City of Houston

Presentation to the City Council
Budget and Fiscal Affairs Committee

Proposed Revisions to Financial Policies

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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