

City of Houston

**Presentation to the City Council  
Budget and Fiscal Affairs Committee**

**Proposed Revisions to Financial Policies**

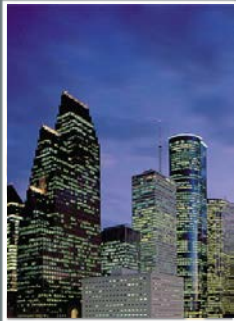
**April 4, 2017**

**Kelly Dowe, Chief Business Officer/Director of Finance  
Andy Icken, Chief Development Officer**



# Background

- New City financial policies adopted by City Council in December 2014
- Broad in scope, policies address issues including:
  - Financial planning
  - Operating and capital budget development
  - Debt management
  - Internal financial controls
  - Economic development investment
- Brought positive attention from Government Finance Officers' Association and Texas Municipal League
- High standards: City's current compliance rate is nearly 86 percent



# Review Requirements

- Policies include requirement for regular updating
  - Section B.4.: “The City’s financial policies shall be reviewed at least every two years by the Mayor or the Mayor’s designee; the results of the review are to be presented to BFA, and any proposed amendments are to be presented to City Council for consideration.”
- One update to policies since adoption
  - Mid-2015: Council adopts change to clarify minimum requirements for fund balance
  - Fund balance reference at C.1. amended to clarify that minimum financial reserves are a percentage of expenditures less debt service and pay-as-you-go (PAYGO) capital expenditures
  - Original version inadvertently penalized City for PAYGO (using debt would reduce minimum reserve requirements, while PAYGO would increase them)



# Review Process

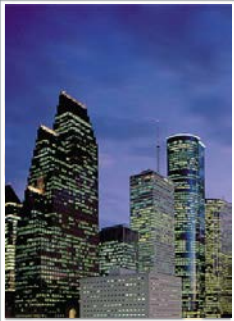
- Review targeted opportunities for improvement
  - What's not clear or could be written to better reflect the real world?
  - Where is language potentially conflicting or confusing?
  - What and how can we do better?
- Includes commentary from Finance and Economic Development leadership, as well as Controller
- Next step is consideration by City Council



# Proposed Revisions

Proposed changes include adjustments to flexibility

- Policies require projection of pension costs at least once every five years, with costs “projected using the plans’ assumed investment rates of return and under three downside scenarios...”
  - City is currently out of compliance because only two downside scenarios were developed
  - Suggest removal of “three”







# Proposed Revisions

Other examples of proposed changes include:

- Improved transparency
  - New language that would require actuarial review of meet-and-confer agreements for impact on City pensions before presentation to City Council
- Removing subjective or “loose” provisions
  - “It is the City’s goal to...”
  - Requirement to “establish the presence of integrity, ethics, competence...” without clear measure of whether requirement is met (shift to introductory section)





# Proposed Revisions

Other examples of proposed changes include:

- Increasing flexibility for City leadership
  - Adding language to clarify that proceeds from asset sales flow to General Fund unless otherwise prohibited by law or legal agreements
- Responding to changes in environment
  - Allowing for economic development reports and findings to be evaluated by appropriate committee as assigned by Mayor, rather than BFA

