

AGENDA REPORT

TO: Mayor & City Commissioners
FROM: Jeremy Howard, City Manager
DATE: January 16, 2025

RE: Amendments to Purchasing Policy/Procedures and Fixed Asset Capitalization Policy

For the Agenda of January 20, 2025

Background. The City of Clare 2019 Purchasing Policy/Procedures and 2008 Fixed Asset Capitalization Policy need updates to ensure that we attain maximum efficiency and effectiveness in our day-to-day operations and remain in compliance with accepted standards. Needed updates include cleaning up outdated language, adding a section for the disposal of city equipment, and elevating the department head and city manager purchasing approval limit levels to address the significant increase in the cost of goods and services in the last six years, in large part due to cost increases because of shortages during and following the Covid epidemic. The only change in the Fixed Asset Capitalization Policy would be to increase the capitalization number from \$5,000 to \$10,000 to reflect the change in GASB federal capitalization thresholds that went into effect in late 2024. After much discussion and research, these changes are being recommended by Treasurer & Finance Director, Viki Corlew to address these issues. The Commission is being asked to approve the proposed changes to both policies.

Issues & Questions Specified. Should the City Commission approve the proposed amendments to the City's Purchasing Policy/Procedures and the Fixed Asset Capitalization Policy?

Alternatives.

1. Approve the amendments to the policies.
2. Approve the amendments to the policies with changes, conditions, or stipulations.
3. Do not approve the proposed amendments to the policies.
4. Set aside decision regarding this matter to a later date.

Financial Impact. Approval of the amendments will streamline and improve the efficiency of the City's day-to-day operations.

Recommendation. I recommend that the City Commission approve the proposed amendments to the City's Purchasing Policy/Procedures by adoption of Resolution 2025-006 (*att'd*) and the City's Fixed Asset Capitalization Policy by adoption of Resolution 2025-007 (*att'd*).

Attachments.

1. Revised Purchasing Policy/Procedures.
2. Revised Fixed Asset Capitalization Policy.
3. Resolution 2025-006.
4. Resolution 2025-007.

City of Clare
Purchasing Policy and Procedures
Adopted January, 2025 – Resolution 2025-006

Purpose.

This policy is adopted in accordance with the Charter and Code of Ordinances of the City of Clare and applicable statutory and legal requirements of the State of Michigan and of the Federal Government. This policy establishes specific individuals by position who are authorized to obligate and expend city funds. This policy also outlines individual responsibilities in the implementation of this policy and procedure guidelines and it also stipulates specific procedures to be used in purchasing goods and services to ensure that purchases are competitively priced and properly accounted for within the City's accounting, financial and documentation records.

Responsibilities.

1. City Commission.

- a. The City Commission shall establish and approve the purchasing policy and procedures and any needed amendments or changes.
- b. The City Commission shall formally review and approve or disapprove the payment of all bills for which City funds are to be expended as an agenda item at each regularly scheduled City Commission meeting.

2. City Manager.

- a. The City Manager is the primary City official responsible for all purchases made by the city.
- b. The City Manager shall establish the purchasing policy and procedures; submit the purchasing policy and procedures and any changes or amendments to the City Commission for consideration and approval; and ensure compliance with the approved/established policy and procedures.
- c. The City Manager shall approve payment of invoices for purchases and services up to and including an amount authorized by the City Commission.

3. City Treasurer.

- a. The City Treasurer shall certify availability of funds as outlined within this policy, is responsible for conducting monthly reviews of all City funds and shall notify the City Manager immediately upon discovery of any potential fund availability shortfall issue and any significant trends.
- b. The City Treasurer shall prepare all required Purchase Orders and enter them as an encumbrance within the City's accounting records to reflect the commitment of funds.
- c. The City Treasurer or other authorized signatory shall cosign all checks for payment of City purchases and services, ensuring availability of funds prior to the issuance of payment.

4. City Clerk.

- a. The City Clerk shall prepare and process all necessary payment documents and maintain all invoices, billing statements, and related purchase and expenditure documents in accordance with the City's Records Retention Policy.

- b. The City Clerk shall collate and submit all bills for payment to the City Commission at each regularly scheduled City Commission meeting.
- c. The City Clerk or other authorized signatory shall cosign all checks for payment of city purchases and services.

5. Department Heads.

- a. Department Heads shall ensure compliance with all purchasing policies and procedures outlined herein applicable to their respective departments.
- b. Department Heads shall ensure that funds are available within their respective fund activities prior to approving the purchase of goods or services. If funds are not available within the respective fund activities, they shall prepare and submit appropriate documentation to include a budget transfer or budget amendment request prior to or in conjunction with the submission of the required purchase documents as outlined within this policy.
- c. Department Heads shall approve payment of invoices for purchases and services up to and including amounts authorized by the City Commission within 7 business days of the date of purchase.
- d. Department Heads shall ensure that all available discounts and credits are taken for prompt payment or similar incentives.

Expenditure Approval Limits.

The maximum expenditure authority limits outlined herein are established and shall not be exceeded except as outlined below.

- 1. Department Heads.** Department Heads may approve purchases and services within the respective City Fund activities for which they have management responsibility up to but not exceeding \$5,000.
- 2. City Manager.** The City Manager may approve purchases and services up to but not exceeding \$15,000.
- 3. City Commission.** The City Commission shall approve all purchases and services exceeding \$15,000.
- 4. Emergency Approval Authority.** The City Manager may approve of the expenditure for purchases and/or services exceeding the established limits in the event of an emergency where public safety is endangered, the loss of public or private property is imminent and, in those instances where a delay will have a significant adverse impact upon the City. In each instance, the City Manager shall submit a formal report to the City Commission at the next scheduled Commission meeting outlining the reason for the exercising of this emergency approval authority including a detailed accounting of the circumstances leading to the decision.

Purchasing Procedures.

- 1. Purchases of Goods and Services of \$5,000 or Less.** Each Department Head is the approval authority for purchases of goods and services of \$5,000 or less. An invoice shall be obtained for each purchase of goods and services. For purchases of \$3,000 to \$5,000 inclusive, verbal quotes must be obtained from at least three vendors (when available) offering the goods or services. The purchase shall be made from the vendor offering the lowest quotation. If the purchase is to be made from a vendor other than the vendor offering the lowest quotation, the purchase must be approved by the City Manager.

- 2. Purchases of Goods and Services of \$5,001-\$15,000.** The City Manager is the approval authority for purchases of goods and services of \$5,001 to \$15,000. The Department Head shall obtain written quotes from at least three vendors (when available) offering the goods or services and submit them to the City Manager for consideration with a recommendation including notation if less than three vendors were available for quotes, the item is a sole source purchase, or if the purchase is being made from a vendor other than the lowest quotation. The City Manager shall approve or disapprove the expenditure. The purchase shall be made from the vendor offering the lowest quote if possible.
- 3. Purchases of Goods and Services Exceeding \$15,000.** Sealed bids shall be publicly solicited for the purchase of all goods and services exceeding \$15,000. The sealed bids shall be presented to the City Commission by means of an Agenda Report stipulating the recommendations of the Department Head and the City Manager. If a recommendation is made to purchase the goods and services from a vendor other than the one offering the lowest price, the Department Head and City Manager shall provide the City Commission the specific reasons for their recommendation(s). The City Commission shall approve the purchase of all goods and services requiring sealed bids and exceeding \$15,000 by appropriate resolution.
- 4. Funds Encumbrances.** The City Treasurer is to record an encumbrance created by the approval of a Resolution within the City's financial records as appropriate to reflect the commitment of funds.
- 5. Additional Purchasing Procedures.**
 - a. If a budget transfer or amendment is required to facilitate any expenditure, the Department Head is to make a budget transfer/amendment request to the City Treasurer and to the City Manager for review and approval consideration prior to committing to the expenditure. The City Manager will present the amendment request to the City Commission for consideration and approval. Vendors may not start work and Department Heads shall not order or accept a product or service until approval has been received.
 - b. In those rare instances where an invoice is not provided or available, the Department Head is to prepare and sign a memorandum outlining the circumstances and attach alternate documentation which includes the vendor's printed name, address, phone number, and email address, to justify payment for the goods and services. The City Clerk and/or the City Treasurer are to monitor these exceptions and address them as needed.
 - c. Sole source purchases are authorized by this policy up to applicable purchase authorization levels when there is only one vendor, contractor or provider of the goods or service. Sole source purchases are also authorized by this policy in instances when proceeding through the City's normal bidding process will potentially endanger the public, put a private property owner or the City's assets at risk of loss or damage, or for any other prudent and justified reason. Approval of sole source purchases made by Department Heads shall be reviewed and approved by the City Manager; those sole source purchases that exceed \$15,000 shall be reviewed and approved by the City Commission.
 - d. The City Commission, in accordance with Section 8.9 of the City Charter, has complete authority in their sole discretion to approve a sole source purchase without competitive bidding when circumstances warrant.
 - e. Invoices for each purchase shall be submitted timely to Accounts Payable for processing and payment.

- f. Each invoice shall be stamped, coded, dated, and initialed by the Department Head to signify their approval for payment.
- g. Departments are authorized to consolidate invoices for multiple smaller value purchases with a single vendor for a period not to exceed five (5) working days prior to submitting the invoices for payment so long as doing so will not jeopardize any discounts for early payment.
- h. Accounts Payable shall process all purchase documents for payment and submit a list of such payments to the City Commission for approval. Once approved, the Accounts Payable Clerk shall issue payment in the form of a check or electronically as applicable, as soon as feasibly possible, after their approval by the City Commission.
- i. The City Clerk and the City Treasurer shall cosign all checks. In the absence of either of the primary cosigner's, checks shall be cosigned by the appointed Deputy Clerk and/or Deputy Treasurer. All electronic payments are to be issued under dual control of the Clerk, Deputy Clerk, Treasurer, and Deputy Treasurer.
- j. Payments can be issued prior to approval of the City Commission in limited circumstances with the express approval of the City Manager, City Treasurer, or City Clerk. In the absence of the City Treasurer or City Clerk, their respective Deputies can issue necessary payments.

6. Preapproved, Recurring Expenses.

- a. All billings for electric, natural and propane gas, and all other public utility expenses for City properties are exempt from this purchasing policy. The City Manager and the Finance Director will from time to time as market conditions warrant, evaluate all providers of these services to determine if more economical providers are available.
- b. All normal payments of employee wages, salaries, benefits, payroll taxes, and other related expenses are exempt from this purchasing policy.
- c. All debt payments resulting from bonds and other indebtedness approved by the City Commission are exempt from this purchasing policy.
- d. By resolution, the City Commission may also from time to time authorize the purchase of services or goods that are used or consumed in the normal course of business to be authorized by a Department Head or the City Manager at amounts greater than set forth in this policy.

- 7. Credit Card Purchases.** All City Department Heads who have been authorized and issued a City credit card shall follow all the policies and procedures of this Purchasing Policy as well as those of the Credit Card Policy.

Designation of Fund Managers.

All City Funds shall have a designated Fund Manager. The Fund Manager is the primary City Officer responsible for the day-to-day management of the respective City Fund and shall be responsible for immediately informing the City Manager and the City Treasurer and Finance Director whenever any adjustments or amendments are required within the designated Funds and/or whenever any irregularities occur. For those Funds that have co-users, e.g., the General Fund, Water Fund and Sewer Fund, the designated Fund Manager remains the primary City Officer responsible for overall Fund management, but the subordinate users are expected to coordinate and/or inform the Fund Manager whenever any Fund adjustments are required, or irregularities occur.

<u>Fund</u>	<u>Fund Manager</u>	<u>Subordinate Fund Manager</u>
General Fund	City Manager, Treasurer	Assessor, Clerk, Airport Manager, Director of Public Works, Police Chief
Major Street Fund	DPW Director	Assistant DPW Director
Local Street Fund	DPW Director	Assistant DPW Director
Municipal Street Fund	DPW Director	Assistant DPW Director
Fire Fund	Fire Chief	Assistant Fire Chief
Parks & Rec. Fund	Parks/Rec Director	DPW Director
Sidewalk Fund	DPW Director	Assistant DPW Director
Water Fund	Water Treatment Superintendent	DPW Director
Sewer Fund	Water Treatment Superintendent	DPW Director
Data Processing	Treasurer	Deputy Treasurer/City Manager
Mobile Equipment	DPW Director	Assistant DPW Director
Capital Funds	Respective Fund Manager	Treasurer
Debt Funds	Treasurer/Finance Director	Deputy Treasurer/City Manager
All other funds	City Manager, Treasurer	Treasurer/Finance Director

Consolidated Purchasing

Whenever practical, the respective City departments shall consolidate the purchase of goods and services to attain reduced bulk rates and prices. The City shall use the State of Michigan Purchasing Program as its first option for all vehicular purchases.

Each Department Head shall be responsible for ordering the supplies and equipment necessary for operations within the departments that they oversee.

Disposal and Sale of City Assets

1. City General Disposal Guidelines: City assets no longer needed or economically viable to maintain can be disposed of in accordance with the guidelines set forth in this policy. Asset value determination will be based on fair market value, which may be informed by factors such as depreciation, current market conditions, and expert evaluations where necessary. This approach aims to ensure that asset valuations are as objective as possible.
2. Low-Value Asset Disposal (up to \$10,000): Assets valued at \$10,000 or less may be disposed of by the City Manager, with input from relevant department heads regarding the asset's condition and value. Assets to be disposed of with a value of less than \$10,000 need not be advertised in local papers but must be posted for disposal on the City's bulletin boards and the City's website.
3. High-Value Asset Disposal (over \$10,000): Disposal of assets valued over \$10,000 requires prior approval from the City Commission. The City Manager will propose the method of disposal (e.g., public auction, sealed bid, sale to another municipality) and the minimum acceptable price as part of the resolution to the City Commission. Assets to be disposed of with a value over \$10,000 shall be advertised in the local paper as well as posted on the City's bulletin boards and the City's website.

Penalty for Violation.

Any willful or intentional violation of this policy and related procedures by an officer or employee of the City of Clare shall be grounds for disciplinary action up to and including possible suspension and/or dismissal and appropriate criminal and/or civil action.

City of Clare
Fixed Asset Capitalization Policy
Adopted January, 2025 – Resolution 2025-007

The City of Clare will consider all acquisitions and improvements of fixed assets to be capitalized when all the following criteria are met:

1. The purchased, improved or otherwise acquired asset has a useful depreciable life of one year or more;
2. The cost of the asset, including installation as applicable, is \$10,000 or greater. When multiple expenditures of less than \$10,000 are made for the purchase or acquisition of an asset or group of related assets whose resulting aggregate value will exceed \$10,000; and
3. The cost of repairing or renovating the assets is \$10,000 or more and the effect of such action prolongs the useful and depreciable life of the asset.

The City of Clare will consider the purchase of computer hardware, computer software programs and related costs as fixed assets subject to the above capitalization policy and will amortize the cost of such acquisition over an estimated useful life of three (3) years. All costs associated with software maintenance, upgrading and technical and software support are considered expenditures and will not be capitalized.

Depreciation Method:

For all assets that have been capitalized the City of Clare will utilize the straight-line method of depreciation over the standard useful life of the asset according to the following generally accepted guidelines:

Buildings	40-60 years
Building Improvements	15-30 years
Water and Sewer Lines	50-75 years
Roads	10-30 years
Vehicles	3-5 years
Office Equipment	3-5 years
Computer Equipment	3-5 years

Maintenance of Fixed Asset Records:

The City's Treasurer and Finance Director shall maintain a schedule of all fixed assets, accumulated depreciation, and anticipated salvage value as appropriate and ensure that such schedules correspond with the City of Clare's accounting and financial records and reports.

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Fixed Asset Capitalization Policy
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Other considerations:

1. Repairs include any expenditures for the purpose of maintaining the property in an ordinary and efficient operating condition. The cost of such repairs will be expensed and not capitalized if such repairs do not materially increase the value of the asset or extend its useful, depreciable life or its salvage value.
2. Improvements include all expenditures for additions, alterations and renovations that appreciably prolong the life of the asset, materially increase its value, or materially adapt the asset to a different use. Improvements of this nature and description and that meet the above articulated capitalization requirements are to be capitalized and depreciated over the assets expected useful life.

Examples of Repairs and Improvements:

Repairs (Expenditures)

- All items with an expected life of less than one year.
- All items with a value of \$10,000 or less.
- Property maintenance.
- Replacement/repair of machine parts to maintain the equipment in a normal operating condition.
- Property restoration/rebuilding for normal operations.
- Repairs to existing buildings.
- Replacement of small sections of wiring, plumbing, or light fixtures.
- Patching of walls, minor repairs of floors, painting, etc.
- Patching of driveways and parking lots.
- Cleaning of draperies, carpeting, furniture, etc.

Improvements (Capital Assets)

- Useful life of more than one year.
- Cost or value of \$10,000 or more.
- Facility rebuilding.
- Replacement of motor and/or parts that materially prolongs the assets useful life.
- Property restoration that materially improves the asset or adapts it for a different use.
- Building regulation conformity.
- Major replacement of wiring, plumbing, lighting, or sewer systems.
- Installation of significant flooring, walls, roofing, or wall coverings.
- Installation/restoration of new driveway, parking lot, or major repairs.

New draperies, carpeting, or furniture.

RESOLUTION 2025-006

A RESOLUTION OF THE CLARE CITY COMMISSION AMENDING THE CITY OF CLARE PURCHASING POLICY.

WHEREAS, the City has an established Purchasing Policy approved by the Clare City Commission outlining the process and procedures for the purchase of goods, services, equipment, and day-to-day expenditures and for the disposal of assets by the City; and

WHEREAS, said Purchasing Policy needs revisions to improve the efficiency and effectiveness of City operations; and

WHEREAS, the City Treasurer & Finance Director, with the endorsement of the City Manager, have proposed revisions of said Policy to the City Commission; and

WHEREAS, the City Commission has reviewed said proposed revisions and determined said revisions are reasonable and prudent and in the best interests of the City and its residents.

NOW THEREFORE BE IT RESOLVED THAT the Mayor and Clare City Commission hereby approves the proposed revisions to the City's Purchasing Policy/Procedures, said revisions as outlined therein, and directs its immediate implementation.

ALL RESOLUTIONS AND PARTS OF RESOLUTIONS INsofar AS THEY CONFLICT WITH THE PROVISIONS OF THIS RESOLUTION BE AND THE SAME ARE HEREBY RESCINDED.

**This Resolution was introduced by Commissioner _____ and supported by Commissioner _____.
The Resolution declared adopted by the following roll call vote:**

YEAS:

NAYS:

ABSENT:

Resolution approved for adoption on this 20th day of January 2025.

Diane M. Lyon, City Clerk

RESOLUTION 2022-052

A RESOLUTION OF THE CLARE CITY COMMISSION AMENDING THE CITY OF CLARE FIXED ASSET CAPITALIZATION POLICY.

WHEREAS, the City has an established Fixed Asset Capitalization Policy approved by the Clare City Commission outlining the process and procedures for the purpose of properly accounting for and reporting fixed assets in accordance with generally accepted accounting principles; and

WHEREAS, said Fixed Asset Capitalization Policy needs revisions to improve the efficiency and effectiveness of City operations; and

WHEREAS, the City Treasurer & Finance Director, with the endorsement of the City Manager, has proposed revisions of said Policy to the City Commission; and

WHEREAS, the City Commission has reviewed said proposed revisions and determined said revisions are reasonable and prudent and in the best interests of the City and its residents.

NOW THEREFORE BE IT RESOLVED THAT the Mayor and Clare City Commission hereby approves the proposed revisions to the City’s Fixed Asset Capitalization Policy, said revisions as outlined therein, and directs its immediate implementation.

ALL RESOLUTIONS AND PARTS OF RESOLUTIONS INsofar AS THEY CONFLICT WITH THE PROVISIONS OF THIS RESOLUTION BE AND THE SAME ARE HEREBY RESCINDED.

This Resolution was introduced by Commissioner _____ and supported by Commissioner _____. The Resolution declared adopted by the following roll call vote:

YEAS:

NAYS:

ABSENT:

Resolution approved for adoption on this 20th day of January 2025.

Diane M. Lyon, City Clerk