

**REQUEST FOR COUNCIL ACTION****TO:** Mayor via City Secretary**Subject:** Ordinance amending and restating the City of Houston's Financial Policies adopted by Ordinance No. 2003-474**Category #****Page 1 of 2****Agenda Item****FROM (Department or other point of origin):**

Kelly Dowe

Chief Business Officer/Director of Finance

**Origination****Date:**

Sept. 29, 2014

**Agenda Date**

November 12, 2014

**DIRECTOR'S SIGNATURE****Council District(s) affected:**

All

**For additional information contact:** Tantri Emo, Deputy Director  
**Phone:** 832-393-9076**Date and Identification of prior authorizing Council Action:** Ordinance 2003-474**RECOMMENDATION: (Summary)**

Adopt an ordinance amending the City's Financial Policies to include new standards for strengthened financial reserves, increased emphasis on maintenance of the City's physical assets, requirements for long-term forecasting and planning, improved internal controls, and enhanced stewardship of public funds and resources.

**Amount of Funding:**

N/A

**Finance Budget:****SOURCE OF FUNDING:**☐

General Fund

☐

Grant Fund

☐

Enterprise Fund

☐

Other (Specify) N/A

**SPECIFIC EXPLANATION:**

Approval of this ordinance will strengthen the City's financial policies for financial reserves, long-term forecasting and planning, improved internal controls, and enhanced transparency and accountability in stewardship of public funds. The policies as proposed require that the proposed budget and Capital Improvement Plan each year include statements indicating whether they comply with each relevant policy; the adopted budget is to include a listing of the financial policies indicating whether the City is in compliance with each. Where compliance is not attained, the budget shall also include a statement explaining the non-compliance and outlining a plan for compliance. The policies are to be reviewed at least every two years. Per the proposed ordinance, the policies are to take effect with the Proposed Budget for FY16 and shall be reflected in the Adopted Budget for FY16 unless stated otherwise in the policies as adopted. Other highlights include:

**General Fund Reserve Policies**

- Setting the City's desired minimum unassigned Fund Balance at 7.5 percent of annual expenditures (excluding debt service) and establishing standards for use of Fund Balance.
- Renaming the Rainy Day Fund as the Budget Stabilization Fund, and amending the current \$20 million minimum to be "an amount not less than the greater of (a) 1 percent of expenditures (excluding debt service payments) or (b) \$20 million."

**Enterprise Funds Reserve Policies**

- Requiring each enterprise fund to have an appropriate written methodology for determining minimum and maximum cash reserves.

**Internal Service Fund - Health Benefits Fund Reserve Policies**

- Establishing that Health Benefits Fund reserves are City funds, and outlining required reserves for the Health Benefit Fund:
  - Claim Reserve (to be reviewed at least once each fiscal year to determine whether the fund has a funded liability to pay claims incurred but not yet reported, as well as "run-out" claims that may occur if self-insured programs are terminated).
  - Contingency Reserve to be maintained at a minimum of 10 percent of annual claims up to a maximum of 60 days average claim expense paid over the prior fiscal year for each self-insured program.

**Operating Budget Policies – Revenues and Expenditures**

- Requiring annual presentation to and adoption by City Council of a balanced operating budget for the coming fiscal year.
- Making clear that all post-employment and employee benefit systems will be financed in a manner that fully and systematically funds all liabilities, with Council to be informed if sufficient funds are not allocated in the budget.
- Requiring a comprehensive analysis of City fees and rates (except impact fees) at least every five years by an outside independent third-party entity (fees and rates may still be adjusted by ordinance in the interim under certain conditions).
- Requiring a City employee compensation study by an outside independent third-party entity at least every three years.

**REQUIRED AUTHORIZATION**

Finance Director:

Other Authorization:

Other Authorization:

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**Operating Budget Policies – Revenues and Expenditures** (continued)

- Increasing funding for Operating Maintenance of facilities/fleet/equipment/technology by at least 0.25 percent of Current Replacement Value (CRV) annually until funding reaches 2 percent of CRV.
- Monitoring compliance with City Financial Policies through statements in annual proposed budget ordinances indicating whether the budget is in compliance, explaining any non-compliance and outlining a corrective plan.
- Requiring a Fiscal Note for any Request for Council Action seeking funding not in the adopted budget, with the Fiscal Note to include information on program/project start-up cost, projected maintenance and operating costs for a minimum of five years, and identification of budgetary savings or other funding source to meet funding needs.

**Capital Asset Management Policies**

- Highlighting long-term impacts of capital investment by including in the annual Capital Improvement Plan (CIP) a five-year operating budget impact project for all projects proposed.
- Prioritizing Asset Renewal and Replacement of existing facilities over new projects, and increasing dedicated capital funding for maintenance with a requirement that for new facilities or major renovations, 2 percent of the CRV is to be included in subsequent CIPs until the facility is sold or disposed of.

**Long-Term Financial Planning Policies**

- Developing a five-year General Fund forecast in advance of the proposed budget, to include in-depth analysis of revenues, expenditures and long-term obligations along with a plan for eliminating projected deficits that would prevent a Balanced Budget in any of the five years; and identifying requirements and options for achieving a Structural Balanced Budget for the upcoming fiscal year and the subsequent fiscal year.

**Debt Management Policies**

- Establishing a minimum Debt Service Fund Balance related to debt secured by ad valorem taxes, and limiting debt financing of more than one year to capital expenditures for assets/improvements or asset lots exceeding \$50,000 in cost and three years' useful life.
- Initiating a gradual reduction in the maximum allowable General Fund transfer for debt service from 20 percent to 10 percent of total General Fund revenues (excluding state and federal grants),
- Containing debt life by specifying that projects are not to be financed over a period that exceeds their average expected life span, setting a target of 12 years or less for average weighted General Obligation bond maturities, and stipulating that debt refundings are not to extend the refunded bonds' average weighted maturity without a two-thirds vote of City Council.
- Instituting a formal Request for Information process at least annually in selection of underwriters.

**Accounting, Auditing and Financial Reporting Policies**

- Establishing standards for audits of grant funds and City finances, and for preparation of annual financial statements, as well as for prompt release and publication of the annual audit and accompanying auditor's letter to management.

**Local Economic Development Policies**

- Setting priorities for economic development emphasis, and requiring regular analyses and evaluation of market and business conditions.
- Setting out minimum components of applications for, and evaluation of, economic development project incentives.
- Requiring an annual report to BFA detailing the progress of each active project.

Cc: Marta Crinejo, Mayor's Office  
David Feldman, City Attorney

**REQUIRED AUTHORIZATION**

Finance Director:	Other Authorization:	Other Authorization:
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