THE ST. LOUIS COUNTY BUDGET
Budget Policies
2008-2009 BUDGET

The following Budget Policy governs the County's annual budgeting process and outlines duties and responsibilities associated with the developing and monitoring of the budget.

Sec. 1 - Board to Control Finances. The Board shall have authority over the financial affairs of the County, and is the budget appropriating authority for St. Louis County.

Sec. 2 - Preparation and Submission of Annual Budget. The County Administrator shall submit to the Board a budget and an explanatory budget message in a form and manner as prescribed in this policy under section 4, paragraph A, subd. 2-3.

Sec. 3 - Passage of Annual Budget. The budget shall be a public record in the office of the County Auditor, open to public inspection by anyone. The County Administrator shall ensure sufficient copies are prepared for distribution to interested persons and civic groups.

Budget review meetings shall be held and adjourned consistent with the state statutes regarding Truth-in-Taxation and conducted so as to give interested citizens a reasonable opportunity to be heard. The County Board will certify by resolution to the County Auditor for a maximum proposed property tax levy by September 15th, which will be used to comply with the Truth-in-Taxation provisions of state law. The budget estimates shall be read in full and the County Administrator shall explain the various items thereof as fully as may be deemed necessary by the Board. The Board shall adopt the budget in accordance to state standards and no later than the last day of December. The budget resolution shall set forth the total for each budgeted fund and each department with such segregation as to objects and purposes of expenditures as the Board deems necessary for purposes of budget control. A resolution stating the amount of taxes to be levied must also be adopted by the Board by December 31st.

Sec. 4 - Special Laws of St. Louis County. The County complies with Minnesota Statutes 383C.021 through 383C.027, which govern the Budget process. They are as follows:

383C.021 BUDGET AND FINANCIAL ADMINISTRATION.

Subd. 1. **Duties of the County Board.** The County Board shall annually adopt a budget for the next fiscal year. The budget shall be a complete financial plan for the year. The Board may create fund accounts in accordance with generally accepted accounting principles and state and federal laws and rules to account for the assets, liabilities, revenues, and expenditures of the County.

Subd. 2. **Format.** The Board may use any combination of expenditure classifications by fund, organization, program, purpose, or activity. The budget shall begin with a general summary of its contents and shall detail all estimated revenues, including the property tax levy, and all estimated expenditures, including debt service, for the next fiscal year. The total of estimated expenditures for the next fiscal year shall not exceed the total of estimated revenues and any surplus amounts expected to be available at the end of the current fiscal year. Amounts in funds unexpended at the end of the fiscal year may be carried over from one fiscal year to the next in accordance with generally accepted accounting principles.

Unexpended amounts may be restricted by the Board to finance contingent obligations which may become payable in subsequent fiscal years.

Subd. 3. **Operating budget.** The budget shall include information showing operating revenues, expenditures, and personnel for the fiscal year.

Subd. 4. **Capital budget.** The budget shall include the capital expenditures proposed. for the fiscal year by project and the proposed method and plan of financing of each capital project.

383C.022 CAPITAL PROGRAM

The Board may also prepare a five-year capital program to include:

- a clear, general summary of its contents;

- a list of all capital improvements which are proposed to be undertaken during the next five fiscal years, with appropriate supporting information as to the necessity for the improvements;
- cost estimates, method of financing, and recommended time schedules for each improvement, and
- the estimated cost of operating and maintaining the facilities to be constructed or acquired.

The information may be revised and extended each year with regard to capital improvements still pending or in the process of construction or acquisition.

383C.023 REDUCTION OF APPROPRIATIONS.

If the maximum rate of taxation for the various purposes mentioned in the budget for which the County may levy taxes, together with the estimated amount of other County revenues for the ensuing year, and the unappropriated fund balance does not equal the total amount of the budget, the County shall reduce the several funds mentioned in the budget. The items for bonds, interest on bonds, salaries, and other items, the charges for which are fixed by law, shall remain at the full amount that the law requires.

383C.024 APPROPRIATIONS AND TAX LEVY.

The County Board shall adopt the budget by resolution which shall constitute appropriation of the amounts specified in the budget as expenditures from the funds indicated. It shall also adopt by resolution a levy of the tax proposed in the budget.

383C.025 AMENDMENTS.

Subd. 1. **Supplemental appropriations.** The Board may make supplemental appropriations during a budget year. The appropriations may authorize the use and expenditure of amounts accruing to the County which were not previously anticipated as revenues by the Board in the adoption of the budget.

Subd. 2. **Changes in appropriations.** The Board may by resolution modify the adopted budget or the appropriation to a department or fund, or transfer amounts from one department or fund to another except as otherwise restricted by law.

383C.026 LAPSE OF APPROPRIATIONS.

Each appropriation, except an appropriation within the Capital Projects Funds, lapses at the close of the fiscal year, to the extent that it has not been expended or encumbered. Amounts in funds unexpended at the end of the fiscal year may be carried over from one fiscal year to the next, in accordance with generally accepted accounting principles.

An appropriation within the Capital Projects Funds continues in force until the purpose for which it was made has been accomplished or abandoned. The purpose of a capital expenditure appropriation is abandoned if three years pass without a disbursement from or encumbrance of the appropriation, or at the discretion of the County Administrator.

383C.027 ADMINISTRATION OF BUDGET.

Subd. 1. **Records; rules.** A record of every appropriation shall be kept by the County Auditor, or by an officer, agent, or employee designated by rule, which will at all times show the amount of any appropriation which has been expended, contracted, or obligated. The remaining unencumbered amount is available for expenditure, to the extent necessary, to enable every officer, agent. or employee who has authority to incur an obligation to know whether incurring an additional obligation will exceed the appropriation.

The Auditor shall make and may amend rules governing in detail the manner in which boards, commissions, administrative officers, and employees of the County incur, record, and report obligations as reasonably necessary to regulate the keeping of the records required by this section and to enable the Auditor to determine and certify whether an obligation is within and pursuant to an appropriation made as required by sections 383C.021 to 383C.026.

The rules, upon adoption by the County Board, shall bind all boards, commissions, officers, agents, and employees. No contract or obligation shall be valid for any purpose unless it is incurred, recorded, reported, and certified in accordance with the rules. No claim or payroll shall be presented to the County Board or other board, commission, or agency for allowance, or allowed unless it has been audited by the Auditor and certified by the Auditor to have been incurred within and pursuant to an appropriation as required by sections 383C.021 to 383C.026. The Auditor shall not certify a claim or payroll without ascertaining that it has been so incurred. No claim or payroll shall be allowed or paid until certified by the Auditor. Before certifying any claim or payroll, the Auditor shall ascertain that the goods or services have actually been received by the County as shown by a receiving report or time record signed by an officer, agent, or employee who has personal knowledge that the goods or services were received or furnished to the County. A person who falsely or fraudulently signs a receiving report or time record is personally liable to the County for any loss sustained.

Subd. 2. **Payments and obligations prohibited.** No payment shall be made or obligation incurred against an allotment or appropriation except in accordance with an appropriation duly made in the adopted budget. An authorization of payment or incurring of obligation in violation of this section is void and a payment so made is illegal.

Subd. 3. **Accounting principles.** The County shall use generally accepted accounting principles in the management of its accounting records.

Sec. 5 Enforcement of the Budget. The County Auditor shall strictly enforce the provisions of the budget as specified in the resolution. The Administrator shall ensure that a department shall not authorize or approve any expenditures unless an appropriation has been made in the budget resolution and there is an available unencumbered balance of the appropriation sufficient to pay the liability to be incurred. No officer or employee of the County shall place any orders or make any purchases except for the purposes authorized in the budget. The County Board recognizes the need to provide discretion to department heads in spending their budget allocations. The County Board authorizes departmental spending within the department=s total budget with the exception that no public aid assistance and/or personnel services budget authority be used for operations.

Sec. 6 Altering or Adjusting the Budget. After the budget has been duly adopted, the Board may, by a majority vote, increase or decrease the amount appropriated in a given agency. If the Board increases an appropriation, the revenue source must also be identified to ensure the budget stays balanced (i.e., state or federal funds, fees for services, unappropriated fund balance, etc.). All appropriations shall lapse at the end of the budget year to the extent that they have not been expended or lawfully encumbered.

Capital project appropriations in the Capital Improvements Fund will continue in effect for up to five years unless otherwise adjusted by the County Board.

Sec. 7 Reserved Appropriation In Budget. The Board may include a reserve appropriation as part of the budget. A transfer from the reserve appropriation to any other appropriation shall be made by a majority vote of the Board. The fund thus appropriated shall be used *only for the purposes designated by the Board which are caused by an actual emergency* arising from the exhaustion of any item from unforeseen demands which cannot be provided for by transfers from other items within the same department.

Sec. 8 Funds to be Kept. There shall be maintained in the County the funds provided for in the following subdivisions:

A. General Fund: The General Fund is established for the payment of all general government expenses and obligations of the County as the Board may deem proper. Into this fund shall be paid all monies not otherwise provided herein, or by statute or by ordinance to be paid into any other fund.

B. Public Works Fund: The Public Works Fund was established in 1994 to be consistent with Minnesota Statute 163.03. This fund is for road and bridge activities.

C. Social Service Fund: This fund accounts for the activities involved in the social service system including financial assistance, social service programs, and administration and support services.

D. Capital Improvement Fund: One or more capital improvement accounts for the purpose of accounting for each capital project of the County other than those of an enterprise nature.

E. Enterprise Fund: One or more public service enterprise funds into which shall be paid all money derived from the sale of bonds issued on account of any County owned enterprise and all money derived from the sale of public enterprise services and from the sale of any property acquired for or used in connection with any such enterprise. There shall be paid out of this fund the cost of the purchase, construction, operation, maintenance and repair of such enterprise, including the principal of and interest upon obligations which have been or shall be issued on its account.

F. Internal Service Fund: One or more Internal Service Fund may be established for the purpose of accounting for activities that provide services to other departmental operations. Such activities would include maintaining, operating and purchasing County equipment, insurance accounts, data processing operations and other like functions meeting accounting standards for intra governmental service funds.

G. Debt Service Fund: One or more debt service funds into which shall be paid monies to retire debt and pay interest on the debt.

H. Other Fund: One or more other funds as necessary to comply with generally accepted accounting principles, GASB rules, and/or state statutes and to ensure the smooth and efficient accounting for activities.

Operating Budget Policies

The County will pay for all current expenditures with current revenues. The County will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' expenses, such as postponing expenditures, accruing future years' revenues, or rolling over short-term debt, or that rely on accumulated fund balances to meet current obligations.

Each department is authorized to spend within the department's total budget, with the exception that no public aid assistance and/or personnel service budget authority be used for operations and recognizing that the total personnel complement [full-time equivalent (FTE)] for each department may not be exceeded at any time.

The County will provide for adequate maintenance of the capital plant and equipment, and for their orderly replacement.

The budget will provide for adequate funding of all retirement systems.

The County will maintain a budgetary control system to help it adhere to the budget.

The County will prepare regularly monthly reports comparing actual revenues and expenditures to budget amounts.

Each year, the County will update expenditure projects for its enterprise funds for the next five years. Projections will include estimated operating costs of future capital improvements that are included in the capital budget.

The operating budget will describe the major goals to be achieved, and services and programs to be delivered for the level of funding provided.

Where possible, the County will integrate performance measurement and productivity indicators with the budget.

The personnel complement will be reported as full-time equivalents in order to achieve consistent and accurate staffing levels for each department. Each department has the authority to add and delete positions within their personnel so long as the total full-time equivalent personnel complement does not exceed the total number of authorized positions approved by the County Board. In addition, the position added or deleted must be within three pay grades of each other and must be approved by the County Administrator as the budget officer of the County.

The complement of personnel in the Medical Care Facilities may increase or decrease during the budget year dependent upon occupation rates and case mix of care of the facilities.

The County Board expects and directs that the medical care facilities use flexible budgeting as a management tool. The flexible budget has to be based on anticipated Medicare and Medicaid recoveries. However, if these flexible budgets result in expenditures which exceed or revenues which do not meet those approved in the County Board's budget, the facilities must seek an amendment to the County budget.

The County Administrator will promulgate administrative policies and procedures which are necessary to ensure consistency of application of Board policies between departments and to ensure uniform review and consistency of treatment of administrative issues that cross departmental lines.

Revenue Policies

The County will try to maintain a diversified and stable revenue system to shelter it from short-run fluctuations in any one revenue source.

The County will estimate its annual revenues by an objective, analytical process.

The year-to-year increase of actual revenue from the property tax will generally not exceed inflation except in unusual conditions.

The County will follow its policy for collecting property tax revenues. The annual level of uncollected property taxes will generally not exceed five percent.

The County will establish all user charges and fees at a level related to the cost of providing the services for all programs.

Each year, the County will recalculate the full costs of activities supported by user fees to identify the impact of inflation and other cost increases.

The County will refrain from the use of one-time sources of revenue to balance the operating budget.

Capital Improvement Budget Policies

The County will make all capital improvements in accordance with an adopted capital improvement budget.

The County will develop a five-year plan for capital improvements and update it annually. The County will enact an annual capital budget based on the multi-year capital improvement plan. Future capital expenditures necessitated by changes in population, changes in real estate development, or changes in economic base will be calculated and included in capital budget projections.

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

The County will use intergovernmental assistance to finance only those capital improvements that are consistent with the adopted capital improvement plan and County priorities, and whose operating and maintenance costs have been included in operating budget forecasts.

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

The County staff will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to the County Board for approval.

The County will determine the least costly financing method for all new County projects.

The Property Management Department will serve as the Capital Improvement Construction Management Unit for all capital construction projects in St. Louis County except Road and Bridge. All departments are instructed to coordinate capital improvement projects with the Director of Property Management.

Debt Policies

It is essential to good government and financial management for every organization to have a debt management policy to provide guidance to the governing board and administration in the methods of acquisition, uses, and limiting parameters of and for debt.

DEFINITIONS

Bonds and Notes

Capital Notes - Issues, usually of a short term variety (5 years or less), used in Minnesota to finance the acquisition of certain statutorily-defined equipment and machinery.

General Obligation Bonds - Issues secured by the full faith and credit of the governmental unit. General obligation revenue bonds, although they may be paid with revenues other than taxes, carry the full faith and credit of the governmental unit.

Industrial Revenue Bonds - See special obligation revenue bonds below.

Refunding Bond - A debt issue which is sold for the purpose of paying off a previous debt issue. Such issues are sold to decrease interest costs, to extend payment periods, or to remove restrictive covenants from a previous issue.

Revenue Anticipation Notes, Bond Anticipation Notes and Tax Anticipation Notes - Debt issued for a short time period, often as a bridge device until permanent financing is forthcoming.

Revenue Bonds - Issues supported directly and solely by fees or other income and not supported by property tax levies.

Special Obligation Revenue Bonds - A type of revenue bond for which the governmental unit has granted its tax-exempt status, but for which no financial or moral obligation is assumed by the governmental unit. An Industrial Revenue Bond is an example.

Tax Increment Bonds - Debt supported in part or entirely by property tax increments created by the investment for which the bond proceeds are used.

Leases

Capital Leases - Essentially an installment purchase, rather than a rental, of property; ownership transfers to the county at the end of the lease term. If 75% or more of the useful life of an asset is expected to be utilized during the term of a lease, the county shall treat such a lease as a capital lease, despite the fact that a transfer to the county is not explicitly included within the term of the lease. Such leases are usually non-cancelable, notwithstanding any failure to fund issues.

Operating Leases - Leases which are rental of assets and do not satisfy the requirements for a capital lease. Such leases are not legally considered debt, but are commitments on the part of the county.

Financing Terms

Assessed Valuation - For all purposes assessed valuation shall be equivalent to the tax capacity of the county exposed to general ad valorem taxation. It is computed as the total tax capacity less captured increment and similar valuation reserved from normal taxation.

Arbitrage - In the case of public debt, the difference between the interest rate paid on the debt and a greater interest rate earned on investing the proceeds of the debt issue.

Bond Counsel - An attorney specializing in the legal aspects of bond issues and guides the client through the issuing process. Bond counsel draws up necessary leases, resolutions and other documents which must be approved by the County Board. Bond counsel will also advise if a referendum or any other special procedure is needed for issuance of the specific bonds under discussion.

SUMMARY OF OVERALL FISCAL POLICIES - Continued

Bond Insurance - An insurance policy purchased by an issuer or an underwriter for either an entire issue or specific maturities, and which guarantee the payment of principal and interest. This security provides a higher credit rating and thus a lower borrowing cost for an issuer.

Debt ratios - Standard measures of relative debt burden expressed as a ratio of some debt parameter (levy, taxable market value, tax capacity, etc.) to some other financial or statistical parameter (levy, taxable market value, tax capacity, etc.). Debt ratios provide a meaningful comparison of the burden of the governmental unit relative to other jurisdictions. Many of the ratios can be further refined to analyze only component parts of the debt (e.g., analyzing only general obligation debt as opposed to all debt).

Legal debt margin - The total amount of outstanding debt which is subject to the debt limit, statutorily defined for Minnesota Counties as 2% of market value of all real and personal property in the county.

Debt per capita - The total amount of outstanding debt of a governmental unit divided by the population of the jurisdiction.

General obligation debt per capita - The total amount of general obligation debt of a governmental unit divided by the population of the jurisdictions.

Debt to Market Value - The total amount of outstanding debt as a percent of taxable market value.

Debt to Tax Capacity - The total amount of outstanding debt as a percent of the taxable tax capacity of the county (or area to which it applies). This ratio is only useful for comparison to other counties within Minnesota.

Indirect Net Tax Debt - This is a measure of the tax burden which is imposed on the taxpayers of the county by jurisdictions other than the county. This is an important consideration by bond rating agencies when evaluating the county's taxpayers' ability to incur further debt.

Failure to Fund - A clause in leases that allows the governmental unit to relieve itself of a long term obligation if it, for whatever reason, quits providing the goods and services that the capital asset supported.

Financial Advisor - A firm which facilitates the sale of debt for the governmental unit.

Legal Debt Limit - A statutory limit on the amount of debt for which a governmental unit may obligate itself. For counties in Minnesota, it is currently 2% of the market value of the real and personal property in the county.

Legal Debt Margin - The amount of debt authority remaining after deducting the statutorily includable items from the legal debt limit.

Market Value - For all debt purposes market value shall be the sum of the Assessor's estimate of fair market value of all property exposed to property taxation for the most current certified tax year.

Outstanding Debt - Unpaid obligations of the governmental unit. It includes amounts due currently and amounts due in the future and includes capital leases and all other obligations for which the governmental unit is responsible.

Property Tax Base Supported Debt - Debt supported or backed by a flow of funds from property tax base levies or related to property tax levies. It includes all general obligation debt whether or not other flows of funds are expected to fund the debt service. This includes all property tax supported debt (see also Financing Terms section) and would include debt supported by special assessment or special fee levies.

Property Tax Supported Debt - Debt supported directly by ad valorem property tax levies or backed by a potential property tax levy. It includes all issues where a property tax levy supports any part of the debt service.

Rating Agencies - Firms such as Moody's Investors Services or Standard and Poor's, which examine the credit worthiness of a bond issue and assign it a rating. The rating assigned effects the interest rate the governmental agency must pay for the borrowing. The rating applies only to the particular issue to which it is assigned.

GOALS AND GENERAL PROVISIONS

The county shall maintain its ability to support current debt and incur additional debt at minimal interest rates and in the amounts required for infrastructure and other capital assets without endangering the ability of the county to finance essential services.

Debt shall be used sparingly and only after other means of financing are fully investigated.

SUMMARY OF OVERALL FISCAL POLICIES - Continued

No debt which becomes an obligation of the county or any of its agencies shall be issued for a term longer than the reasonably expected useful life of the asset being funded, but in no event for longer than 30 years for real property or 5 years for equipment.

The proceeds of all debt issues shall be expended in compliance with all applicable state and federal laws and rules and in conformity with all covenants of the issue. Such laws, rules, and covenants shall be strictly construed.

No debt shall be issued to fund normal operations of the county or any of its agencies. This does not exclude the possibility of issuing Tax Anticipation Notes as a financial and investment strategy.

Debt shall not be issued in excess of any statutory limit. The county shall strive to keep the total debt burden of the county when measured as a percent of taxable market value from exceeding the median of similarly sized counties in the nation based upon figures available at the time of authorizing the issuance.

Property tax supported debt including capital notes will not be issued beyond the point where annual debt service levy demands exceed 10% of the property tax levy (including HACA and disparity aid).

The county shall avoid, where possible, the issuance of general obligation debt by utilizing available funds, reserves, and revenue or other types of issues.

The county shall maintain good communications with bond rating agencies and provide full disclosure about its financial and management condition in all financial statements and reports and bond prospectus. Further, the county shall from time to time upon the advice of its Financial Advisor seek to have the county's bond rating reviewed and reevaluated.

The county shall only acquire bond insurance when the present value of the estimated debt service savings from insurance equals or exceeds the present value of the insurance premium or when otherwise required.

The county shall normally utilize the competitive sale method of issuing debt instruments unless circumstances such as very large issue size, complex financing structure, or comparatively lesser credit rating exist. In those cases the Board will consider the negotiated sale method of issuance.

Before a bond issue is structured and sold, an Internal Financing Team (consisting of: the County Administrator, County Attorney, the County Auditor, Chair of the Finance committee, and Chair of the Board) and appropriate department heads shall meet to determine how the external financing team (bond counsel, financial advisor, underwriter if a negotiated sale is contemplated) will be selected. The internal team shall consider the amount and structure of an issue, the costs of sale, the timing of the sale, as well as the content and manner of any presentations to be made to the bond rating agencies. The internal team shall then make recommendations to the County Board.

CAPITAL NOTES

Capital Notes shall not be issued for a term longer than 5 years

Items purchased utilizing capital note financing must have an anticipated useful life no less than the term of the notes.

Capital notes shall not be issued for arbitrage purposes.

Capital notes shall be issued in amounts not to exceed that necessary to fund the acquisition of specific items capital equipment and furnishings. Departments submitting requests for capital note funding of acquisitions must have received prior board approval to acquire each specific item to be acquired.

CAPITAL LEASES / OPERATING LEASES

Capital leases of real estate shall generally not be entered into for a term longer than 20 years. On occasion, when it is found by the board to be financially sound, capital leases of up to 30 years may be approved. Real estate capital lease agreements must address the following issues:

- Early termination by the county, including: length of notice, penalties, and other conditions attaching.
- Early termination by the lessor, including length of notice, penalties, recovery of all or a portion of county capital improvements, and other conditions.

- That if the property is subject to property taxes, and the county as part of its lease payment is providing funds to pay the property tax, and if by operation of law the property becomes eligible in whole or part for exemption from the property tax because of county occupancy, lease payments must be reduced proportionately.

- If the lease provides for a purchase option by the county, the terms shall allow for the unilateral exercise of such option by the county at any time during the term of the lease without penalty of any kind.

- Maintenance, servicing, insuring, and preservation responsibilities of and for the capital asset by both parties.

- Other capital or operating leases shall not have a term longer than 5 years and shall contain terms that limit the sellers' remedies for non-payment to recovery of the property leased. Capital leases shall only be entered into for such property as specifically allowed by statute.

GENERAL OBLIGATION DEBT

General obligation debt including any debt financed directly by property tax levies in whole or part shall be utilized only to finance capital improvements and long term assets which the board has determined are required to provide essential governmental services.

All other means of financing shall be investigated prior to issuing general obligation debt, including but not limited to: use of existing fund balances, excess balances in capital project funds, revenue-supported debt, special revenue-supported debt, special obligation revenue bonds, and non-general obligation capital leases and notes.

REVENUE-SUPPORTED DEBT (including Special Revenue Supported Debt)

Revenue-supported debt shall be used to provide for public improvements where the flow of funds from the operation supported by the asset will be sufficient to service the debt.

The expected flow of dedicated revenues to service the debt service shall exceed the annual debt service requirement by 10%.

Before issuing such debt, adequate feasibility studies must be completed to provide assurances that the project will be self-liquidating or other dedicated funds shall be sufficient to service the debt without jeopardizing normal county operations.

If revenue-supported debt is issued that primarily benefits private parties rather than the public as whole, feasibility and due-diligence studies must be completed to reasonably ensure that the private parties will be able to manage the funding necessary to cover their agreed portion(s) of the debt service obligation.

Special revenue debt issued to support projects in and for a particular geographic area of the county must be primarily, if not totally, funded by specific project- related taxes, charges and/or fees on the users and/or beneficiaries of the services supported by the projects(s) and not on the general county-wide sources of revenues.

The county must provide in any funding agreement in support of private entities that capital equipment funded in whole or part with county funds shall not be removed from the county without the express agreement by the county board.

SPECIAL OBLIGATION REVENUE BONDS

Special Obligation Revenue Bonds should be issued only if the supported project(s) can be shown to be financially feasible and will significantly contribute to the general welfare and economic development of the county.

Adequate feasibility studies by an independent and qualified concern must demonstrate the financial viability of the project(s).

Adequate assurances must be obtained that the users of the project(s) are financially viable. At a minimum this would include credit checks on the project participants.

Adequate assurances must be made that the project and property funded will be used for the specified purpose for an extended length of time.

Significant private financing and/or capitalization must be part of any project(s) supported.

TAX ANTICIPATION NOTES

It is expected that the financial management of county funds and cash flow will preclude the need for issuing tax anticipation notes.

Tax anticipation notes shall not be issued for more than 20% of the expected tax collections for and in the current tax year that remain outstanding.

OTHER ANTICIPATION NOTES

Other anticipation notes shall not be issued without the certain knowledge that the permanent or replacement revenue will be forthcoming before the due date of the notes.

Other anticipation notes shall not be issued unless the board determines that such issuance is critical to the needs of the county.

TAX INCREMENT BONDS

Tax increment financing whether via bonding, development agreements, or other financing arrangements shall be considered a special revenue supported debt.

Tax increment bonds shall be issued only to support projects that meet requirements outlined under the Revenue Supported Debt and Special Obligation Revenue Debt sections, above.

When computing the expected flow of funds from increments the incremental value shall not be adjusted for an expected general increase in property values nor shall expected tax rates be projected higher than the current applicable tax rate or the average applicable tax rate for the prior 5 years, whichever is lower.

The area from which the incremental value and tax flows are expected should be as compact as possible and be reasonably congruent with the project area.

The county shall, whenever possible, negotiate a "Minimum Assessment Agreement" with each developer supported in whole or part by the projects that taken together shall generate enough increment tax to fund any debt service obligations and/or satisfy all claims or liquidate any development or other financial agreements within the schedules specified or contemplated in the bonding or other agreements.

Whenever a tax on the personal property of a developer or other participant in an increment area project is contemplated to be part of the increment tax, the county shall negotiate agreements with the participants that require prior county board approval for the removal of such property from the increment district.

LIMITATION OF THIS POLICY

This policy shall not operate to limit or impede commitments or legal obligations incurred prior to its enactment.

This policy does not relieve the county of any statutory obligation it may have to issue or contract for debt already contemplated by general or special statutes or the rules promulgated therefrom.

BOND ISSUANCE PROCEDURES

This section of the policy describes in general the recommended procedure to follow when issuing bond instruments where the county or one of its component units is the obligee. The description is a guideline and not prescriptive.

The Internal Financing Team shall review capital funding needs with county department heads analyzing the county's current and projected financial resources to determine the need for issuance of debt, as well as the need for and feasibility of the projects under consideration. The team shall advise the county board on particulars regarding each issue including but not limited to their opinion as to the: 1) hiring of bond counsel, 2) hiring of a financial advisor, 3) issue structures, 4) method of sale, and 5) as to need and feasibility of the projects.

The county board then decides whether to offer the issue as a negotiated sale or a competitive sale.

The main underwriter or the financial advisor in conjunction with county officials then develops a timetable.

Bond counsel and the county then prepare the required documents and the resolutions, and set the sale and settlement dates. If the issue is to be rated, the financial condition of the county and the economics of the area are formally presented to the rating agency, which notifies the county of its rating and outlines the reasons for such rating.

The county then awards bonds to the underwriting firm(s) on the sale date. The bond offering provisions may require a deposit at this time as evidence of the underwriter's good faith.

The underwriter wires the remainder of the bond proceeds, together with accrued interest, to the county on the settlement date.

The county establishes a separate checking account for each bond issue and pays project expenses and issuance expenses from this account.

NOTES:

A **negotiated sale** occurs when the issuer selects the underwriting firm (or firms) which will take the lead role in marketing the bonds. The underwriter in a negotiated sale frequently performs many of the duties that a financial advisor does for a competitive sale. Sometimes, services of a financial advisor are used also. **Advantages** of a negotiated sale include more flexibility in the structuring and timing of the issue, as well as the opportunity to insure that bonds are available to certain investor groups, such as local firms. Another advantage is the opportunity to determine investor interest in the issue, as well as the demand for certain structures or maturities. **Disadvantages** of a negotiated sale include the possible appearance of favoritism in the selection of the lead underwriter. Also, there may be less assurance that the bonds are priced at the most favorable rate.

A **competitive sale** occurs when the issuer (or its financial advisor) solicits bids from underwriting firms to purchase its bonds, and sells bonds at the highest bid price (the lowest interest rate). With the help of a financial advisor and bond counsel, necessary documents are prepared and a Notice of Sale (Official Statement) is published that describes the offering, the bidding requirements and date and time of sale. Underwriters submit bids, which are usually evaluated by comparing the net interest cost (average interest rates) of each. **Advantages** of a competitive sale are that it provides some assurance that bonds have been sold at the lowest interest rates given market conditions. The amount of compensation paid to the underwriter (discount) is historically lower for competitive sales. Also, competitive sales promote the appearance of an open, fair process. **Disadvantages** of a competitive sale are that they have less flexibility in their structure because the Notice of Sale must be posted well before the sale date. Underwriters may build in a risk premium because of the uncertainty of market conditions. Also, issuers with complex financing or weak credit may have difficulty attracting bidders is also difficult to assure that local investors have access to the bonds.

Reserve Policies

The County has established goals in its reserve policies for cash, fund balances, and working capital ratios. Each fund shall maintain adequate cash and investment reserves to fund operations without the need for inter fund borrowing. To help meet this goal, all property tax levy supported funds shall have 5/12 of their property tax levy and property tax aids designated by the end of 1998. Other funds shall informally designate or restrict amounts equivalent to the largest cash deficit experienced in the prior 24 months.

The County will also attempt to maintain in the general fund (and/or other governmental funds) unreserved fund balances equivalent to at least 10% of current county expenditures (excludes capital outlays and internal service and enterprise funds) in order to provide for emergency or unforeseen situations, levy stabilization, and investment portfolio stability. Further, the Administrator and/or Board may direct that any portion of such balances may be reserved or set aside in a separate fund as allowed by governing laws and principles. Internal Service fund balances should not be negative. Enterprise funds should maintain fund balances in excess of their net fixed asset values. Working capital ratios in internal service and enterprise funds should exceed 1.2:1 and 2:1, respectively.

The acquisition of new pieces of equipment not purchased for replacement will be made from the activity budget where the equipment will be used, only replacements will be made from the equipment reserve fund.

The County will project its equipment replacement and maintenance needs for the next several years and will update this projection each year. From this projection, a maintenance and replacement schedule will be developed and followed in the fleet replacement and maintenance fund.

The County will establish a self-insurance fund and will accumulate funds to adequately maintain the reserves in their fund at actuarially determined levels.

Investment Policies

Purpose & Scope

The purpose of this document is to provide guidance, direction, and rules to the individuals responsible for the investment and deposit of any monies under the control of the county in conformance with M.S. 118A and other statutes governing investments of public funds whether current or subsequent.

This policy applies to all financial assets for which the county is accountable, including but not limited to assets of the General Fund, all Special Revenue Funds, all Internal Service Funds, all Enterprise Funds, all Trust and Agency Funds, and all monies of other governmental agencies that are on deposit with the county and which are the legal or contractual responsibility of the County Auditor.

It is the goal of this policy to ensure the integrity, legality, and wisdom of investment decisions and to provide for the financial stability of the county.

DEFINITIONS

Aggregate Return on Investment - The sum of all income (or loss) from a group of investments. It includes all interest earnings plus the increase or decrease in the market value of the instruments compared to the purchase price when sold or otherwise liquidated.

Basis Point - one basis point equals 1/100th of one percent.

Cash Flow - A measurement of cash availability and cash demands over a period of time.

Capital Gains & Losses - In its simplest terms the difference between the purchase price and selling price of a negotiable instrument

Early Liquidation - The selling of an instrument before its maturity.

Fee Office - Any agency or office of the County that receives money directly from the public.

SUMMARY OF OVERALL FISCAL POLICIES - Continued

Investments - Negotiable instruments, as defined below, and certificates of deposit.

Investment Officer - The Auditor or an employee of the Auditor delegated the authority by the Auditor to buy and sell securities.

Negotiable Instrument - Generally, an unconditional promise or order to pay a fixed amount, with or without interest or other charges, on demand or at a specific time. Under this policy negotiable instruments are security instruments described below:

United States Treasury Obligations - Bonds, notes, and bills that are the direct obligation of the United States Treasury

Federal Agency Securities - Obligations issued, insured or guaranteed by federal entity. It can also be certificate of deposit secured by letters of credit issued by Federal Home Loan Bank. Most are not explicitly guaranteed by the federal government.

Mutual Funds - A pool of securities managed by an entity available for investment purposes by purchasing shares.

Municipal Obligations - Debt obligations such as bonds issued by a state, municipality, or agency of the same.

Bankers Acceptances - A money draft accepted and guaranteed by a U.S. bank usually created by a letter of credit issued in foreign trade transactions.

Commercial Paper - Short term debt, matures in 270 days or less, of commercial businesses.

Guaranteed Investment Contracts(GIC) - Fixed income securities issued and guaranteed by insurance companies.

Repurchase Agreements - The acquisition of securities from a lender with the promise from the lender to repurchase the securities at a future time certain.

Perfection - The complete transfer of securities underlying an investment and recognized by the law courts under the Uniform Commercial Code when one of two conditions are met: 1) when delivery of securities to a third party occurs or, 2) if in the case of repurchase agreements, the term does not exceed 21 days.

Portfolio - For purposes of this policy a portfolio is a group of investments managed as a unit and funded from particular sources.

Primary Dealer - A dealer in federal government securities designated as a primary dealer by the Federal Reserve system.

Return On Investment - The earnings from an investment. Usually stated as a percent per annum of the purchase price. See also Aggregate Return on Investment above.

Segregated Portfolio - A segregated portfolio for purposes of this policy is a group of investments managed as a unit the returns (or losses) of which are returned to the specific funds, other than the general fund, that furnished the cash to purchase the investments. Also, the long term investment portfolio (see, also Diversification section).

Objectives

All investments shall comply with all applicable state and federal laws, specifically the statutes restricting or otherwise controlling the investment of public funds.

Preservation of capital in the overall portfolio and safety of the principal in any given investment shall be the primary priority considered when making investments.

Managing the portfolios to provide adequate cash flow to fund county operations shall be the secondary priority controlling investment activities.

Within the confines of the above objectives, investments shall be made to maximize the return on investment and provide adequate cash flow for the county to function without short term borrowing or early liquidation of instruments.
The general investment portfolio shall on average earn an aggregate rate of return that exceeds the average return on three (3) month treasury bills for the same period.

The rate of return objective for segregated investment portfolios shall be established for each portfolio at initiation and reviewed at least annually. Segregated investment portfolios are established for funds where the return on investment accrues to the specific fund rather than the general fund of the county.

All idle cash should be invested as soon as possible.

All monies deposited with the Auditor shall within two (2) working days, be deposited in interest-bearing accounts until securities are purchased. It is sufficient that the earnings on such an account shall be limited to offset bank charges in whole or part to be considered interest-bearing accounts.

Fee offices shall deposit with the Auditor all monies and/or negotiable instruments received at least weekly or whenever the total exceeds $500.00, whichever is sooner. Receipts totaling less than $200.00 only have to be deposited with the Auditor by the 15th and 30th of each month. Monies deposited in county bank accounts within the times specified above shall be considered as deposited with Auditor. In such cases they shall forward the equivalent monies by check to the Auditor no later than ten (10) calendar days after the end of each month. The Auditor may restrict or modify this provision.

Negotiable instruments received by fee offices must immediately be restrictively endorsed in favor of the county.

Where the Auditor and the Board approve, fee offices may establish one-way checking accounts to deposit their receipts. Checks available for such accounts shall be pre-printed or pre-stamped with the St. Louis County Auditor as payee. The accounts shall be cleared at regular intervals (see noted in Objectives section, above), except for minimum required balances.

The Auditor may promulgate rules and regulations dictating the depository and receipting activities of fee offices to ensure security and safety of assets and to maximize the amount of funds available for investment.

The county shall seek to place a majority of its deposits with or through Minnesota institutions. Institutions operating principally within the county shall have a 7.5 basis point advantage when competing with other institutions for County deposits, all other factors being equal, for up to 10% of the investible funds.

The Auditor may deposit up to the federally insured maximum in any designated bank or savings and loan in the County without restriction, providing the financial condition of the bank would not preclude a prudent person from so doing. Deposits may be made in excess of the Federally insured maximum where a corporate surety bond and/or collateral securities consistent with M.S. 118A.03 are furnished in an amount equal to or greater than 110% of the amount on deposit including accrued interest at the close of each business day. Collateral cannot consist of notes secured by first mortgages of future maturity covering property outside of St. Louis County. Furthermore, when such notes secured by mortgages on property within the County offered they must be currently performing mortgages (i.e. not past due principal or interest), there can be no delinquent property taxes due, and the aggregate amount of such collateral computed at its market value must be equal or exceed 140% of the deposit.

Delegation of Authority

According to Minnesota Statutes 385.07 and 383C.136 the responsibility for making investments lies with the Auditor. M.S. 118A provides that the governing body is responsible for designating depositories. The body may designate the treasurer or chief financial officer the authority to do such designations and make investments. The Board hereby authorizes the Auditor to do such designations and investments. No other person may engage in investment transactions unless specifically delegated that authority by the Auditor and who is an employee of the Auditor. This section does not limit the ability of the Auditor to invest funds with a professional fund manager or organization.

Ethics

The Auditor and agents of the auditor have a fiduciary responsibility to the County and its citizens and shall prudently manage the county's investment portfolios. The standard of prudence to be applied to those making investment decisions shall be the "prudent investor" rule, which states: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the capital as well as the probable income to be derived." The prudent investor rule shall be applied in the context of managing in aggregate all of the portfolios.

The county will not purchase an investment that, at the time of the investment, the county knows cannot be held to maturity. This does not mean that all investments must be held to maturity.

No person performing investing activities on behalf of the county shall accept any gift, favor, money or anything of personal value from any person or organization with which the county invests funds.

No person with whom the county invests funds shall provide any gift, favor, money or anything of personal value to anyone employed by the county who is in a position to influence county investment activities. Firms or persons violating this provision of this policy shall be barred from participating in county investment activity for 180 days or more as determined by the County Auditor.

All persons or organizations with which the county invests funds shall be provided a copy of this policy annually and whenever a change is made in the policy.

Firms or persons violating any part of this policy may be barred from participating in county investment activities for periods of 90 days or more as determined by the Auditor.

Reporting

The Auditor shall report the results of investment activity to the County Board at least annually. The Auditor shall at the same time report any changes to the list of authorized depositories.

The report shall consist of at least the following items for each portfolio: beginning and end of period description of the portfolio contents, interest earned, capital gains and losses, returns of principal, number of purchases, number of sales, number of early liquidations, and dollar value of each, aggregate return on investment applicable investment standard ROI percentage, and an explanation of any performance shortfall. For each portfolio the Auditor shall report expected cash availability for the next period, and expected performance.

Indemnification of Local Officials

The Auditor and his/her agents, when acting in accordance with Minnesota Statutes and this policy shall not be held personally responsible for any loss sustained from the deposit or investment of funds.

Controls

The investment officer who actually purchases or liquidates investments cannot also record the transactions in the daily receipts and disbursements control ledger. Such investment officer may not also be the person who reconciles the control ledger to the financial accounting system. Nor may such investment officer also be the person who reconciles the monthly bank statement to the financial accounting system.

An accountant in the Auditor's Department, other than the investment officer, shall calculate interest on each investment and compare the anticipated earnings with the realized earnings. Such accountant shall further compare the anticipated earnings with the realized earnings posted to the financial system and shall report any discrepancies to the Director of Accounting.

The investment officer shall meticulously ascertain that all necessary receipts for collateral and investment funds transfers have been received and are locked in the Auditor's vault.

The investment officer shall invest only in instruments listed in this document and recommended by the Investment Committee.

The investment officer must keep the investment records accurate and up-to-date so that correct information is quickly and readily available.

Investment Committee

There is created an investment committee consisting of the Auditor, Administrator, the Chair of the County Board, and the Chair of the Finance Committee.

The committee shall advise and make recommendations to the Auditor. The committee shall consider and review investment strategy, diversification and maturity issues and structure, risks, depositories, economic outlook, investment procedures, control issues, target rates, and other matters directly affecting the investment process.

The committee shall meet at least quarterly or as otherwise decided by its members.

The investment committee shall establish its own rules, but any disputed recommendation or resolution must be ratified by an oral vote, a record of which will be kept. Minutes of the investment committee actions will be kept by the Clerk of the Board.

The investment committee upon the recommendation of the Auditor shall by majority vote have the authority to amend the diversification mix as to both type and time as described in the Diversification section of this policy and to amend the target return on investment as described in the Objectives section.

Safekeeping and Custody

All non-perfected investment securities purchased by the County shall be held in a third-party safekeeping arrangement meeting the requirements of M.S. 118A. The third-party shall issue a safekeeping receipt to the county listing the specific instrument, rate, maturity, and other pertinent information. All deposits will be insured, collateralized, or covered by a surety bond in accordance with M.S. 118A.

Instruments

The Investment Committee shall indicate to the investment officer which of the following legal (permitted by M.S. 118A) investments are to be used in St. Louis County.

United States Treasury Obligations - Bonds, notes, and bills that are the direct obligation of the United States Treasury.

Federal Agency Securities - Issued, insured or guaranteed by federal entity. Can also be certificate of deposit secured by letters of credit issued by Federal Home Loan Bank.

Mutual Funds - Federal securities above, general obligation tax-exempt bonds rated "A" or better by at least two nationally recognized ratings firms , and repurchase agreements with 100 largest banks or primary reporting dealers.

Municipal obligations - General obligations of the State of Minnesota or its agencies or subdivisions rated "A" or better, or general obligations of any other state, its agencies or subdivisions rated "AA" or better. Revenue obligations of the State of Minnesota or any of its agencies rated "AA" or better.

Bankers Acceptances - Of U.S. Banks or eligible for purchase at Federal Reserve banks and denominated in U. S. dollars.

Commercial Paper - Of United States Corporations maturing in 270 or fewer days and of the highest quality as rated by at least two nationally recognized rating agencies.

Guaranteed Investment Contracts (GIC) - issued or guaranteed by a U. S. commercial bank or U.S. insurance company with an A. M. Best rating of A+ or better. GICs shall be acquired only from the 50 largest United States banks or United States insurance companies. The County must have unfettered withdrawal rights if the issuer's or guarantor's credit rating is downgraded.

Repurchase Agreements - Counter parties can be: 1) a bank, if qualified as a depository of county funds, 2) any other bank that is a member of the Federal Reserve system with a capital and surplus balance in excess of $10,000,000, 3) a primary reporting dealer, or 4) a Minnesota broker/dealer regulated by the Securities and Exchange Committee and licensed pursuant to M.S. 80A, and has capital and surplus in excess of $40,000,000 exclusive of subordinated debt. Collateral shall be in a minimum amount of 102% of repurchase agreement amount and shall be held by a third party in the County's name. Any counter party seeking to engage in a repurchase purchase agreement with the County must first execute a model repurchase agreement which is subject to approval by the County Board. Collateral underlying repurchase agreements must be quoted by a recognized industry quotation service available to the County.

Instrument restrictions

The county shall not invest in any instruments, funds, or agencies unless the committee and the investing officer are fully cognizant of the risks of the investment.

No types of instruments, other than direct U.S. Treasury instruments, introduced to the general financial market within the preceding three years will be deemed suitable for county investment purposes.

Recent instrument offerings that have not been evaluated by the market through a complete cycle of Federal Reserve discount rate moves of at least 300 basis points shall not be deemed suitable for county investments.

The county shall not engage in the borrowing of or the lending of securities as a means to leverage investible funds. Borrowing against existing securities in the portfolio to meet unexpected cash flow needs are appropriate, but shall only be engaged in with the direct permission of the Auditor or Chief Deputy.

Instruments having a high sensitivity to market interest rate fluctuations shall be deemed unsuitable. The county shall not invest in mortgage derivative securities where the principal is not fully guaranteed and would not be available within six months after the anticipated liquidation date of the original security at purchase.

Instruments purchased for any portfolio must have a maximum time certain for redemption which shall not exceed the established term limits of the portfolio as established by this policy or the investment committee. No instrument shall be purchased the term of which could extend to more than 150% of stated or advertised term.

High risk mortgage backed securities as defined in M.S. 118A, Subd.6 are not allowable investments.

The County shall not invest in "When Issued" type instruments nor shall it invest in Small Business Administration securities.

Diversification

Each portfolio shall be diversified as to instrument type, term, and financial institution. Diversification is necessary to avoid unreasonable risks inherent in over investing in specific instruments or terms. For long-term and segregated portfolios terms should match as closely as possible the expected cash outflow anticipated. The investment committee shall establish and/or define other parameters for the segregated portfolios.

The investing officer shall work with others to determine the cash-flow needs of the County and devise schedules of investments to ensure adequate cash flow for the smooth operation of county finances without the need to prematurely liquidate investments. Also, the officer shall not over invest in short term instruments to the extent that interest return targets are not met.

All funds shall be considered short term funds except those: 1) reserved for capital projects; 2) bond debt service or sinking funds; 3) prepayments of any kind held for debt retirement, 4) premium stabilization and actuarial reserves for self-insurance or other insurance programs; 5) trust or trust-like funds representing monies held for other agencies for a term in excess of one year; and 6) that part of the operating funds balances in excess of 7% of annual revenues.

Compliance with the instrument and term diversification requirements shall be deemed met if at the time of purchase the acquisition meets the requirements.

Instrument diversification - The short term portfolio shall be diversified by instrument type as follows, or as determined by the investment committee:

SUMMARY OF OVERALL FISCAL POLICIES - Continued

Instrument Type	Maximum Percent of Portfolio
U.S. Treasury Obligations	100%
U.S. Government Agency Securities	30%
Mutual Funds of Treasury issues	15%
Mutual Funds of Federal Agency issues or mixed with Treasury issues	10%
Municipal Obligations of any kind	10%
Bankers Acceptance	15%
Repurchase Agreements	50%
Commercial Paper	5%
Certificates of Deposit	80%
Guaranteed Investment Contracts	5%

Term Diversifications - The short-term portfolio investments shall be scheduled to the degree possible to coincide with projected cash flow needs taking into account the large periodical and predictable expenditures and revenue streams including but not limited to: payroll, bond payments, tax settlements, bills, state aid payments, and tax receipts. The short term portfolio shall be timed to comply with the following guidelines, or as otherwise determined by the investment committee:

Term	Minimum percent
Under 30 days	10%
Under 60 days	15%
Under 90 days	25%
Under 180 days	40%
Under 270 days	50%
Under 1 year	75%
Under 18 months	85%
Under 2 years	95%
Under 3 years	100%

Financial Institution Diversification - No more than 20% of the short term portfolio instruments shall be invested with any single given institutions, except during the months that current property tax installments are scheduled due, and the next subsequent month.

Relationships with Banks and Dealers

The Auditor will investigate the credit worthiness of the financial institutions, brokers, and dealers that handle investments, or that may be used as a depository. It will also investigate the credit worthiness of such other institutions that may hold collateral securing deposits. The evaluation should include a review of audited financial statements and/or regulatory reports filed by the institutions.

The Auditor will disclose to prospective financial institutions and broker-dealers the types of investments that can be acquired according to statute and according to this investment policy. Prior to completing an initial transaction with a broker, the County shall provide to the broker a written statement of investment restrictions, which shall include a provision that all future investments are to be made in accordance with Minnesota Statutes governing the investment of public funds and in conformance with any more restrictive provisions of this policy. The broker must acknowledge receipt of the statement of investment restrictions in writing and agree to handle the county's account in accordance with these restrictions. The County may not enter into a transaction with a broker until the broker has provided this written agreement to the County.

All pledged collateral must consist of securities that the County is authorized to accept under Minnesota law and must be accompanied by a written assignment to the County from the financial institution.

Transition

Investments held and investment mixes existing at the time of the adoption of this policy are hereby ratified. The adoption of this policy does not require the county to liquidate any investment to bring its portfolios into compliance with this policy.

Grant Management Policy

PURPOSE

The purpose of this policy to provide appropriate information to the County Board and financial and other managers sufficient to determine the desirability of a grant application. This policy requires specific financial and cost information to be provided to the Board prior to applying for a grant. This policy applies only to grants for which the county must make specific application and does not apply to program aids provided to the county as a matter of law.

DEFINITIONS

Administrative Cost - that part of grant funding that can be utilized to fund the management, reporting, and other overhead costs associated with the grant program.

Grant - a sum of money provided to the County, upon application, by a federal, state, or private agency in order to enable the County to provide specific goods and/or services. Not included in this definition of grants are statutory programs that automatically provide the County with funds without any application upon the part of the County.

Grantee - for purposes of this policy the agency which is the recipient of a grant even though the County itself is named as the grantee.

Grantor - the entity which is providing a grant. It may be a governmental or private body.

Grant Requirements - parameters of the grant program that specify the term of funding, beginning and final dates, allowable purposes for use of funds, reporting and accounting conditions, etc.

Grant with "Tails" - Type of grant that is either reduced in size over a period of time or is a one-time start up grant that assumes the County will continue the program and supply the "replacement" funds necessary to operate. Can also be a grant that imposes on-going audit, tracking, reporting or legal requirements for fiscal years subsequent to the year for which the grant is provided.

Matching Funds or Services - funds or in-kind services that the County must obtain from sources other than the grant. If funds, they must be used for substantially the same purpose as allowed for the use of grant funds.

Marginal Cost - for purposes of this policy, marginal cost is considered to be all additional direct costs incurred by the County in performing its obligations under the terms of a grant. Also included is all direct labor on the part of the grantee and supporting agencies.

One-time Grant - funding that is provided for a strict time period and/or limited to one specific project or activity. There is a specific end to the grant.

Program Aids - sums of money provided to Counties as a matter of law.

Recurring Grant - a variation of the one-time grant where funding is available on an annual basis, but application must be made to the grantor agency for each period. Each period is treated for all practicable or practical purposes as a separate grant.

POLICY

Grants can be an important source of funding various county operations and/or projects. Grants, however, have conditions associated with their use. For the County Board to make an informed decision on the desirability of applying and accepting grants it needs complete information regarding the conditions and costs of accepting grants.

Application for grants must be reviewed by the County Administrator and appropriate financial managers prior to submission to the County Board.

Agencies generally require prior County Board approval prior to making formal application for a grant. (see Objectives section).

It is appropriate for agencies to seek to maximize state, federal, and private dollars to support County services and functions.

Whenever possible, grant funding should provide sufficient funds to pay all grantee and support agency marginal costs for the administration activities necessary for the grant. Applying agencies shall develop estimates of such costs prior to acceptance of grants.

Agencies should strongly consider the use of other public or private vendors to provide the services and/or goods specified in the grant. This is especially true for one time grants.

Employees hired under a grant program will be advised by the appointing authority that their employment may be grant-dependent. It is the policy of the County Board that additional positions funded by grants shall be discontinued (or reduced) upon the discontinuance (or reduction) of the funding grants.

Match money must be available from an agency's existing budget, except under unusual circumstances.

PROCEDURE

The following steps will help ensure that grant policy rules are met:

Form Grant-1 must be completed and submitted together with all relevant information to the County Administrator and appropriate financial managers for review prior to making application for any grant.

The information will be reviewed to ascertain the financial, operational, or other effects as well as any benefits that are likely to be associated with accepting the grant.

The Administrator, after review and analysis, presents the request to the County Board with his or her recommendation for approval or denial.

The County Board reviews the information and delivers its decision.

SUMMARY OF OVERALL FISCAL POLICIES - Continued

In the event of an emergency or scheduling problem, the Agencies must receive written approval for the application from the Administrator and the Chair of the Board. The Board can at a later time refuse to accept the grant.

The Grant Agreement must be approved by County Board resolution. The resolution must clearly state the following:

The revenue and expenditures for this grant of $________ are already budgeted in Fund______ Agency_____ Org______ (include code numbers & descriptive names)

OR

An appropriation of $___________ is made to: Fund______ Agency_____ Org______ (include code numbers and descriptive names), contingent upon actual receipt of the monies and only to the extent of the amount received.

If there is a match requirement, the resolution should state the following:

A match of _____________ (percent or dollar amount) is required from local funds. This match is already included in the expense budget of Fund_______ Agency______ Org_______. The grantee agency will advise the County Auditor's Accounting Division in order to determine the way in which these expenditures can be identified as grant match.

OR

A match of ______________ is required from local funds. The following appropriation of $_______is made herewith: to: Fund______ Agency_____ Org______ from: Fund ______ Account _______

OR

A match of in-kind services valued at $____________ is required and shall consist of already budgeted items. This match is already included in the expense budget of Fund_______ Agency______ Org_______. The grantee agency will advise the County Auditor's Accounting Division in order to determine the way in which these expenditures can be identified as grant match.

Grant reporting MUST come from information that ties to the County's accounting system. If the grantee agency official is unfamiliar with how this process works, the County Auditor's Accounting Department should be contacted for instructions.

Once the grantor agency notifies the county of the disposition of its application the grantee agency will notify the County Board of the disposition and shall provide the Board with an updated Form Grant-1. The County Board at that time will make a final decision regarding the acceptance or rejection of the grant. Upon reception of grant monies they shall be promptly deposited in accordance with the provisions of the grant and county policy.

No expenditure or obligation of grant proceeds shall be made until such time that the County Board appropriates the proceeds.

Accounting, Auditing and Financial Reporting Policies

The County will establish and maintain a high standard of accounting practices.
The accounting system will maintain records on a basis consistent with accepted standards for local government accounting.

Regular monthly and annual financial reports will present a summary of financial activities by major types of funds. Where possible, the reporting system will also provide monthly information on the total cost of specified services by types of expenditure, and if necessary, by fund.

The office of the State Auditor shall annually perform an audit and will publicly issue a financial opinion. The County will account for transfers between funds of the County as follows: intra-fund transfers will be reimbursements, transfers into the General, Special Revenue and Capital Improvements Funds will be reimbursements, and transfers to the Enterprise and Internal Services Funds will be revenues.

2005 ACTUAL - This entry reflects the actual County expenditures and personnel complement for that year.

2006 ACTUAL - This entry reflects the actual County expenditures and personnel complement for that year.

2007 ADOPTED - This entry on the budget pages details the budget and personnel complement as approved by the County Board on September 12, 2006.

2008 ADOPTED - This entry on the budget pages details the budget and personnel complement as approved by the County Board on September 11, 2007.

2009 PROJECTED – This entry on the budget pages details the budget and personnel complement as projected by the Budget Team on September 11, 2007.

2010 PROJECTED - This entry on the budget pages details the budget and personnel complement as projected by the Budget Team on September 11, 2007.

AD VALOREM TAX - A tax computed from the assessed valuation of land and improvements.

AGENCY - An organized set of related work activities directed toward a common purpose, it is the organizational unit below a department.

APPROPRIATION - A specific amount of money authorized by the County Board, generally during adoption of the annual budget, to be used to make expenditures for specific purposes. Authorizations are generally granted for a one-year period.

BASIS OF ACCOUNTING - This refers to the time at which revenues and expenditures are recognized in accounts and reported. The Basis of Accounting includes:

> **Accrual** -- Basis of accounting whereby revenues are recorded when they are earned (whether or not cash is received) and expenditures are recorded when goods and services are received (whether or not cash disbursements are made at that time or not);
>
> **Cash** -- Basis of accounting under which revenues are recorded when received and expenditures are recorded when paid.
>
> **Modified Accrual** -- The basis of accounting whereby expenditures other than accrued interest on general long-term debt are recorded at the time liabilities are incurred and revenues are recorded when received in cash except for material and/or available revenues, which should be accrued to reflect properly the taxes received and revenues earned.

CAPITAL IMPROVEMENT PROGRAM - A six year plan for approved capital improvements.

CASH FLOW - A projection of the cash receipts and disbursements anticipated during a given time period.

DEBT SERVICE - Payment of principal and interest on specific obligations which result from the issuance of bonds.

DEPARTMENT - The basic organizational unit of County Government, responsible for carrying out a specific function.

DEPRECIATION - A term used to account for: (1) expiration in the service life of capital assets attributed to use, deterioration, action of physical elements and (2) portion of the cost of a capital asset which is charged as an expense during a period.

ENCUMBRANCE - A legal financial commitment (such as purchase orders, contracts and salary) of appropriated funds to purchase an item or service. To encumber funds means to set aside or commit funds for a future expenditure.

EXPENDITURE - Cost of goods and services obtained, including debt service and capital outlay.

EXTENSION RATE - Rates used in calculating taxes based upon the levies established by the County, cities, townships and special taxing districts.

FULL-FAITH AND CREDIT - A pledge of the general taxing power of a government to repay debt obligations, typically used in reference to bonds.

FULL-TIME EQUIVALENTS (FTE) - Combines all full-time and part-time personnel into a standard equivalent for time management. The personnel categories will account for employees in terms of FTEs in order to more accurately reflect the total personnel complement.

FUND - An independent fiscal and accounting entity which is segregated for the purpose of performing specific activities or achieving certain objectives.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition, construction or improvement of capital facilities other than those financed by Enterprise Fund.

Debt Service Funds - Funds which account for the accumulation of resources for, and payment of, long-term debt, principal, interest and related costs.

Enterprise Funds - Funds which account for operations that are financed and operated in a manner similar to private business. The intent is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis is financed or recovered primarily through user charges.

General Fund - A fund which accounts for all financial resources, except those required to be accounted for in another fund.

Internal Service Funds - Funds which account for operations that are financed and operated in a manner similar to private business. The intent is that the cost (expenses, including depreciation) of providing goods or services by specific departments within St. Louis County for other departments within St. Louis County on a continuing basis be financed or recovered primarily through user charges.

Special Revenue Funds - Funds which account for the proceeds of specific revenue sources (other than expendable trusts, or for major capital projects) that are legally restricted to expenditures for specified purposes.

FUND BALANCE - The difference between fund assets and fund liabilities of governmental and trust funds. Revenue + fund balance = expenditures.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (G.A.A.P.) - Detailed accounting standards and practices for state and local governments as prescribed by the Government Accounting Standards Board.

GENERAL OBLIGATION BONDS - Bonds backed by the full faith and credit of government (a pledge of the general taxing power for the payment of the debt obligation).

GOAL - desired objective toward which strategies are directed.

GRANTS - Contributions or gifts of cash or other assets from another government to be used or expended for a specific purpose, activity or facility.

INDICATORS – The specific items of information that track results.

LEVY - The total amount of taxes, specialized assessments or service charges imposed by a government.

LIABILITIES - Debt or other legal obligations arising out of transactions in the past which must be liquidated, renewed or refunded at some future date.

MARKET VALUE - A valuation placed upon real and personal property within the County. The valuation reflects a number of factors including appraisals, new construction, and comparative sales data.

MAJOR ACCOUNT SERIES - The six classifications of expenditures made by the County are:

> **Personal Services -** Costs relating to salaried employees, including fringe benefits.
>
> **Services and Charges -** Costs pertaining to services and charges rendered by individuals, businesses and other County employees; contracts and agreements covering the upkeep of grounds, buildings and equipment (non-capital outlays); travel expenses; and expenditures for the lease or rental of land, buildings and equipment.
>
> **Direct Materials -** Costs expended for supply items, supplies and materials pertaining to Public Works activities, and repair and maintenance contracts and agreements.
>
> **Capital Outlay -** A category used to record amounts paid for the acquisition of fixed assets or additions to fixed assets.
>
> **Public Assistance -** Costs expended for County Financial Assistance programs, as determined by the County Social Services.
>
> **Other Charges -** Costs not included in the above classifications, including transfers (an accounting function used to show that funds have been handled without having goods or services rendered in return).

MISSION - a description of the business your organization does.

OBJECTIVE - A clearly described target for achievement within a specified time span, representing measured progress toward a goal.

OPERATING BUDGET - The financial plan for the fiscal year which authorizes proposed personnel complements, expenditures and the revenues to finance them.

OUTCOME – The specific impact or result a program is intended to have for the target population.

PERFORMANCE TARGET – Numerical result representing achievement toward outcomes.

PERSONNEL CATEGORIES - The six classifications for employment in St. Louis County are:

Officials and Administrators - Employees and elected officials who set the broad policies, exercise overall responsibility for the execution of these policies or direct the individual departments or special phases of the agency's operations. Included are the County Commissioners, County Administrator, Department Heads, and their Administrative Assistants.

Professionals - Employees whose job responsibilities require specialized and theoretical knowledge usually acquired through college training, work experience or other training, providing comparable knowledge. Included are accountants, financial analysts, librarians, social workers, nurses, recreational therapists, principal buyers, labor relations director, and planners.

Technicians and Para-Professionals - Employees whose job responsibilities require a combination of basic scientific or technical knowledge and manual skill obtained through specialized post-secondary school education or equivalent on-the-job training, and jobs in which workers perform some of the duties of the professional or technician in a supportive role (usually requires less formal training and/or experience normally required for professional or technical status). Included are assistant engineering technicians, principal computer operators, licensed practical nurses, social service specialists, real estate appraisers, medical examiner's investigators, sheriff's sergeants, veteran's service representatives, and financial unit supervisors.

Protective Service Worker - Employees who are entrusted with public safety, security and protection from destructive forces. Included are crime lab technicians, sheriff's detectives, senior deputy sheriff, senior investigator, chief deputy sheriff, levy and mortgage deputies, and correctional officers.

Skilled Craft Workers and Service /Maintenance - Employees whose job responsibilities require special manual skill, a thorough and comprehensive knowledge of the process involved in the work, and which is acquired through on-the-job training and experience or through apprenticeship or other formal training programs. It also includes jobs in which workers perform duties resulting in or contributing to the comfort, convenience, hygiene or safety of the general public, or which contribute to the upkeep and care of the buildings, facilities or grounds of public property. Included are cooks, electricians, heavy equipment operators, highway maintenance foremen, and custodial workers.

Office and Clerical - Employees whose job responsibilities include external communication, recording and retrieval of data, and/or information and other paperwork required in an office. Included are account clerks, eligibility specialists, receptionists, dietician assistants, legal administrative assistants, offset equipment operators, and court deputies.

REIMBURSEMENT - Repayment to a specific fund for expenditures incurred or services performed by that fund to or for the benefit of another fund.

REVENUES - All amounts of money received from external sources such as property taxes, federal and state aids, fees, fines, forfeitures, service charges, etc.

REVENUE BONDS - Bonds whose principal and interest are payable exclusively from earnings of an enterprise fund.

TAX CAPACITY - A valuation placed upon the market value of the real and personal property in the County in a manner prescribed by State law as the basis for levying property taxes. The tax capacity reflects a percentage of the property's assessed value. The market value of a property is multiplied by the appropriate tax capacity classification rate to arrive at its "tax capacity".

TAX CAPACITY CLASSIFICATION RATE - The tax rates applied to tax capacities within the County. The tax capacity rate will vary depending on the property classification (homestead, seasonal-recreation, rental, non-homestead, commercial/industrial, vacant). The lowest rate is for homestead property, with significantly higher rates for seasonal recreation, vacant and commercial/industrial property.

TRUTH IN TAXATION - A set of procedures adopted by the 1989 Minnesota Legislature, and revised periodically, intended to improve local accountability in the adoption of the budget and property tax levy of local governments. For example, the Truth-In-Taxation requires the County to adopt and certify a proposed levy in September, mail proposed property tax statements to all property owners and hold a public hearing prior to the adoption and certification of a final property tax levy and budget in December.