



Bassett Creek Watershed Management Commission

MEMO

To: BCWMC Commissioners and Alternate Commissioners
From: BCWMC Budget Committee Chair Sicora and Committee Members
Date: May 10, 2023

Recommendations:

1. Review and comment on committee notes on the 2024 operating budget and budget-related items
2. Update Commission's Policy Manual regarding use of investment income

The BCWMC Budget Committee met April 3rd and May 1st to discuss BCWMC finances and to begin developing the 2024 operating budget. The committee offers (1) the following notes regarding the 2024 operating budget and (2) a recommendation for updates to fiscal policies.

2024 OPERATING BUDGET

The committee is finalizing development of the proposed 2024 Operating Budget for all administration, planning, monitoring, engineering, and other activities that are outside work related to implementing capital improvements (CIP projects). [CIP projects are funded through a separate budgetary process involving taxes raised by Hennepin County on the Commission's behalf.]

The outcome of the 2022 financial audit (expected in late May) will inform final budget figures. The final 2024 proposed budget will be presented at the June meeting in time for distribution to cities for input by July 1st. Additional notes on budget development include:

- Working draft of the budget includes city assessments about 5.8% over this year's assessments which may change pending the 2022 audit outcomes
- Overall operating budget will be higher primarily due to monitoring expenses (2024 monitoring includes 3 lakes rather than typical 2 lakes as laid out in the approved [10-year routine monitoring plan](#))
- Budget will include some use of General Fund balance but fund balance will be maintained at approximately 50% of annual operating expenses (Fiscal Policy 3.2.1)
- Budget will utilize a portion of the funds previously set aside for 2025 Watershed Management Plan development, based on a watershed plan funding practice established for the 2023 budget.
- Budget is slated to allocate 50% (\$14,400) of the 10-year average investment income as General Fund revenue (see recommended policy below) which helps to lower city assessments. The remaining 50% would be allocated to the CIP budget.

In addition to the 2024 budget, the committee discussed:

- A potential opportunity to move financial-related tasks to the City of Plymouth's finance department (like how Golden Valley operated as the Commission's accounting staff for decades). BCWMC staff is meeting with Plymouth staff to discuss further.

- A possible recommendation to change the Commission’s fiscal year to the calendar year. Currently, the Commission’s fiscal year begins on February 1st which makes for complicated and confusing financial statements, budgets, and contracting.

INVESTMENT INCOME POLICY

Over the past nine years, income from BWCMC investments has averaged \$28,800 (with 2022 income being significantly higher than previous years at over \$110,000). Until 2022, income from investments was allocated between the General Fund (i.e., operating budget) and the Capital Improvement Program (CIP) Fund based on the percentage of total dollars in each fund. Because the CIP Fund has the vast majority of BWCMC funding (in order to implement large, expensive CIP projects), most of the income was allocated to that fund.

The Budget Committee reviewed information related to allocating investment income including:

- BCWMC Deputy Treasurer Sue Virnig recommends the Commission develop a policy stating where investment income will be allocated.
- BCWMC Financial auditors, MMKR, noted that allocating income based on the percentage of total dollars in each fund is the typical accounting practice. However, there are no laws or accounting requirements that would prohibit allocating income in a different manner.
- Allocating a higher percentage of investment income to the General Fund would help keep city assessments lower while maintaining a robust portion as income to the CIP Fund
- A policy of allocating the income equally (50-50) between the two funds is simple
- A policy that includes flexibility to change the allocation rates would allow the Commission to adjust the allocation percentage if budgetary circumstances arise

Recommendation: Section 2.9 of the BWCMC [Policy Manual](#) includes policies and implementation strategies related to investments and the depository of funds. The Budget Committee recommends updating the policy with a new strategy shown underlined below.

2.9 Investment and Depository of Funds

Policy: The Commission adopts the following guidelines regarding investment of Commission funds.

Description: It is the responsibility of the Commission to invest Commission funds in order to attain a market rate of return while preserving and protecting the capital of the overall portfolio and to ensure compliance with statutory requirements applicable to the Commission’s designation a depository financial institution. Investments will be made in compliance with statutory constraints and in safe, low-risk instruments.

Applicable funding: Operating budget and Capital Improvement Program budget

Adopted:

Citation: Minnesota Statute Chapter 118A

Strategies to implement policy:

1. **Scope.** This policy applies to all financial assets of the Commission including but not limited to:
 - General Fund
 - Construction Fund
2. **Designation of Depository and Collateralization.** The Commission annually will designate a financial institution or institutions in the State of Minnesota as the depository of Commission funds.

In the event the Commission does not designate a depository in any particular year, the last-designated depository will continue in that capacity. Each depository will furnish collateral, as necessary, in the manner and to the extent required by Minnesota Statutes section 118A.03, as it may be amended, and other applicable law. Collateral will be held in safekeeping in compliance with Section 118A.03, as it may be amended.

3. **Delegation of Authority.** Minnesota Statutes section 118A.02 provides that the governing body may authorize the treasurer or chief financial officer to make investments of funds under Sections 118A.01 to 118A.06 or other applicable law. The Commission authorizes the Treasurer or Deputy Treasurer to invest Commission funds pursuant to this policy and state law for the Bassett Creek Watershed Management Commission.

The Treasurer or Deputy Treasurer shall assure compliance with this policy and further develop and maintain adequate controls, procedures, and methods assuring security and accurate accounting on a day-to-day basis.

4. **Objectives.** At all times, the Commission's investments shall be made and maintained in accordance with Minnesota Statutes Chapter 118A as it may be amended. The primary objectives of the Commission investment activities shall be in the following order of priority:

- i. Security

Security of principal is the foremost objective of the investment portfolio. Preserving capital and protecting investment principal shall be the primary objective of each investment transaction.

- ii. Liquidity

The investment portfolio shall remain sufficiently liquid to meet projected disbursement requirements.

- iii. Return on Investment

The investment portfolio shall be designed to manage the funds to maximize returns consistent with items A and B above and within the requirements set forth in this policy.

5. **Prudence.** The "prudent person" standard shall be applied in managing Commission investments. All investment transactions shall be made in good faith with the degree of judgment and care, under the circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of their own affairs, in accordance with this policy.
6. **Eligible Investments.** All investments will be considered eligible if they are made in accordance with Minnesota Statutes Section 118A.04.
7. **Investment Restrictions.** In addition to statutory prohibitions, investments specifically prohibited are derivative products, structured notes, inverse index bonds, repurchase agreements not authorized by statute, and other exotic products.

7.8. **Investment Income.** It is the intent of the Commission to divide the income from investments (dividends) equally between the General Fund and the Construction Fund (funds restricted for Capital Improvements). The Commission will have the flexibility to adjust allocations of income to each fund pending budgetary circumstances and upon review and input from the Deputy Treasurer and the BCWMC Budget Committee.

8.9. **Safekeeping.** Commission investments, contracts and agreements will be held in safekeeping in compliance with Minnesota Statutes Section 118A.06. In addition, before accepting any investment of Commission funds and annually thereafter, the supervising officer of the financial institution serving as a broker for the Commission shall submit a certification stating that the officer has reviewed the Commission Investment and Depository Policy and incorporated statement of investment restrictions, as well as applicable state law, and agrees to act in a manner consistent with the policy and law. The Commission will annually will provide the policy, as it may be amended.

The certification shall also require the supervising officer to disclose potential conflicts of interest or risk to public funds that might arise out of business transactions between the firm and the Commission. All financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the Commission funds.

~~9.~~10. **Conflict of Interest.** Any Commissioner or staff member involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair his/her ability to make impartial investment decisions.

~~10.~~11. **Internal Controls and Reporting.** Internal controls are designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. Before the Commission invests any surplus funds, competitive quotations shall be obtained. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, quotations will be requested for instruments that meet the maturity requirement. The Commission will accept the quotation that provides the highest rate of return within the maturity required and within the limits of this policy.

The Commission Treasurer or Deputy Treasurer shall be limited to investing funds for up to a maximum term of seven years. The Commission administrator shall request approval from the Commission to authorize investment of funds for terms exceeding seven years.

Monthly, the Commission Treasurer or Deputy Treasurer shall provide an investments report to the Commission. Investments shall be audited and reported with financial statement annually. It shall be the practice of the Commission to review and amend the investment policy from time to time as needed.