

## SIGNIFICANT FINANCIAL AND BUDGETARY POLICIES

The basic policies related to the City's financial and budgetary procedures were formalized on November 10, 1987. These procedures were expanded in subsequent years with the adoption of the Integrated Budgeting and Planning Resolution (88-87), the Budget Calendar Ordinance, as amended (94-1211) in November 1994, as well as annual adopted budget ordinances.

### Operating Policies

#### Revenues:

- o Current revenues/resources will be sufficient to support current expenditures/expenses to present a balanced budget as defined.
- o Each enterprise fund will maintain revenues to support the full (direct and indirect) cost of services provided.
- o An annual review of all fees and charges will be conducted to determine the extent to which the full cost of services are being recovered by revenues.

#### Expenditure/Expense:

- o The Mayor has the authority to transfer funds to and from the budget accounts within any department without limitation. In addition, the Mayor can authorize the transfer of funds from one department to another department within the same fund; however, such transfer cannot exceed 5% of the department's budget expenditure account group.
- o All retirement and employee benefit systems will be financed in a manner to systematically fund liabilities. The City will assure that sufficient funds are provided to pay for current service plus interest on the unfunded liability plus authorization of the unfunded liability over a programmed period of time.
- o City programs will be self-supporting unless City Council specifically determines that they are to be subsidized by general revenues.
- o Recurring expenditures/expenses are to be funded with recurring revenue sources.
- o The Beginning Fund Balance/Equity reflected in the Budget shall automatically be adjusted to the amount of the Ending Fund Balance/Equity as reported in the Comprehensive Annual Financial Report for the prior year. The revised Beginning Fund Balance/Equity shall thereafter be used to calculate the Ending Fund Balance/Equity. This policy applies to all funds for which an annual budget is adopted by the governing body.
- o The Undesignated Fund Balance in the General Fund shall be maintained at a level sufficient to provide for temporary financing of unforeseen needs of an emergency nature and to permit the orderly adjustment to changes resulting from the termination or drop in a revenue source(s). The level of the Undesignated Fund Balance in the General Fund will be a minimum of 5% of total expenditures less debt services, operating transfers and non-recurring costs.
- o The City has created a Rainy Day Fund which is a part of the General Fund balance. This fund is to be used only in case of an emergency.

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**FISCAL YEAR 2005 BUDGET**

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Historical Data FY1994 – FY2005  
General Fund Available Fund Balances  
(\$ thousands)

<u>Fiscal Year</u>	<u>Undesignated Ending Fund Balance</u>	<u>M&amp;O Expenditures</u>
FY1994	48,959	892,544
FY1995	50,682	955,026
FY1996	69,579	972,547
FY1997	84,105	1,020,301
FY1998	106,856	1,082,385
FY1999	80,409	1,172,235
FY2000	66,590	1,216,158
FY2001	79,432	1,267,408
FY2002	80,335	1,362,767
FY2003	83,027	1,380,360
FY2004 Estimate	85,051	1,395,493
FY2005 Budget	84,563	1,454,907

### Debt Service Fund Reserves

The General Debt Service Fund reserves exist to ensure City bondholders that the City of Houston has set aside sufficient resources to meet debt service requirements.

A seven-month reserve is provided for fixed rate obligations. This reserve covers principal and interest amount payable in the first seven months of the following fiscal year for those issues which are funded from ad valorem taxes. This seven-month reserve policy has existed since FY1983 when the current fiscal year (July 1 to June 30) and the tax collection payment date (January 31) were established.

The City is required to maintain additional reserves due to changing interest rates on its variable rate debt (VRD). Reserves on VRDs are based on the difference between a maximum rate of fifteen percent (or the capped rate of the program) and the budgeted interest rate on outstanding variable rate debt during the fiscal year. The City also issues variable rate commercial paper notes. The calculation for reserves on commercial paper notes are based on the difference between a cap of ten percent and the budgeted interest rate on the amount projected to be outstanding during the fiscal year. The reserve requirement may not be necessary in the case that the reserves are covered under a credit agreement.

### Enterprise Fund Reserves

The City also maintains enterprise fund reserves, which in most cases, include:

- o One to two months' operating budget (8.33% per month of annual maintenance and operating expenses).
- o Up to 5% of the value of each system's property, plant and equipment for purposes of renewing and replacing same.
- o Amounts sufficient to pay the maximum annual debt service on outstanding bonds. As a result of refunding Water and Sewer System bonds and certain bonds of the Aviation System, the City has replaced a portion of the cash from the debt service reserve funds with surety bond insurance. The City continues to utilize surety bond policies for the enterprise fund reserves.