that may be eligible for assistance and provide basis for that belief.

9. Provide market value information.

- A. Current market value (from County Assessor): \$ _____
- B. Proposed market value at completion: \$ _____

10. Provide real estate property tax information.

- A. Existing real estate taxes of property: \$ _____
- B. Estimated real estate taxes of property upon completion: \$ _____

11. Provide name and address of architect, engineer, and general contractor for the project.

12. Provide project construction schedule.

Estimated construction start date: _____

Estimated construction completion date: _____

If phased project:

Year _____ % Complete _____

Year _____ % Complete _____

13. Provides names of any other municipalities wherein the applicant, or other corporations the applicant has been involved with, has completed developments within the last five years.

14. Provide the following required supplemental information:

- Project Pro Formas (one showing with assistance and one without assistance)
- Legal description of the property
- Application fee of \$10,000 for TIF projects \$5,000 for Abatement projects payable to the City of New Hope
- Site plan and building rendering

In addition to the required information from above (items 1-14), the following information is requested and will be considered as part of the application approval process:

- A. Provide number of years in business
- B. Provide number of years located in the City of New Hope (if applicable)
- C. Describe potential for business growth or future development
- D. Explain whether the building will be owner-occupied (Yes/No)
- E. If rental space, provide the targeted rental rates
- F. Provide land costs per acre or square foot
- G. Provide the projected building cost per square foot
- H. Provide documentation as to private financial commitment and amount
- I. Provide details of financial structure of the deal including developer equity
- J. Additional comments



APPLICATION FOR TAX EXEMPT FINANCING

(Commercial, Industrial, Educational or Health Care)

1. APPLICANT

- A. Business Name - _____
- B. Business Address - _____
- C. Business Form (corporation, partnership, sole proprietorship, etc.) _____
- D. Authorized Representative - _____
- E. Principal contact person and telephone number - _____

2. PURPOSE OF REQUESTED FINANCING

- A. New Facility (describe) - _____
- B. Expansion (describe) - _____
- C. Refunding (attach explanatory letter) - _____

3. GIVE BRIEF DESCRIPTION OF NATURE OF BUSINESS, PRINCIPAL PRODUCTS, ETC.

4. ESTIMATED SOURCES AND USES PROJECT COSTS: (Not required for refunding)

SOURCES:

- Bond proceeds - \$ _____
- Cash - \$ _____
- Other Loans - \$ _____
- Total Sources - \$ _____

USES:

Land -	\$ _____
Building -	\$ _____
Equipment -	\$ _____
Architectural, Engineering -	\$ _____
Cost of Issuance -	\$ _____
Capitalized Interest -	\$ _____
Other -	\$ _____
Total Uses -	\$ _____

5. TOTAL FINANCING REQUESTED \$ _____ (_____ % of project costs)

6. TYPE OF FINANCING PROPOSED:

Bonds -	_____
Tax-Exempt Mortgage -	_____
Expected Term of Financing-	_____
Years-	_____
Security-	_____
Mortgage -	_____
Letter of Credit -	_____
Guaranty (third party) -	_____
Guaranty (personal) -	_____
Unsecured -	_____
Other (specify) -	_____

7. BUSINESS PROFILE: (Not required for refunding)

A. Is the business located within City Boundaries? _____

B. Number of employees within the City of New Hope's geographic boundaries

- Before this project - _____
- After this project - _____

C. Approximate annual sales - \$ _____

D. Length of time in business - _____

E. Length of time in City - _____

F. Do you have business operations in other locations? If so, where? _____

NAMES OF:

G. Underwriter (name and contact person) - _____

H. Corporate Counsel - _____

I. Underwriter's Counsel - _____

8. WHAT IS YOUR TARGET DATE FOR:

A. Construction start - _____

B. Construction completion - _____

9. ATTACHMENTS:

A. Project description materials _____

B. Financial feasibility letter _____

C. Preliminary bond counsel opinion – as to tax exempt qualifications _____

D. Initial filing fee per policy _____

E. Indemnification Letter of Agreement (Part VI) _____

The applicant further states that it has been furnished a copy of the City of New Hope's Conduit Debt Policy and is aware of its content and agrees to be bound by its terms and the terms of the indemnification letter.

APPLICANT: _____

BY: _____

DATE: _____

For further information, contact:

City of New Hope
City Manager
4401 Xylon Avenue
New Hope, MN 55428
(763) 531-5100