NEW HAMPSHIRE MUNICIPAL ASSOCIATION
EST. 1941

Expenditure Policies

FINANCIAL POLICIES CERTIFICATE SERIES

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Expenditure Policy

Purchasing/Bidding

Definitions
- Fair and open competition
- Allowable procurement methods
  - purchase orders
  - oral/written quotes
  - e-procurement
  - competitive bidding
  - bidding process
- Purchasing Levels with dollar thresholds
- Approval authority
- Exceptions/Special provisions
  - Emergency
  - Sole Source
  - Professional Services
  - Public Works and Infrastructure Projects
  - Contracts
  - Ethics/conflict of interest statement
    - *Purchasing and Bidding policy when separate should be cross referenced.*

Fixed and Capital Assets

- Establish processes, appropriate standards, authorization requirements and internal controls to ensure that a municipality's fixed assets are acquired, safeguarded, monitored, disposed of, and accounted for in accordance with town policy, state and federal laws and generally accepted accounting principles (GAAP)

❖Depreciation policy
❖Annual Reporting
❖Capital Assets
❖Infrastructure Assets
❖Controlled Assets
❖Repairs and Maintenance
❖Custody and Accountability

Disposal of Surplus

- Establish regulations that must be observed by the municipality for the disposal, reuse, transfer or purchase of obsolete, surplus, or scrap city/town-owned equipment, furnishings, supplies and/or materials.
- It is not uncommon for this procedure and the personnel policy to the prohibit employees/officials from taking possession of any surplus property or the proceeds from the sale of surplus property designated for transfer, trade-in, return, donation, or disposal as trash, scrap, or as recyclables, except as lawfully authorized by persons designated with such authority by the city or town.

Credit Cards

- Written procedures for cardholders and approving supervisors
- Guidelines on appropriate uses
- Dollar limits per transaction/per month
- Outline of required documentation
- Description of approval process
- Procedures for dispute resolution, lost/stolen cards and employee termination
- Reconciliations and audits
- Written acknowledgement signed by cardholder
- Segregation of duties for acquisition, approval and accounting

Petty Cash

❖Acceptable use
❖Restrictions
❖Purchase amount thresholds
❖Receipts and documentation for each transaction, which may be subject to review by internal or external audit.
❖A log for subject payments
❖Physical security over the petty cash fund
❖Naming the custodian of each petty cash fund
❖Method for increasing and replenishing the fund

Employee Reimbursements

- The reimbursement of purchases made on behalf of the municipality should be avoided when possible.

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Cities and towns can spend only for public purposes. Public funds cannot be used for private purposes. Thus, cities and towns have the right to spend money for any purpose where the public good will be served but not where the expenditure of money is directly for the private benefit of certain individuals.

In some situations, however, the expenditure of public funds advances both public and private interests.
In those situations, if the dominant motive for the expenditure is a public one, incidental private benefits will not invalidate the expenditure. If, however, the dominant motive is to promote a private purpose, the expenditure will be invalid even if incidentally some public purpose also is served.

Public Purpose Limitation

GUIDING PRINCIPAL

Bidding and Purchasing Policies

The purpose of these policies is to standardize purchasing procedures using a centralized and uniform purchasing process saving the taxpayers money and increasing public confidence in the procedures for municipal purchasing.

There is no state law requiring competitive bidding for municipal contracts and purchases (with the exception of a public official involved as one of the sellers or contractors). However, unlike their counterparts in the private sector, government-purchasing officials are often required to publicly disclose prices paid, as well as the reasoning and justification for choosing a particular vendor or contractor.

These policies should:

- promote the fair and equitable selection of all suppliers of goods and services
- set forth the duties and responsibilities of the officials and employees (if applicable, the purchasing agent)
- describe persons authorized to make purchases on behalf of the municipality
- ensure all reasonable steps to ensure the best value for the least amount of money.

The degree of effort expected is usually in direct proportion to the price or value of the good(s) or service(s) being purchased.

Definitions

- ❑ Fair and open competition
- ❑ Allowable procurement methods
  - ❑ purchase orders
  - ❑ oral/written quotes
  - ❑ e-procurement
- ❑ Competitive bidding
  - ❑ bidding process
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- ❑ Contracts
- ❑ Ethics/conflict of interest statement
- ❑ *Purchasing and Bidding policy when separate should be cross referenced.*

Purchasing/ Bidding Policy Checklist

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Policy Considerations

Purchasing and bidding polices should communicate:

- ✓ how to procure the necessary quality and quantity of goods and services
- ✓ who is allowed to procure those goods and services
- ✓ in an efficient, timely, and cost-effective manner, and
- ✓ encourage the most open, competitive purchasing process practicable for the acquisition of goods and services,
- ✓ with the objective of obtaining maximum possible value while maintaining fair and equitable treatment of vendors.

Competitive Bidding Policy - Legal Considerations

No statutory requirement for competitive bidding, unless a public official is a seller or contractor, in which RSA 95:1 requires competitive bidding if the goods exceed $200.

IIMPORTANT – if your municipality *has* adopted purchasing or competitive bidding policies, the courts have ruled that these policies must be *strictly* followed. In the case of *Gerard Construction Co. v. City of Manchester,* 120 N.H. 391 (1980), the New Hampshire Supreme Court stated that the purpose of competitive bidding is:

> [T]o invite competition, guard against favoritism, improvidence, extravagance, fraud and corruption and secure the best work or supplies at the lowest price practicable…. Central to this scheme is the notion that every prospective bidder should have identical information upon which to submit a proposal.

In this particular case, the Court addressed the issue of a vendor having been selected based upon criteria not communicated to all prospective bidders, specifically, the project completion date.

Competitive Bidding Policy – Legal Considerations

Despite the lack of statutory directives, by way of several other decisions in cases challenging municipal competitive bidding practices, the New Hampshire Supreme Court has established some basic rules of fairness in the bidding process.
In *Curran, Inc. v. Auclair Transportation, Inc.,* 121 N.H. 451 (1981), the Court ruled:

> [P]ublic officials have broad discretion in deciding whether to reject all bids made on public contracts. However, should public officials decide to accept any of the bids received on the proposed contract, their broad discretion to reject bids yields to the more ministerial function of determining the "lowest responsible bidder" who has complied with the terms of the solicitation.

In light of this decision, it is recommended that a policy define the term "lowest responsible bidder" to include criteria such as quality of the commodity, service reputation, suitability, compatibility, and other factors that are relevant and appropriate in connection with a given project or service. Some policies use the term "most advantageous," defining that as a judgmental assessment of what is in the municipality's best interest. Even with the adoption of policies clearly stating that criteria other than lowest price will be considered, municipalities must be extremely cautious in their bid selection process in terms of justifying any decision *not* to accept the lowest bidder. As explicated stated in thein many policy samples, "When other than the lowest priced good is selected, such decision shall not be arbitrary or capricious."

In the case of *Marbucco Corp. v. City of Manchester,* 137 N.H. 629 (1993), the Court addressed the impropriety of accepting a bid that is calculated on a different set of specifications than those included in the solicitation, without rejecting all bids, advertising the new specifications and allowing the other bidders to resubmit bids.

Competitive Bidding Policy Best Practice

These court decisions illustrate that, even in the absence of statutory provisions, case law has nevertheless established certain principles that must be considered in the adoption of a formal purchasing policy. These include:

- Fair and equitable treatment of all bidders;
- Criteria for selection;
- Definition of "lowest responsible bidder";
- Authority to reject all bids; and
- Process to change specifications.

Bidding Procedures and Thresholds

Most purchasing policies outline different procedures based upon the type of goods/services sought as well as the dollar amount involved.

The Governing Body should consider:

- Assigning dollar amounts to each category
- Specific procedures to be followed for emergency purchases, purchasing consultative and professional services (such as legal, auditing, architectural and engineering services), sole-source purchases and public works projects.)

- "Major," "large" or "capital" purchases should be set at a level of significant cost for which the governing body requires a formal bid process.
- "Minor" or "small" purchases should be set at a dollar value so that they may only be made by an authorized purchasing agent with prior approval.
- The governing body may also require that several quotes are obtained before the purchase is made. "Incidental" purchases should be set at a low enough level so that they may be made by designated personnel without prior approval.

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For illustrative purposes only the following table provides sample general guidelines for purchases and other purchasing requirements. All threshold amounts, compliance requirements, responsible parties and required approvals should be determined by each municipality and its needs.

ANYTOWN, NH

PURCHASING COMPLIANCE QUICK REFERENCE

Total Amount of Request	Compliance Requirement	Responsible Party	Approvals Required
Contracts Valued at $50,000 or more	Competitive bids opened at a public meeting	Department or Project Manager	Governing Body Town Manager or Administrator Finance
Goods Valued at $50,000 or more	At least 3 competitive bids / quotes based on like products or proof of purchasing co-op pricing	Department, Project Manager, Purchasing Agent	Governing Body Town Manager or Administrator Finance
$25,000 to $49,999.99	At least 3 competitive bids / quotes based on like products or proof of purchasing co-op pricing	Department, Project Manager, or Purchasing Agent	Town Manager or Administrator Finance Department Director
$5,000.00 to $24,999.99	At least 3 competitive bids / quotes based on like products or proof of purchasing co-op pricing	Department purchasing staff	Department Head Finance Department Director
up to $4,999.99	Compare pricing and quality to obtain the best value for the municipality	Department purchasing staff	Department Purchasing Approver and/or Finance

All bids, quotes and/or purchasing co-op pricing must be obtained PRIOR to purchase.

AUTHORIZTION REQUIREMENTS

A "Purchasing Agent" in this example is NOT referring to a municipality who has adopted the option to have a Purchasing Agent as set in statute.

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Purchasing Thresholds and Authority

Other example language may include language such as, but not limited to:

• All requisitions related to a Capital Improvement Project (CIP) require pre-approval.

• The town/city manager or town administrator may approve contracts or purchases up to $50,000 without prior council approval.

• For purchasing compliance consideration, the amount is determined by the total amount of related purchases or total term value of a contract, not individual invoice.

• Purchasers should refer to full policy for specific requirements related to the table above.

• It is the responsibility of each department to maintain and actively monitor their department's purchase orders contracts and agreements.

Exceptions

Nearly all the examples of purchasing policies will address exceptions to the purchasing procedures. The most common exception is for the acquisition of goods through intergovernmental cooperative purchasing contracts, such as the commodity contracts available to municipalities through the State of New Hampshire Bureau of Purchase and Property. Other exceptions may be for those items covered by a blanket purchase order, acquired from vendors on a pre-qualification list, or contracts with nonprofit organizations providing health, welfare or social services.

Alternatives to formal sealed bidding on purchases

Sometimes alternatives to formal bidding can be used, but make sure they are allowable in your situation. Depending on your circumstances, you may be able to make use of one of three alternatives to a formally bid a contract for purchases.

They are:

• Using the purchase contract process

• Piggybacking on another government's bid

• Claim an exception to bidding policy (example: sole source)

Purchase contract process (vendor list)

In some cases, there might be an alternative to formal sealed bidding and a roster (vendor list) might be used. This is referred to as the purchase contract process. This involves advertising to compile a list of interested vendors, who are then contacted and asked to provide a quote as purchases arise throughout the year.

Example - Using a vendor list or purchase contract process

Requirement	How it applies
Advertisement	At least twice a year Varies by government type but commonly: Published notice in the local newspaper at least once; typically no less than 13 days before the due date for bids
Threshold at which you can use the roster	Varies by government type.
Bid thresholds for purchases	Process for obtaining quotes Should be obtained from at least three different vendors
Records	The bid quotations obtained must be recorded, open to public inspection, and available for inquiries
Adding contractors to the roster	Develop a process in policy
Bidding requirements for purchases subject to competitive bidding	
Bid award	Most government types must award to the lowest responsible bidder. Otherwise they may award based on best value. If the latter, keep records showing what criteria was used to decide "best value" and an analysis of how the bids were evaluated.
Awarding contracts	To authorize establish procedures for obtaining telephone and/or written quotes

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Municipal Conflict of Interest policy

- Every municipality should adopt a conflict-of-interest prohibition.
- Such prohibition must contain at least the following elements:
  - a definition of "conflict-of-interest";
  - a list of the elected and appointed officials covered by such prohibition;
  - a method to determine whether a conflict of interest exists;
  - actions that must be taken if a conflict of interest is determined to exist; and
  - a method of enforcement against individuals violating such prohibition.
- Check your adopted procurement/purchasing policy to ensure it contains a section that addresses conflicts of interest for employees ,elected and appointed officials and contains the necessary elements of 2 C.F.R. § 200.112. & 2 C.F.R. § 200.318

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Award
- Proposal Development
- Eligible Expenses

Procurement & Contracting
- Eligible Expenses
- Risk Assessment
- Duplication of Benefits
- Subcontractor Determination
- Approval Process

Post-Award management
- Documentation
- Reporting
- Monitoring

Annual Reporting
- Goals and Objectives
- Activities
- Outputs
- Outcomes
- Expenditure Categories
- Compliance

FEDERAL /GRANT PROCUREMENT LIFECYCLE OF A GRANT

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Federal Funds/Grant Purchasing Compliance

What Are Eligible Expenses?

- Determine the Exact Proposed Use of the Funds and all associated costs.
- Review 2 CFR Part 200,SubpartE HERE. Procurement Cash Management Standards
- Adhere to Grant management Best Practices
- Document all expenditures and monitoring maintaining complete financial records and supporting documents
- Continue on-going monitoring and reporting to Treasury through the lifecycle of the grant.

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ELIGIBLE EXPENSES

- Grant money can only be spent on the eligible uses defined in the Award Terms and Conditions, Congressional Act and Treasury's regulations.
- It cannot be spent on any other purpose.
- If money is spent on a purpose that does not meet the guidelines of the eligible uses, then this money can be "clawed back" by Treasury.
- This means the municipality will have to pay back the amount of misused funds to Treasury.

PRIOR TO ENGAGING IN ANY PROJECT

The important language is "**prior to engaging**".

Before you undertake your project make sure you have the "capability" to manage the project financially, administratively and on the ground.

"**Capability**" can either be the municipality's internal resources, or the services of a consultant under contract with the municipality.

If you hire a consultant or a grant administrator -build this cost into your project budget to ensure it is covered.

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Grant Procurement and Contracting Considerations

Pre-Expenditure Checklist

- ❑ Evaluate Need to **maximize** use of funds
- ❑ Evaluate **allowability** of proposed project
- ❑ Establish an **approval** process and **implementation** timeline
- ❑ Perform **risk assessment and debarment inquiry/check** and **duplication of benefits analysis**
- ❑ Have and follow written procurement **policies/ procedures/internal controls**

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Two types of Federal Procurement and Expenditure Thresholds

Informal

- **Micro Purchase:** up to $10,000
  - Can increase threshold up to $50,000 with self-certification justified and documented
- **Small Purchase:** $10,000 to $250,000
  - $250,000 is known as the Federal Simplified Acquisition Threshold (SAT)

Formal

- **Competitive Procurements:** SAT at $250,000
- **Sealed Bid Procurements:** SAT of $250,000
- **Sole Source:** does not have a threshold
- **Cooperative Purchasing Agreements:** does not have a threshold

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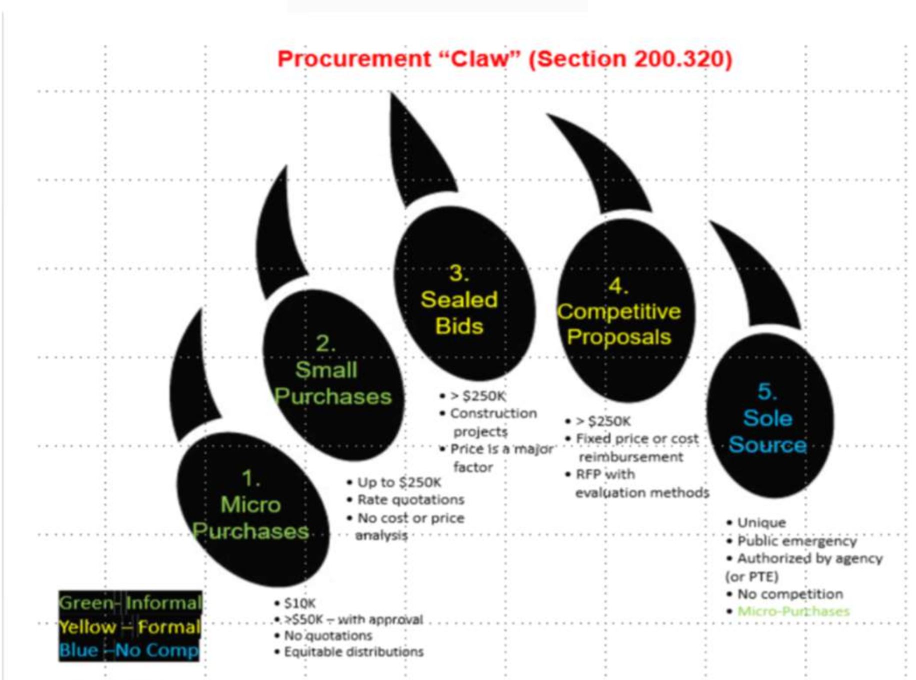

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Before you Accept/Expend Grant Funds…

How will funds be administered and monitored?

WHO?

- ✓ Who, internally, will administer and oversee use of funds?
- ✓ Who will determining allowability?
- ✓ Who will Develop reporting and performance measures, metrics and standards?

WHAT?

- ✓ What processes will be used to communicate, capture data, identify direct and indirect costs, and develop reporting and performance.
- ✓ What written policies and procedures are in place or need to be updated? E.g., allowability of costs, procurement, conflict of interest, property standards, records retention etc.

Maintenance of and Access to Records

DOCUMENTATION

- Maintain records and financial documents sufficient to evidence compliance with section 603(c) of the Act

MONITORING

- The Treasury Office of Inspector General and the Government Accountability Office, or their authorized representatives, shall have the right of access to records (electronic and otherwise) of Recipient in order to conduct audits or other investigations

5 YEAR RETENTION PERIOD

- Records shall be maintained by Recipient for a period of five (5) years after all funds have been expended or returned to Treasury, whichever is later.

Grant Compliance with Applicable Federal Laws and Regulations - Non-exhaustive list

This applies to not only the recipient/municipality, but also every entity with whom the municipality enters into agreement or contract that will be paid with ARPA funding.

- Governmentwide Requirements for Drug-Free Workplace, 31 C.F.R. Part 20
- New Restrictions on Lobbying, 31 C.F.R. Part 21.
- Title VI of the Civil Rights Act of 1964 (42 U.S.C. §§ 2000d et seq.) and Treasury's implementing regulations at 31 C.F.R. Part 22, which prohibit discrimination on the basis of race, color, or national origin under programs or activities receiving federal financial assistance.
- Uniform Relocation Assistance and Real Property Acquisitions Act of 1970 (42 U.S.C.§ 4601-4655) and implementing regulations.
- Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. § 794), which prohibits discrimination on the basis of disability under any program or activity receiving federal financial assistance.
- The Age Discrimination Act of 1975, as amended (42 U.S.C. §§ 6101 et seq.), and Treasury's implementing regulations at 31 C.F.R. Part 23, which prohibit discrimination on the basis of age in programs or activities receiving federal financial assistance.
- Title II of the Americans with Disabilities Act of 1990, as amended (42 U.S.C. §§ 12101 et seq.), which prohibits discrimination on the basis of disability under programs, activities, and services provided or made available by state and local governments or instrumentalities or agencies thereto

Grant Compliance with Applicable Federal Laws and Regulations - Non-exhaustive list

Remedial Actions. In the event of Recipient's noncompliance with section 603 of the Act, future awards may become unallowable.

Recoupment. Any Recipient has failed to comply with subsection (c) shall be required to repay to the Secretary an amount equal to the amount of funds used in violation of such subsection.

The Hatch Act. Limits certain political activities of federal employees, as well as some state, and local government employees who work in connection with federally funded programs.

False Statements :making false statements or claims in connection with this award is a violation of federal law.

Publications. Any publications produced with funds from this award must display specific language.

Disclaimer: The acceptance of this award by Recipient does not in any way establish an agency relationship between the United States and Recipient.

Protections for Whistleblowers. In accordance with 41 U.S.C. § 4712.

Increasing Seat Belt Use in the United States. Pursuant to Executive Order 13043.

Reducing Text Messaging While Driving. Pursuant to Executive Order 13513, 74 FR 51225

FIXED & CAPITAL ASSETS POLICY

FIXED ASSET ACQUISTION AND MANAGEMENT POLICY

The purpose of this policy is to establish processes, appropriate standards, authorization requirements and internal controls to ensure that a municipality's fixed assets are acquired, safeguarded, monitored, disposed of, and accounted for in accordance with town policy, state and federal laws and generally accepted accounting principles (GAAP);

- assign roles and responsibilities for accountability.
- applies to all municipal employees, officials' volunteers, and contractors responsible for acquiring, safeguarding, and/or disposing of fixed assets for their respective departments.
- procurement and accounting staff performing functions relating to fixed asset purchasing, accounting, inventory, and disposal processes.

CAPITAL ASSETS AND DEPRECIATION POLICY

A municipality's accumulation of capital assets often represents its most significant investment of municipal resources.

- value associated with the purchases of buildings, equipment, machinery and other long-term assets.
- actively manage assets to ensure that the most value is received from this considerable investment.
- address capital asset maintenance and performance.
- after the initial investment, municipalities must continually commit time and money to the maintenance of buildings, infrastructure, machinery, equipment and similar assets.

Capital Assets And Depreciation Policy

Policy Checklist Recommendations:

- ☐ Annual Reporting
- ☐ Capital Assets
- ☐ Infrastructure Assets
- ☐ Controlled Assets
- ☐ Repairs and Maintenance
- ☐ Custody and Accountability

Recommended Disposal of Surplus Assets, Supplies, Equipment Policy

The purpose of this policy is to establish regulations that must be observed by the municipality for the disposal, reuse, transfer or purchase of obsolete, surplus, or scrap city/town-owned equipment, furnishings, supplies and/or materials

Various methods for the transfer or disposition of surplus property may include:

(1) **Transfer to Another Department.** Surplus property may be transferred between departments.

(2) **Trade-In.** Property declared as surplus may be offered as a trade-in for credit toward the acquisition of new property.

(3) **Return to Manufacturer.** Surplus property may, when possible, be returned to the manufacturer for buy-back credit.

(4) **Disposal.** Surplus property may be offered for sale by the municipality. Appropriate methods of sale might be considered as follows:

(a) Auction. Surplus property may be sold at public auction. Auctions may be conducted by staff, or the staff may contract with a professional auctioneer or electronic auction site.

(b) Sealed Bids. Sealed bids may be solicited for the sale of surplus property. Surplus property disposed of in this manner shall be sold to the highest responsible bidder.

(c) Selling for Scrap. Surplus property may be sold as scrap if the municipality deems that the value of its parts exceeds the value of the surplus property as a whole.

(d) No Value Item. Where the municipality determines that property is surplus and of minimal value to the municipality due to spoilage, obsolescence or other cause or where the municipality determines that the cost of disposal of such property would exceed the recovery value, the municipality shall dispose of the same in such a manner as they deem appropriate and in the best interest of the municipality.

(5) **Donation.** Surplus property may be donated to any other public agency or charitable organization exempt under Section 501(c)(3) of the Internal Revenue Code. "Public agency" means the State or any agency or subdivision thereof, any city, county, special district, or school district. [Ord. 271 § 3, 2011.]

(6) Note that equipment purchased under the terms and conditions of a state or federal award must be used and disposed of properly in accordance with terms and conditions outlined in the Federal Uniform Guidance or by the state agency.

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Credit Card and Purchasing Card Policies Recommendations

The GFOA recommends the following controls to ensure the ongoing success of a credit card or purchasing card program:

- ✓ Written agreements with banks, which include fee schedules and processing procedures.
- ✓ Written policies and procedures for internal staff;
- ✓ Instructions on employee responsibility and written acknowledgments signed by the employee;
- ✓ Spending and transaction limits for each cardholder both per transaction and on a monthly basis;
- ✓ Written requests for higher spending limits;
- ✓ Recordkeeping requirements, including review and approval processes;
- ✓ Clear guidelines on the appropriate use of purchasing cards, including approved and unapproved Merchant Category Codes (MCC)—see below for further explanation;
- ✓ Guidelines for making purchases by phone and fax or over the internet;
- ✓ Periodic audits for card activity and retention of sales receipts and documentation of purchases;
- ✓ Procedures for handling disputes and unauthorized purchases;
- ✓ Procedures for card issuance and cancellation, lost or stolen cards, and employee termination; and
- ✓ Segregation of duties for payment approvals, accounting and reconciliation.

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CREDIT CARD AND PURCHASING CARD POLICIES CHECKLIST

- Written procedures for cardholders and approving supervisors
- Guidelines on appropriate uses
- Dollar limits per transaction/per month
- Outline of required documentation
- Description of approval process
- Procedures for dispute resolution, lost/stolen cards and employee termination
- Reconciliations and audits
- Written acknowledgement signed by cardholder
- Segregation of duties for acquisition, approval and accounting

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Petty Cash And Employee Reimbursements Procedure

A petty cash procedure should address:

- Acceptable use
- Restrictions
- Purchase amount thresholds
- Receipts and documentation for each transaction, which may be subject to review by internal or external audit.
- A log for subject payments
- Physical security over the petty cash fund
- Naming the custodian of each petty cash fund
- Method for increasing and replenishing the fund

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Reconciliation & Internal Controls

General Duties and Best Practices of a Municipal Treasurer around Cash

- ✓ Receive, disburse and serve as custodian of all public money.
- ✓ Provide for accountability of the entity's cash receipts, deposits and investments of all departments, offices and boards.
- ✓ Pay all claims or warrants when presented for payment when there are funds in the treasury to pay the warrants/checks.
- ✓ Require periodic departmental reports of money receipts and their disposition on forms (to the governing body)

Only the municipal treasurer may <u>open an account</u> for the receipt of local government money (unless it is funds for the Trustees of Trust Funds)

Who are your account signatories?

Cost Accounting

EXPENDITURES- Understand the General Cost of Services

Operations costs - EXAMPLE

Service	Per-Capita
24 hour police protection	$19.00
Trash collection and disposal	$6.50
Road repair snow and removal	$5.94
Library Services	$4.60
Capital Improvements (roads, sidewalks)	$5.32
Parks and Recreation (maintenance)	$3.40
Fire/EMS/Fire Prevention	$2.00
Health + Dial-a-Ride	$1.59
Total	$48.35

Include both direct and indirect costs associated with Projects, Services and Programs

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Key Factors in inflation….

Disinflation and economic deceleration dominate state and local budgets and investments.

Payroll costs outpace revenues.

Price for goods and services has not leveled out.

- Inflation, which measures price increases and purchasing power continues to climb as demand outstrips supply or when production costs rise.
- Inflation increases operating costs at every level of government – including employee wages, borrowing costs, and long-term pension liabilities.
- The inflation stems from a potent mix of overlapping factors – including increased consumer demand, supply chain issues, higher wages, and federal policy.
- Local governments, which depend primarily on property tax in NH, cannot keep up with inflation at the same rate as compared to our municipal counter-parts in states with additional revenue streams such as sales and income tax and local option taxes.

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Will Inflation Impact a Municipality's Finances?

INFLATION ELASTICITY

- Property tax is our main local revenue source
- State revenue sharing continues to decline
- If inflation and revenue grow at a similar pace, local governments will have some elasticity and flexibility.
  - Currently, Inflation is still outpacing revenue projections in many cases.
  - A competitive wage market and the costs for goods and services continue to trend upwards

Careful analysis of current fees and revenue streams at the local level should be considered.

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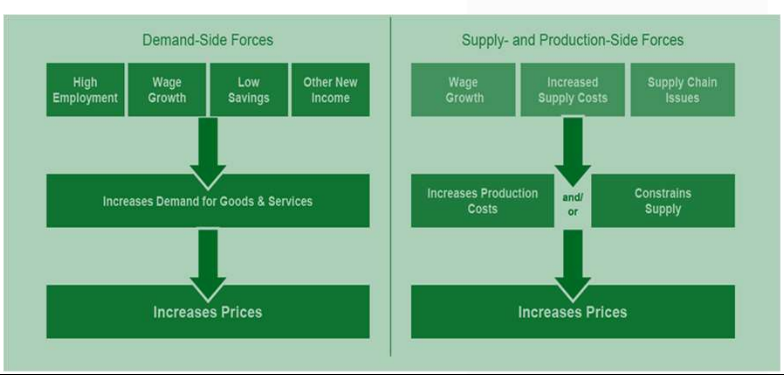
Inflation measures price increases AND Inflation is also a measure of purchasing power…

Inflation increases the short- and long-term costs.

Prices often rise when demand increases faster than supply or it gets more expensive to produce goods and services.



State and local spending decisions could potentially contribute to rising costs in specific areas or industries. For example, NH plans to spend billions on capital projects and infrastructure needs over the next 5 years due to a large state surpluses and federal relief dollars. These historic investments could increase competition for construction services and drive- up prices and slow supply chain.

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EXPENDITURE ANAYLSIS - *Options to Measure Inflation*

Local governments are under considerable pressure to relate their spending and taxation levels to cost inflation for transparency.
In developing the budget, apply the indices that work best as a predictor –
the use of different indices depending on the expenditure category may be necessary.

- Consumer Price Index (CPI). Often used in setting cost-of-living adjustments (COLAs)
- The Employment Cost Index (ECI) details the changes in the costs of labor for businesses in the United States. This index, readily available each quarter, is used to monitor inflation by measuring changes in labor costs for wages and salaries. Information is provided by the U.S. Bureau of Labor Statistics.
- The Producer Price Index (PPI) measures the price changes of commodities at different stages of processing.
- The Gross Domestic Product (GDP) deflator, mostly used in national accounts, is designed to reflect current expenditure patterns in an economy, and therefore focuses on new domestically produced final goods and services.
- The Construction Price Index (CPI), used by the U.S. Department of Commerce, reflects the changes in the cost of construction materials and skilled and unskilled labor. It is a composite derived from separate indices for construction of commercial facilities, residential housing, utilities and highways.
- The Education Price Index (EPI) for elementary and secondary school spending, compares current salary grids for teachers with a base year, and uses selected sub-indices from the CPI and the Industry Product Price Index as proxies for price increases for non-salary items purchased by school boards.
- The Municipal Cost Index (MCI), published by the American City and County magazine, estimates the rate of inflation for purchases by American municipalities. The MCI is a composite index, a weighted average of more detailed price indices measuring consumer price cost fluctuations (using the CPI), industrial commodity wholesale prices (using the PPI), and construction contract costs (using the Construction Price Index).

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The right tool for the right analysis…..
The **Municipal Cost Index (MCI)**

Developed by American City & County, who has recently joined Smart Cities Dive

- Designed to show the effects of inflation on the cost of providing municipal services
- Data goes back to 1978
- Shows Municipal Cost Index compared to Construction Cost, Consumer Price and Producer Price Indexes

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2025 Municipal Cost Index

Month	Municipal Cost Index	MCI Year-Year Change	Construction Cost Index	CCI Year-Year Change	Consumer Price Index	CPI Year-Year Change	Producer Price Index	PPI Year-Year Change
Jan 2025	320	2.28%	365	1.59%	319	3.04%	257	2.63%
Feb 2025	321	2.09%	366	1.82%	320	2.80%	260	1.65%
Mar 2025	321	1.91%	366	1.83%	320	2.37%	259	1.45%
Apr 2025	322	1.74%	367	1.95%	320	2.27%	259	0.57%
May 2025	322	2.18%	368	2.35%	321	2.35%	259	1.59%
Jun 2025	323	2.44%	369	2.55%	322	2.70%	260	1.86%
Jul 2025	325	2.49%	370	2.63%	322	2.74%	263	1.86%
Aug 2025								

Abbreviations
MCI = Municipal Cost Index
CCI = Construction Cost Index
CPI = Consumer Price Index
PPI = Producer Price Index

The Best Way to Account for Inflation is to Know What Current Operations Cost

Examples provided are for educational purposes and do not represent current or real costs.

The Costing Method

Understanding today's true costs can assist in developing a more effective overall budget.

The more accurately we can forecast the budget, the better the ability to withstand fiscal stress during the budget cycle and beyond.

In terms of inflation or minimizing the effects of inflation on the bottom line, using the "costing method" can allow a deeper look into the costs that may or may not be impacted by inflation.

✓ Costing also allows for fees, charges for services, rates to be accurately updated.

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Purpose of Costing

The purpose of costing is not simply to collect cost data, but provides information that can be used to make better management decisions in several areas:

- Analyzing the efficiency of municipal services
- Making budget decisions
- Setting fees for services and determining intergovernmental charges
- Choosing among alternative methods of providing services, such as contracting or regionalization

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Costing Municipal Services

- What is the full cost of disposing of trash in your community?
- How much does it cost to provide fire protection?
- What would it cost to increase service levels?
- How much could be saved by changes in how you deliver services?
- If you charge fees for municipal services, what percentage of the cost of service do they cover?
- Under what circumstances should fees be increased?

Today we will discuss an effective, but simplified technique to apply this financial tool.

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Costing Explained

Costing differs from traditional municipal budgeting and accounting in three ways:

1. Costing looks at the **cost of all resources** used to provide services rather than expenditures made to operate municipal departments;

2. Costing includes **all** costs of providing a service, not just those found in the budget or financial reports of the department responsible for the service;

3. Costing focuses on the **cost** of the resources used to provide a service **during a given period of time,** regardless of when cash disbursements are made to purchase these resources.

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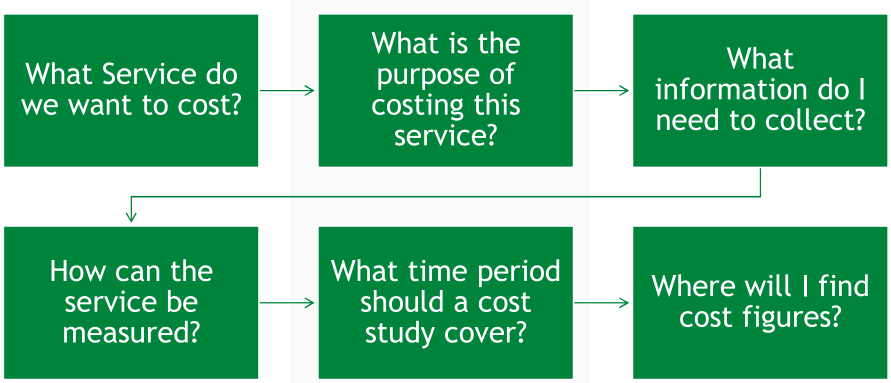
	Questions to be Answered
Full Costs	What is the cost of all resources used to provide the service?
Average Unit Costs	What cost should be the basis for setting fees?
Job Costs	What is the cost of performing one job?
Incremental Costs	What would it cost to expand the service?
Avoidable Costs	What costs would be avoided if some or all of the service were dropped, or different service delivery method (e.g., contracting) were used?

Types of Costs Methods and Their Uses

Where to Begin?

DECIDING WHAT TO STUDY:



How Can the Service be Measured?

Consider how the **output** and cost of the service can be measured.

The term **output** to describe the amount of a service provided by a local government.

Measures of output and cost vary with the nature of the service being costed.

Cost of Services	÷	Number of units of output	=	Unit Cost
Example:				
$1,900 (total cost of voter registration)	÷	250 (number of voters registered)	=	$7.60 (cost of registering one voter)

▶For municipal services which are one-time jobs or for which the effort required varies greatly from job to job, units of output are not standard and average unit cost is not a useful measure;

▶ A more meaningful calculation is the cost of each job or a range of costs per job

Example: In analyzing the cost of road plowing, we are likely to be more interested in the cost per lane-mile than the cost per road paved.

The cost per road paved varies greatly with the length and width of the road.

In contrast, calculating the cost per lane-mile allows us to estimate average plowing costs for the town as a whole.

Examples of Services, Measures of Output, and Unit Costs

Service	Output	Unit Cost
Road Paving	Lane-miles paved	$ per lane-mile
Street Repair	Square yards of street repaired	$ per square yard
Water	Gallons of water delivered	$ per gallon
Fire Protection	Protection of property & lives	$ per hour of protection provided
Police Protection	Police patrols	$ per hour of patrol
Police Reports	Number of reports completed	$ per report
Recreation Programs	Number of people served or programs offered	$ per participant or $ per program
Productive Time*	Hours actually worked	$ hourly rate
Payroll or Accounts payable Processing	Number checks	$ per check
Tax and Utility Billing	Number of bills	$ per bill

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What Time Period Should We Analyze?

The answer to this question depends on the purpose of the study.

$ Where Will I Find Cost Figures?

- The primary source of cost data is expenditure records:
  - general and subsidiary ledgers
  - warrants for payments
  - debt service records
  - expenditure reports
  - budgets
  - non-financial records such as equipment purchase and maintenance records, building records, mileage reports, and payroll and personnel records.
- The ease with which cost information can be collected will depend on the level of detail in municipal expenditure records and budgets.

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Distinguishing Between Expenses and Expenditures

Expenses: Refers to the costs incurred for specific services or programs.

- ***Example***: Salaries, rent, utilities, and other operational costs.

A service bill submitted by a contractor in July 2021 for work done in June of that year should be considered an **expense** for the 2021 fiscal year, even though the **expenditure** is made in the 2022 fiscal year.

Expenditures: Total amount of money spent on various services.

- ***Example:*** Includes funds transferred from other governments.

This situation occurs when an asset is used after its purchase has been completed. The general principle to be followed in costing the asset is to distribute its cost over its expected useful life.

A police car is purchased for $45,000 at the beginning of fiscal year 2020 and is expected to be used for three years. The annual cost of the vehicle is $15,000 ($45,000 ÷ 3).

A fire station built at a cost of $5,000,000 (excluding interest) has a useful life of 30 years. $5,000,000 divided by 30 is $166,666, which for costing purposes is the yearly expense of the building. Interest payments, which are declining over the debt payment period, are recorded as an expense in the year they are paid.

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What information can the costing method provide?

- Shows an employee the value of their compensation package.
- Can be used when negotiating or determining a COLA or pay increase.
- Compares total employee costs (not just the hourly rate) to subcontractor rates.
- Calculates the minimum billing rate for an employee’s time.
- Budget employee costs more accurately.
- Understand various scenarios before committing to a new hire or changing your employee benefits package.

What is the Real Cost of our Most Valuable Assets - Our Employees?

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To analyze the full cost of services provided in any year or period, employees' benefit and pension costs should be included.

- Employee Real Cost Calculation
  - Salary or Hourly Wages
  - Payroll Taxes
  - Workers Comp
  - Taxable compensation in addition to wages
  - Optional benefits
    - Health/Dental
    - Other

- Pension Costs
  - To simplify the calculation:
  - Establish the total annual contribution to Group I and/or Group II.
  - The pension costs of any one department can be allocated based on the ratio of active employees' salaries in that department as a percent of total salaries of all employees contributing to their Group of the retirement system.

Example: To determine the full cost of providing ambulance service, a community needs to include an estimate of pension costs for ambulance service. The pension cost for ambulance service is apportioned based on the proportion of ambulance-related salaries to the salaries of all community employees participating in the retirement system. Current salaries of ambulance personnel total $145,400 while the salaries of all employees participating in that group of the retirement system total $1,680,047; therefore the ratio is calculated to be 8.65% percent ($145,400 ÷ $1,680,047). This ratio is then applied to the current pension assessment of $210,000, yielding an estimate of $18,165 (8.65% of $210,000).

Data needed to complete the analysis:

What resources are used in providing a service?

- Identify what the resources are needed to provide the service.
  - labor, supplies, equipment, facilities, and purchased services.
- Most resources are provided by the department responsible for the service.
- Indirect costs should be considered.

Determine direct and indirect costs

- The total cost of resources used to provide a service is made up of two elements -- direct costs and indirect costs.
- **DIRECT COSTS**: Clearly identifiable and attributable to specific service or department.
- **INDIRECT COSTS:** Costs **not** readily attributable to a service or department, because they are shared with other services or departments.

Direct v. Indirect Costs

Direct Cost:
Clearly identifiable and attributable to specific service or department.

Own Department
E.g., salaries of personnel running the youth program; supplies used in the program.

Other Departments
E.g., mowing of recreation department fields by the public works department

Indirect Cost:
Not readily attributable to a specific service or budget.

Indirect Operating Costs
E.g., cost of recreation department offices in town hall. Because the town hall is used by many departments, the share of its cost attributable to the recreation department is not found separately in any budget or accounting data. Therefore, it is calculated as an indirect cost.

Indirect Administrative Costs
Government-wide **--** E.g., costs of townwide administration by town manager, which benefits all town departments.

Departmental **--** E.g., administrative costs of the recreation department which cannot be readily attributed to individual recreation department programs.

Note: There is no single correct way to categorize a cost as direct or indirect. What is important is to:

Set reasonable guidelines to decide if a cost is direct or indirect

Be consistent in categorizing costs as direct or indirect

Count every cost, but only count it once

- **How are indirect costs allocated to services?**
  - Not always easily attributed or allocated
  - Not always exact- *estimates*
  - Essential to the operation of local government or a service or program.
  - When applied, provides more accurate information for decision making.

Variable, Fixed and Stepped Costs

- **Variable Costs-** Change directly and proportionally with the amount of service beingprovided.

Example: The cost of asphalt used by the Highway Department, whichchanges with the miles of road being paved.

- **Fixed Costs-**Do not vary with a change in service levels.

Example: The cost of operating and maintaining the Highway Department building generally does not change with increases or decreases in miles of road paved.

Stepped Costs: Within a given level of service, they do not change, but with large increases or decreases in service, they change in relatively large amounts.

Example: The cost of equipment used in road paving does not changewith small increases in miles of road paved. However, if a large number of additional miles of road are to be paved, additional equipment will have to be purchased; equipment costs will thus increase in a large single step and be fixed ata new, higher level.

Using the Costing Information

Analyze the efficiency of municipal services

- What factors make the cost of a service unusually high?
- Why has a cost changed?
  - Labor, Materials, Inflation, not enough users, increased users?
- Have unit costs changed?

In analyzing service efficiency, it is important to distinguish between the efficiency and effectiveness of services.

Efficiency means providing a service at the lowest possible cost, while effectiveness refers to the quality of the service and how well it is meeting its goals, objectives or intended outcomes

Making budget decisions with costing information

Year-to-year cost comparisons reveal changes in costs that may present differently than budget and line item comparisons.

The breakdown between direct and indirect costs indicates which costs and departments relate directly to the service, and which are needed to support it indirectly.

When changes in service levels are being considered, incremental and avoidable costs are important.

There are always a variety a variety of costing questions when making budget decisions.

- Why has the cost of service changed from last year?
- How can I justify to voters an increase in next year's budget for a particular service?
- How much money can be saved if a particular service is reduced or if a change is made to the method of delivery ?
- How much will it cost to increase a service?
- How can we budget for or absorb unknown inflationary costs?

Costing and Revenue Streams

Local governments should review their catalogue of user fees, permits, licenses, and fines to consider how these can be adjusted to reflect changes in demand.

How can a municipality extract greater value out of fees and fines, as an alternative to raising taxes?

A service is assigned a charge, residents will only use that service in direct accordance with the value it offers them, aligning the price of the service with the cost borne by the government offering it.

Reviewing user fees is not merely a response to pandemic pressures, but also an approach for making use of government services more efficient.

Using the costing method, fair equitable and accurate charges can be assessed.

To determine fees for municipal services, officials need to know the amount of service provided and the cost of one instance of service.

- **Statutory restrictions-** State laws or local ordinances may specify the fee to be charged, place a ceiling on it, or establish a range within which the fee must be set.
- **Costs to be recovered-**Should fees be set to recover all direct and indirect costs associated with them, or only the direct costs of operating the programs? Officials should keep in mind the guideline "just and equitable" when setting fees.
- **Equity-**Will an increase fees mean that low-income and elderlycitizens, who most need the department's services, will not be able to afford them? If so, a reduced fee to these citizens may be worth consideration.
- **Collection costs-**A decision is made to charge a pay per use fee each time citizens use it. As a result,another employee must be hired to collect fees and issue receipts. The additional cost of collecting the fees may be more than the fee revenue collected.
- **Negative effects of charging for municipal services -**When user fees are increased sharply, officials may notice a decrease in use.

Things to Consider with Cost Accounting

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Conclusion-
Limits to Costing

Although costing is a very useful tool for municipal officials and policymakers, it is important to remember that it represents only one aspect of decision-making. Other factors also must be considered in any decision.

- Local traditions: How have services been provided in the past?
- Political acceptability: Will a change be acceptable to both providers and users of the service?
- Legal constraints: Is the change permissible under the laws of the Local Government and State?
- Employee relations: Does the municipal labor contract allow the change? Will it improve the culture and climate of the workplace?

Avoidable and new costs are important factors in choosing among alternative methods of providing services.

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Example - A Case Study Matrix

	Direct Inputs	Indirect Inputs
Personnel	Salaries and Wages PT/FT/Seasonal Holiday, Overtime Pay,Fringe Benefits Direct Supervision	Pensions
Equipment & supplies	Vehicles Equipment Maintenance Insurance Communication Equipment Service-Related Supplies Other	
Facilities	Building Maintenance	Capital Plant & Outlay Utilities Building Insurance Shared Building Maintenance Costs
Other	Education & Training Dues /Subscriptions Travel	Admin costs: Treasurer/collector: Billing & Fee Collection, Salaries & Wages Town accountant: Administration of Payroll, Benefits, & Insurance

Thank you

QUESTIONS?