FINANCIAL POLICIES

The basic policies related to the City's financial and budgetary policies were formalized on November 10, 1987. These policies were expanded in subsequent years with the adoption of the Integrated Budgeting and Planning Resolution (88-87). New policies were adopted by Ordinance No. 2014-1078 in December 2014, and were subsequently amended to include provisions regarding pay-as-you-go funding in June 2015.

Below is a complete copy of the financial policies relevant to the FY2017 Budget along with City's current compliance status for each individual policy directly or indirectly relevant to the FY2017 Budget. Policies with which the City is not in compliance are noted with an asterisk (*) and are discussed in the Financial Policies Compliance Statement that follows these policies. Other policies that are not applicable at this time are marked "N/A" and are to be addressed as required.

A. Definitions

Advance Refunding – A refunding under the federal tax code in which the refunded obligation is not redeemed for a period of more than 90 days after the issuance of the refunding issue.

Asset Renewal and Replacement – Cyclic repair and replacement of an asset's components [e.g., roofs, electrical systems, heating, ventilation, and air conditioning (HVAC) equipment, paving, replacement vehicles, computer servers, computer networks, and telephony systems] that extends the useful life and/or retains the usable condition of facilities, fleet, and systems not normally contained in the annual operating budget. Included are major building and infrastructure systems and components that have a maintenance cycle in excess of one year.

Balanced Budget – Budget in which revenues and other resources will be sufficient to support expenditures or uses within the fiscal year.

BFA – Budget and Fiscal Affairs Committee of City Council.

Budget Stabilization Fund, formerly called the "Rainy Day Fund" - Cash reserves available for any lawful use in the event of an emergency including temporary cash flow shortages, major disasters, economic instability, and other emergencies as determined by the City. A temporary cash flow shortage is a period of time where cash inflows are not sufficient to cover required outflows, even after the normal means for managing cash flow have been exhausted. Major disasters are any natural catastrophe including, but not limited to, hurricanes, tornados, floods, severe drought, and explosions, chemical or biological threats, or acts of terrorism. Economic instability is an unforeseen, unbudgeted dire financial situation affecting revenue and/or government spending such as declining property and sales tax revenues over the prior fiscal year and/or a very significant, rapid increase in inflation. Other emergencies are any unusual occasion or instance, unforeseen and/or unanticipated, for which the City expends funds in its efforts to save lives and to protect property, public health and safety or to lessen or avert the threat of catastrophe or major disaster.

Component Units – As defined by the Governmental Accounting Standards Board (GASB), component units are legally separate organizations that the City must include as part of its financial reporting entity for fair presentation.

Current Refunding – Refunding transaction where the refunded obligation will mature or be redeemed within 90 days from the date of issuance of the refunding issue.

Current Replacement Value - The standard industry cost and/or engineering estimate of materials, supplies, and labor required to replace a facility or item of equipment at its existing size and functional capability, and to meet applicable regulatory codes. When estimating Current Replacement Value, it should be assumed that code-compliant materials and systems will be used to replace the existing asset. Current Replacement Value is to be estimated for reconstructing an asset as it currently exists, without further modifications or improvements.

FINANCIAL POLICIES

Entry Age Normal Actuarial Cost Method, also called Entry Age Actuarial Cost Method - A method which actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability. Under this method, the actuarial gains (losses) are reflected as they occur in a decrease (increase) in the unfunded actuarial accrued liability.

Finance Working Group – Composed of the Mayor and City Controller (as used in connection with the activities of the Finance Working Group, other than the chairing of Finance Working Group meetings, the term "Mayor" or "City Controller" includes the designee of such office holder who may only be a City employee accountable to the designating office holder) and, upon the request of either the Mayor or City Controller, may also include:

- City Attorney or designees
- Finance Director or designees
- Other appropriate department directors or their designees
- Financial Advisor
- Bond Counsel
- Independent Auditor
- Any member of City Council interested in attending, or designee
- Others deemed necessary for the individual financing

Financial Advisor - With respect to a new issue of municipal securities, commonly refers to an individual or firm that advises the issuer or other obligated person on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms and bond ratings. A financial advisor may also be employed to provide advice on subjects unrelated to a new issue of municipal securities, such as advising on cash flow and investment matters in connection with outstanding municipal securities.

Fiscal Note – Brief, high-level written estimate of the budgetary and fiscal impacts that may result from implementation of an ordinance, motion or resolution.

Fund Balance – Difference between fund assets and fund liabilities, also known as equity (for enterprise funds, fund balance is referred to as "Net Position" in line with GASB rules).

Major Renovation – Projects for the substantial rehabilitation or replacement of more than one building or building systems.

Non-Recurring Expenditures – Expenditures not expected to be funded each year. Examples include one-time transfers and one-time purchases.

Non-Recurring Revenues – Revenues that cannot be relied upon in future budget periods. Examples include, but are not limited to, Fund Balance, the sale of land (other than City rights-of-way), infrequent, irregular sales of City assets, bond refunding savings, infrequent, irregular revenues from development agreements, interlocal agreements, other contracts, short-term grants and one-time transfers, such as litigation settlements or non-routine transfers of fund balance from other funds.

Operating Maintenance - Preventive maintenance, where equipment, vehicles, and computer hardware are maintained *before* breakdown occurs in an attempt to avoid failures, and corrective maintenance, where

FINANCIAL POLICIES

equipment, vehicles, and computer hardware are maintained *after* breakdown occurs to bring it back to working order.

PAYGO – "Pay-As-You-Go" capital funding is the process of paying for capital expenditures at the time the cost is incurred instead of using credit or debt for the purchase. PAYGO expenditures at the City are those capital expenditures that were historically funded by credit or debt and are now paid for with cash.

Recurring Expenditures – Expenditures expected to be funded each year in order to maintain current/status quo service levels. Recurring Expenditures appear in the budget each year. Examples include salaries, benefits, supplies and services, debt and recurring pass-through expenditures; long-term contractual obligations should also be considered, including availability payments related to participation in a public-private partnership. Other expenditures including, but not limited to, supplies, services, and transfers are recurring to the extent that expenditure levels in the current year match the expenditure levels in the previous year. For example, if computer supplies to support operations are needed every year and budgeted every year, this expenditure is considered recurring.

Recurring Revenues – Revenues expected to continue year to year with a reasonable degree of predictability. Examples include property taxes, sales taxes, licenses and permits, charges for services, fines and forfeits, franchise fees and recurring pass-through revenues. Small routine right-of-way sales are also considered Recurring Revenues, but all other land sales are Non-Recurring (one-time) Revenues. This does not include Fund Balance.

Structural Balanced Budget – Budget that balances Recurring Revenues and Recurring Expenditures and the current portion of all known long-term liabilities within the current fiscal year, including but not limited to: other post-employment benefits (OPEBs); compensated absences; and current annual service cost plus interest on unfunded pension liabilities, which is the difference between the total pension liability and the value of assets set aside in a pension plan to pay benefits, plus amortization of the unfunded liabilities over a program period (this definition is intended to align with the pension-related language in Section F.2.).

FINANCIAL POLICIES

	CURRENT STATUS
B. General Policies	
1. With respect to the interpretation and application of these policies, the City shall comply with all applicable federal and state laws, the City Charter and Code of City Ordinances, Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) standards, and all bond covenants, whether existing or hereafter provided, and associated ordinances relating to all budget, accounting, reporting, disclosure, and finance activities, and financial policies. In any conflict between these policies and such governing law, standards or documents, such governing law, standards or documents shall prevail.	In Compliance
2. The City will seek out, apply for, and effectively administer Federal, State, and other grants that address the City's priorities and policy objectives and provide a positive benefit to the city. Local tax dollars will not be used to make up for material losses of grant aid without first City Council reviewing and approving the program and its merits as a budgetary increment.	In Compliance
3. The proposed operating budget and proposed five-year Capital Improvement Plan (CIP) for each year shall include statements indicating whether they are in compliance with each relevant adopted financial policy. The adopted budget shall include a comprehensive listing of all adopted financial policies indicating whether the City is in compliance with each policy; for each policy not in compliance, there shall be a statement explaining why the City is not in compliance with said policy and a plan for how the City will achieve compliance.	In Compliance
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.	In Compliance
C. General Fund Reserve Policies	
1. The City will maintain Fund Balance as additional insurance against disasters, emergencies, and economic instability. The City's desired minimum unassigned Fund Balance for any given fiscal year is 7.5% of General Fund expenditures for that fiscal year, excluding debt service payments and transfers for pay-as you-go (PAYGO) capital expenditures.	In Compliance
2. Unassigned Fund Balance in excess of the desired minimum is to be available for appropriation by City Council, and shall normally be used to fund Non-Recurring Expenditures. In the event a balanced budget is not attainable, that Fund Balance may be used for Recurring Expenditures and to achieve budget balance: a. If the budget imbalance is expected to last for no more than one year and can be corrected with use of Fund Balance available in excess of the desired minimum; or b. If the budget imbalance is expected to continue beyond one year, provided that Fund Balance in excess of the desired minimum is used to achieve balance as part of a corresponding plan to close the gap through revenue increases and/or expenditure reductions. (Note: this is intended to align with Section F.3.'s requirement that proposed use of Non-Recurring Revenues for Recurring Expenditures must be accompanied by a justification to City Council and a plan to end dependence on Non-Recurring Revenue sources.)	In Compliance

FINANCIAL POLICIES

	CURRENT STATUS
3. The unassigned Fund Balance may be temporarily reduced below the desired minimum when required for response to major disasters or to provide short-term resources in the event of economic instability or revenue shortfalls related to circumstances beyond the City's control. Any proposed use of Fund Balance which decreases Fund Balance below the desired minimum shall include a justification presented to City Council and shall require approval from two-thirds of the City Council present and voting. Once the event causing use of Fund Balance below the desired minimum has concluded, the City shall allocate sufficient funds to restore unassigned Fund Balance to at least 7.5% of General Fund expenditures (excluding debt service payments and transfers for pay-as-you-go (PAYGO) capital expenditures) by the end of the second subsequent full fiscal year.	In Compliance
4. In addition to the Fund Balance, the City shall maintain a separate Budget Stabilization Fund in an amount not less than the greater of (a) 1% of General Fund expenditures (excluding debt service payments and transfers for pay-as-you-go (PAYGO) capital expenditures) or (b) $20 million, which may be used in accordance with the definition of the fund. Any proposed use of the Budget Stabilization Fund shall be accompanied by a justification to City Council and shall require approval from two-thirds of the City Council present and voting. When an event causing use of the Budget Stabilization Fund has concluded, the City shall allocate sufficient funds by the end of the second subsequent full fiscal year to restore the Budget Stabilization Fund to at least minimum levels.	In Compliance

D. Enterprise Funds Reserve Policy

1. Each enterprise fund, as defined by GASB, shall have an appropriate written methodology for determining minimum and maximum cash reserves to serve as a margin or buffer for meeting obligations, mitigating risks, and ensuring stable services and fees. Factors to be considered in determining minimum and maximum cash reserves include any controlling bond covenants or indentures, as well as each fund's risk and revenue volatility, and other considerations such as cash funding of capital projects. The methodology for determining minimum and maximum cash reserves should define reserves in terms of days of operating cash on hand, and should identify components of cash reserves.	In Compliance

FINANCIAL POLICIES

CURRENT STATUS

E. Internal Service Fund – Health Benefit Fund Reserve Policies

1. The City will fund a catastrophic and general claim risk reserve for unexpected large losses related to self-insurance healthcare costs managed by a third-party plan administrator and paid through an internal service fund. The following reserves will be maintained within the fund:

   a. Claim Reserve – Periodically, and at least once every fiscal year, it will be determined by the Human Resources Department in conjunction with the Finance Department whether the fund has a funded liability to pay claims that have already been incurred but not reported as of that day. The plan is also obligated to cover the cost of administering run-out claims in the event that any of the self-insured programs are terminated. — In Compliance

   b. Contingency Reserve – This reserve augments the Claim Reserve and represents an estimate for claim events that are unforeseen and catastrophic. The Contingency Reserve covers costs associated with such unexpected claims and provides financial capacity for smoothing the catastrophic and general claims payments. The amount of the Contingency Reserve shall be maintained at the minimum of 10% of annual claims up to a maximum of 60 days of average claims expense paid over the prior fiscal year (12 months) for each self-insured program. — In Compliance

      This Contingency Reserve also supports:

      i. Maintaining cost effective and competitive benefits during periods of economic downturn, reduced revenues or higher expenses;

      ii. Maintaining cost effective and competitive benefits during periods of high medical cost trends, substantial insurance/reinsurance rate increases and an ability to absorb multiple catastrophic medical claims occurring simultaneously; and

      iii. Maintaining flexibility in the fund regarding calculating the degree and amount of risk it is willing to assume on a self-funded basis.

   Such reserves will be funded by the City and subscriber (active and retiree) contributions as determined appropriate by the Human Resources Department in conjunction with the Finance Department. Subscriber funds are first in and first out in claim payments; therefore any excess health benefit contributions are City funds.

F. Operating Budget Policies – Revenues and Expenditures

1. The City will adopt a Balanced Budget annually, with each fiscal year's budget presented to and passed by City Council before the beginning of that fiscal year and in accordance with state law, the City Charter, and local ordinances. — In Compliance

2. All post-employment and employee benefit systems will be financed in a manner to fully and systematically fund all liabilities. The City will ensure that sufficient funds are contributed each year to the post-employment and employee benefit systems, where sufficient funds is an amount at least equal to the sum of the normal cost plus an amount to amortize the unfunded accrued liability over a closed 30-year period, calculated using the Entry Age Normal Actuarial Cost Method, the market value of assets, and an appropriate discount rate. City Council shall be fully informed if sufficient funds are not allocated in the current budget. — Not In Compliance

FINANCIAL POLICIES

	CURRENT STATUS
3. Budget presentations to City Council shall identify the extent to which Recurring Revenues are aligned with Recurring Expenditures. If circumstances dictate use of Non-Recurring Revenues for Recurring Expenditures in any fund, justification must be presented to City Council with a plan to end dependence on Non-Recurring Revenue sources.	In Compliance
4. Each enterprise fund of the City shall maintain revenues which support the full (direct and indirect) cost of the services provided.	In Compliance
5. 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 budget expenditure account group for the department from which funds are transferred.	In Compliance
6. A comprehensive analysis of City fees and rates shall be performed at least every five years by an independent outside third-party contractor in conjunction with the Department administering the fee and the Finance Department, except for impact fees, which shall be made at least every ten years, and presented to BFA. Fees may be adjusted by ordinance during the interim period based on supplemental analysis whenever there have been significant changes in the method, level or cost of service delivery (including automatic fee and rate adjustments per City ordinance).	In Compliance
7. All General Fund revenues and resources, not including those identified in the adopted budget as Beginning Fund Balance – Unassigned, received in a fiscal year in excess of the adopted and amended annual operating budget (for same fiscal year) shall be designated to the Fund Balance and shall not be appropriated for expenditures except by ordinance. Pass-through funds not included in this calculation include, but are not limited to:	In Compliance
a. Hotel Occupancy Tax Revenues – pass-through payments to partner organizations for attraction of tourists and convention delegates, promotion and development of the arts, historic preservation and restoration, and other related purposes permitted by state and local law;	
b. Sales Tax Revenues – pass-through payment to Limited Partnership Annexations and transfers related to Chapter 380 agreements;	
c. Property Tax – pass-through transfer amount to the Dedicated Drainage and Street Renewal Fund for captured revenue and transfers related to Chapter 380 agreements;	
d. Municipal Service Fees revenues – pass-through transfer amount to Police Special Service Fund for police services in certain reinvestment zones and;	
e. Other collection revenues – payment to vendors based on commission-based contracts.	

FINANCIAL POLICIES

	CURRENT STATUS
8. A City employee compensation study shall be performed by an independent outside third-party contractor and presented to BFA at least every three years by the Human Resources Department in conjunction with the Finance Department. The compensation study shall review total compensation to include salary, overtime, medical benefits, paid leave, physical training leave, disability insurance, life insurance, retirement benefits, educational assistance programs, and all other compensation elements.	In Compliance
9. The City's operating budget shall include the required level of annual Operating Maintenance funding for facilities, fleet, equipment and technology necessary to maximize service efficiencies and to minimize the lifecycle cost of each asset. Operating Maintenance funding will be prioritized each year to ensure capital facilities and equipment are sufficiently maintained and maintenance is not deferred to future years. To implement this policy, funding for Operating Maintenance of General Fund facilities shall be increased by at least 0.25% each fiscal year beginning in FY2016 and continuing until annual funding reaches at least 2% of Current Replacement Value at which time it will remain constant.	In Compliance
10. All Requests for Council Action that request funding not in the adopted budget (e.g., establishing a new service not in the budget, increasing enforcement above the level established in the budget, etc.) must be accompanied by a Fiscal Note that includes start-up costs of the program/project and the projected operating and maintenance costs for a minimum of five years, as well as identification of corresponding budgetary savings or other funding source necessary to meet funding needs.	In Compliance

G. Capital Asset Management Policies

1. The five-year CIP shall be presented to and passed by City Council annually before the end of the preceding fiscal year.	Not In Compliance
2. Capital projects may not be included in the CIP without identified funding. Identified funding includes funds that are reasonably anticipated such as grants that have been awarded but not yet funded. Identified funding may also include proceeds from an anticipated future bond election.	In Compliance
3. A five-year operating budget impact projection for all projects shall be reported in the CIP.	Not In Compliance
4. The City shall prioritize Asset Renewal and Replacement of existing facilities over new facilities.	In Compliance
5. All CIP-related Requests for Council Action must include a Fiscal Note that includes design and construction costs of the program/project and the projected operating and maintenance costs for a minimum of five years, as well as a reference to the item in the CIP where funding for the request is designated.	In Compliance
6. For each new General Fund facility (i.e., not part of an enterprise fund) or Major Renovation of a General Fund facility, beginning in FY2016, 2% of the Current Replacement Value shall be included for capital maintenance in each fiscal year of the immediately following CIP and every CIP thereafter until that facility is sold or otherwise disposed of. Such funds may be used on any owned General Fund facility.	In Compliance

FINANCIAL POLICIES

CURRENT STATUS

H. Long-Term Financial Planning Policies

1. A five-year General Fund financial forecast shall be presented to BFA and provided to City Council annually in advance of the release of the proposed budget. The five-year forecast will include: — Not In Compliance

   a. An in-depth analysis of revenues, expenditures, and all long-term obligations including debt, pensions, health benefits, accrued leave, facilities (needs, maintenance, utilization), fleet and information technology;

   b. A plan for eliminating any funding shortfalls that would prevent adoption of a Balanced Budget in any year covered by the five-year forecast; and

   c. Identification of requirements for achieving a Structural Balanced Budget in the upcoming fiscal year and the subsequent fiscal year, including a list of options for eliminating any funding shortfalls preventing achievement of a Structural Balanced Budget for the upcoming fiscal year and the subsequent fiscal year.

2. At least once every five years, the City shall use an independent outside third-party actuary to project the costs of its pension plans and unfunded liabilities for a period of 30 years or some other appropriate time horizon recommended by the City's actuary and approved by City Council. Costs shall be projected using the plans' assumed investment rates of return and under three downside scenarios that anticipate lower investment rates of return. — Not In Compliance

I. Debt Management Policies

1. It is the City's goal to at least maintain the current credit ratings on each type of City credit or enterprise fund as of the date of adoption of these policies. — Not In Compliance

2. The debt service Fund Balance as of each fiscal year end relating to debt secured by ad valorem taxes shall be no less than debt service payments due within the first 180 days of the following fiscal year. — In Compliance

3. A standardized presentation format for proposed debt transactions will be adopted by BFA. Presentations of debt transactions to BFA shall at least include the following information: revenue source securing the debt uses of the debt proceeds, estimated weighted average life of the debt, estimated change to the overall weighted average life of outstanding debt, estimated present value savings as applicable, estimated true interest cost, anticipated date of pricing and closing. — In Compliance

4. Debt financing in excess of one year shall be limited to capital expenditures for assets, asset lots of similar items, or asset improvements costing more than $50,000 and having a useful life of more than three years. — In Compliance

5. Any capital project financed through the issuance of bonds shall be financed for a period not to exceed the average expected life of the assets. — In Compliance

FINANCIAL POLICIES

	CURRENT STATUS
6. Each fiscal year, the City will use that year's General Obligation (GO) debt service payment as a baseline to establish an index reflecting 4% annual growth in the City's GO debt service (i.e., if the current fiscal year's debt service is $100, then the debt service index for subsequent years would be $104, $108.16, $112.49, $116.99, etc.). If any proposed action by the City (e.g., adoption of the CIP, or Council authorization of debt issuance) is to cause the GO debt service schedule as projected by the City's Financial Advisor to exceed the index in FY2019 and/or any subsequent year(s), a funding mechanism (e.g., reduced expenditures or increased revenue) must be identified to offset the amount(s) by which the proposed debt service payment(s) exceed the index. For purposes of this section, "identification" of a funding mechanism is satisfied by presentation to BFA and/or City Council prior to any action that would incur GO debt.	In Compliance
7. Through greater emphasis on pay-as-you-go infrastructure funding, it is the City's goal to reduce the General Fund transfer for debt service while remaining in compliance with all relevant bond or other debt covenants and indentures. Toward this goal and in compliance with such covenants, the maximum annual General Fund transfer for debt service is to be maintained at 20% of General Fund revenues (excluding state and federal grants) until FY2019. Beginning in FY2019 and in each subsequent fiscal year, the maximum annual General Fund transfer for debt service is to be reduced by 0.5% annually until it reaches 10% of General Fund revenues (excluding state and federal grants), at which point the maximum is to be held constant and remain at 10%.	In Compliance
8. The City's desired target for average weighted General Obligation bond maturities is 12 years or less.	In Compliance
9. When refunding debt, the average weighted maturity of the refunded bonds may not be extended by more than one year unless approved by a two-thirds vote of the City Council present and voting.	In Compliance
10. Other than periodic refundings of commercial paper in accordance with routine City business, the City may initiate a refunding of outstanding debt when: a. A refinancing is expected to relieve the City of financially restrictive covenants; b. A refinancing is expected to significantly reduce the remaining term of the debt being refunded; or c. At the transaction's initiation, the City's financial advisors project net present value savings of at least: i. 3% for Current Refundings, unless the final maturity of the refunded bonds is less than five years, in which case the bonds may be refunded for any savings if the final maturity of the bonds refunded is not extended; and ii. 5% for Advance Refundings, unless the final maturity of the refunded bonds is less than five years, in which case the bonds may be refunded for any savings if the final maturity of the bonds refunded is not extended. The Finance Working Group will be responsible for confirming that one of the above conditions exists.	In Compliance

FINANCIAL POLICIES

CURRENT STATUS

11. All City financings must comply with applicable Federal, State and Local legal requirements; the Finance Working Group and City Council must approve the issue; the City must analyze the long-term affordability of the debt and assess the issue's impact on the City's self-imposed financial limitations on indebtedness. — In Compliance

12. The City shall review all outstanding debt at least annually for the purposes of identifying refunding opportunities. — In Compliance

13. A formal Request for Information (RFI) process shall be conducted by the Finance Working Group annually when selecting underwriters in order to promote fairness, objectivity and transparency. The selection committee shall report results of the RFI process to BFA and present recommendations for transactions expected to occur during the following year. RFIs shall include questions related to the areas listed below to distinguish firms' qualifications and experience, including but not limited to: — In Compliance

    a. Relevant experience of the firm and the individuals assigned to the issuer, and the identification and experience of the individual in charge of day-to-day management of the bond sale, including both the investment banker(s) and the underwriter(s);

    b. A description of the firm's bond distribution capabilities including the experience of the individual primarily responsible for underwriting the proposed bonds. The firm's ability to access both retail and institutional investors should be described;

    c. Demonstration of the firm's understanding of the issuer's financial situation, including ideas on how the issuer should approach financing issues such as bond structures, credit rating strategies and investor marketing strategies;

    d. Demonstration of the firm's knowledge of local political, economic, legal or other issues that may affect the proposed financing;

    e. Documentation of the underwriter's participation in the issuer's recent competitive sales or the competitive sales of other issuers in the same state;

    f. Analytic capability of the firm and assigned investment banker(s);

    g. Access to sources of current market information to provide bond pricing data before, during, and after the sale;

    h. Any finder's fees, fee splitting, or other contractual arrangements of the firm that could present a real or perceived conflict of interest, as well as any pending investigation of the firm or enforcement or disciplinary actions taken within the past three years by the Securities and Exchange Commission, the Municipal Securities Rulemaking Board, or any other regulatory agency.

J. Accounting, Auditing and Financial Reporting Policies

1. Single Audit Report or other audits of Federal and State grant funds will be performed in compliance with applicable provisions of the Single Audit Act, applicable Office of Management and Budget Circulars, and other relevant federal, state and local rules and regulations. — In Compliance

2. Annual financial statements will be prepared in accordance with Generally Accepted Accounting Principles. — In Compliance

FINANCIAL POLICIES

	CURRENT STATUS
3. An annual audit will be performed by an independent public accounting firm in accordance with Generally Accepted Government Auditing Standards and the opinion will be included in the Comprehensive Annual Financial Report.	In Compliance
4. To the extent practicable, all Component Units of the City must follow all City accounting, audit and financial reporting policies.	In Compliance
5. The City will conduct a soft close of its books quarterly within 15 calendar days of quarter end for the first three quarters of any fiscal year. All normal business entries will be booked prior to fiscal year-end soft close, which will occur within 65 calendar days of year end. This policy shall be implemented beginning with a soft close at the end of the first quarter of FY2016. Directors in charge of each fund, including grants, will submit certification upon close that include: All daily operational financial transactions have been recorded; All accounting system modules/subsidiary ledgers have been reconciled; All journal entries have been recorded [for example, bond issuance transactions, expenditures related to work In Progress and impact on capitalization, etc.]; All material journal entries have been reviewed and approved; All balance sheet accounts have been reconciled and are materially correct; All income and expense accounts have been reviewed and are materially correct; and Management review of accounts has occurred.	Not In Compliance
6. The Single Audit Report (annual audit) and the accompanying auditor's letter to management shall be released to City Council and published prominently on the City's website within 30 days of receipt from the auditor.	In Compliance
7. At least every two years, the Finance Working Group shall develop and update a written disclosure policy consistent with federal securities law and the City's continuing disclosure undertakings with respect to the City's outstanding debt.	In Compliance

K. Internal Control Over Financial Reporting Policies

1. The goals and objectives of the City's internal controls policies are to protect public assets and to foster reliance on public information for decision-making purposes at all levels both internally and externally.	In Compliance
2. The Mayor, City Council, City Controller, Finance Director and all department directors shall establish the presence of integrity, ethics, competence and a positive control environment.	In Compliance
3. Managers and supervisory personnel are responsible for establishing, executing, and maintaining control policies and procedures at the detail level within their specific business units.	In Compliance

FINANCIAL POLICIES

CURRENT STATUS

4. The City's internal control structure will be based on the Committee of Sponsoring Organizations of the Treadway Commission on Fraudulent Financial Reporting (COSO) framework and comprised of the following five elements: (a) Control Environment – Factors include integrity and ethical values, commitment to competence, leadership philosophy and operating style, assignment of authority and responsibility, and policies and procedures; (b) Risk Assessment – Routine assessment of risk and its impact on internal controls; (c) Control Activities – Such as segregation of duties, authorization of transactions, retention of records, supervision or monitoring of operations, physical safeguards, etc.; (d) Information and Communication – Policies and procedures are documented and accessible; and (e) Monitoring – Assessment of the quality of performance over time and to determine whether controls are effective and track resolution achievements of identified problems. — Not In Compliance

5. The Single Audit Report as addressed in J.6. above shall include a report on the sufficiency of the City's internal controls over financial reporting, and shall include or be accompanied by management's response to the report; these shall also be released to City Council and published prominently on the City's website within 30 calendar days of receipt (for the report) or completion (for management's response if not included in the report). — In Compliance

L. Local Economic Development Policies

1. The City shall define its scope of economic development emphasis through three distinct priorities: — In Compliance

   Priority 1: Through collaborative development partnerships and strategic use of financial resources, continue to support the defined industries (Energy, Aerospace, Manufacturing and Distribution, Biotech and Medical) that make up our competitive advantage and are recognized as the dominant economic contributors to the employment and capital base.

   Priority 2: Deploy financial resources to underutilized, unproductive target areas (distressed, declining, brownfield or poor performing) to enhance their long term sustainability.

   Priority 3: Create programs designed to address a specific development deficiency within a defined geographic boundary with the intended outcome of stabilizing the local area.

2. The City shall perform market and business analyses to identity target areas to focus its efforts. One such analysis is statistical cluster analysis to determine hotspots of infrastructure gaps, specific development deficiencies, high unemployment areas, inadequate quality of life, assets, housing disparities and insufficient access to food. The City shall regularly evaluate and confirm industry clusters and business sectors that create its distinct competitive advantage and establish the criteria, guidelines and performance metrics by which to evaluate projects submitted for certain incentive consideration. — In Compliance

3. The City shall identify target areas that are distressed or otherwise deficient in any development category and impairing economic production and establish the criteria, guidelines and performance metric by which to evaluate projects submitted for certain incentive consideration. — In Compliance

FINANCIAL POLICIES

	CURRENT STATUS
4. The City shall determine the most appropriate economic development program(s) available to address the economic situation or priority and where applicable engage public or private partners to contribute financial or other resources to achieve the desired economic or development outcome.	In Compliance
5. The City shall set forth project eligibility criteria to include: minimum job creation, minimum compensation levels, minimum private investment, justification for public participation qualifying public improvements, maximum public investment, term of incentive, financial viability of developer, public purpose for financial assistance, risks associated with public investment, financing instruments, and total project costs.	In Compliance
6. Standardized presentation, application and evaluation formats will be adopted by BFA for use in consideration of economic development projects.	In Compliance
7. The standard application format for economic development projects shall include, but is not limited to, the following: a. Name of the applicant; b. General nature of the applicant's investment; c. Relationship between the applicant's industry and the types of jobs to be created by the applicant; d. Relative level of the applicant's investment per job to be created by the applicant; e. Number of jobs to be created by the applicant; f. Wages, salaries, and benefits to be offered by the applicant to the job holders, the ability of the applicant to locate or relocate in another state, or another city in the region; g. Financial impact the project will have on the City; h. Number of similar projects, if applicable, completed in the City during the two years preceding the date of application submittal; and i. Projected market value of the proposed project.	In Compliance
8. The standard evaluation criteria for economic development projects shall include, but is not limited to, the following: a. Scope and appropriateness of economic development tools; b. Eligibility in accordance with L.5. above; c. Compliance with the City's standard application format; and d. Performance for any prior approved projects.	In Compliance
9. The Mayor's designee, in conjunction with the City Attorney, shall establish procedures by which the City shall recoup its investment in the event a project fails to comply with the terms of its agreement.	In Compliance

FINANCIAL POLICIES

	CURRENT STATUS
10. The Mayor's designee shall report annually to BFA detailing the progress of each active project in which the City has provided an incentive. A project shall not be deemed inactive and removed from the report until the project has achieved its goals or the City has recouped its investment. The report shall include, but is not limited to, the following:	Not In Compliance
a. Amount of the investment each recipient committed to expend or allocate;	
b. Amount of the investment each recipient expended or allocated per project;	
c. Market value of the property of each recipient as determined by appraiser;	
d. Number of jobs each recipient of an incentive committed to create;	
e. Number of new jobs each recipient actually created, median wage of the new jobs created, and the number of jobs created that provide health benefits for employees.	

FINANCIAL POLICIES COMPLIANCE STATEMENT

Per Section B.3. of the City of Houston Financial Policies as adopted by Council, "The adopted budget shall include a comprehensive listing of all adopted financial policies indicating whether the City is in compliance with each policy; for each policy not in compliance, there shall be a statement explaining why the City is not in compliance with said policy and a plan for how the City will achieve compliance."

Of the 64 policies adopted by Council in December 2014 (with slight amendment in mid-2015), the City is in compliance with 55, and not in compliance with nine. Brief explanations follow regarding the nine relevant policies with which the City is still working to comply:

- F.2. All post-employment and employee benefit systems will be financed in a manner to fully and systematically fund all liabilities…

  Full funding of pensions has been a challenge for more than a decade, since benefits increased as a result of pension plan changes around FY2000. The new administration has made compliance a top priority. After initiating conversations with all three pension boards to discuss means by which the City's pension obligations can be rendered more manageable, Mayor Turner in September announced the structure of a plan that targets retirement of the City's net pension liability in 30 years using a combination of methods including adjustments to benefits and contributions, more realistic projection of returns on pension investments, issuance of pension obligation bonds to mitigate market risk, and adoption of a closed 30-year amortization period as required by the policies. Building on this step, the administration's continued focus on strategic spending and revenue adjustments, and commitment to development of a long-range financial plan, are all expected to move the City toward full funding of post-employment benefits.

- G.1. The five-year CIP shall be presented to and passed by City Council annually before the end of the preceding fiscal year.

  The CIP for FY2017-2021 was placed on the City Council agenda on July 6, 2016 and ultimately passed July 20. Adjustments were made to the project evaluation process to accommodate the new administration's priorities; with these in place, it is anticipated that the FY2018-2022 CIP will be put before Council in time to allow for review, consideration and passage prior to June 30, 2017 (the end of FY2017).

- G.3. A five-year operating budget impact projection for all projects shall be reported in the CIP.

  The FY2017-2021 CIP includes the required operating budget impact projection for all General Fund departments' projects. Operational impacts for enterprise departments are to be included in the FY2018-2022 CIP.

- H.1. A five-year General Fund forecast shall be presented to BFA and provided to City Council annually in advance of the release of the proposed budget…

  The current administration has focused on addressing the projected FY2017 budget deficit through a combination of recurring and non-recurring methods. This emphasis, along with an accelerated budget schedule intended to free up more time for attention to pension reform, left no opportunity to provide the five-year overview contemplated in the Financial Policies. The recurring improvements referenced above, whether in the form of reduced expenditures or increased revenues, will contribute to reducing not just the FY2017 deficit, but funding gaps projected for future years as well. The administration's plan is to establish a regular schedule in which five-year forecasts are presented to BFA and provided to Council in December of each year, well in advance of budget development for the next fiscal year. It is expected that the FY2018-2022 forecast will be informed by the 10-year forecasting model being developed for the City's long-range financial plan.

- H.2. At least once every five years, the City shall use an independent outside third-party actuary to project the costs of its pension plans and unfunded liabilities for a period of 30 years or some other appropriate time horizon recommended by the City's actuary and approved by City Council. Costs shall be projected using the plans' assumed investment rates of return and under three downside scenarios that anticipate lower investment rates of return.

The administration continues to work with its independent outside third-party actuary to project costs of pension plans and unfunded liabilities for a 30-year period. The range of scenarios utilized includes lower investment rates of return than the rates assumed by the pension plans, but the City has not commissioned three downside scenarios as specified. Removal of "three" may be suggested for consideration during the required biennial review of the financial policies before the end of calendar 2016.

- I.1. It is the City's goal to at least maintain the current credit ratings on each type of City credit or enterprise fund as of the date of adoption of these policies.

  Downgrades of the City's general obligation debt by Standard & Poor's and Moody's during FY2016 placed the City out of compliance, although the most recent rating (by Fitch in late April 2016) held the City's general obligation debt rating constant. This item will remain shown as "Not In Compliance" until ratings have returned to baseline levels from December 2014, when the policies were adopted.

- J.5. The City will conduct a soft close of its books quarterly within 15 calendar days of quarter end for the first three quarters of any fiscal year. All normal business entries will be booked prior to fiscal year-end soft close.... This policy shall be implemented beginning with a soft close at the end of the first quarter of FY2016. Directors in charge of each fund, including grants, will submit certification....

  This new process has been initiated but is not yet fully implemented. The City has significantly reduced the number of late financial record-keeping entries as a result of the effort to institute a quarterly soft close, but City processes and practices have not yet been fully adjusted to accommodate the compliance requirements. This policy is likely to be proposed for revision in the upcoming review of financial policies.

- K.4. The City's internal control structure will be based on the Committee of Sponsoring Organizations of the Treadway Commission on Fraudulent Financial Reporting framework....

  As part of the City's ongoing enterprise risk management initiative, nine financial business processes have been identified as high/medium-risk and prioritized for improvement. Of these, six have undergone enterprise risk management reviews; remediation on these processes is approximately 55 percent complete. The improvements are to be completed over the next two years, during which time the remaining nine financial business processes are to be targeted for better controls. While the City is implementing the COSO internal control structure noted in the policy, this item is to remain listed as non-compliant until all relevant processes have been sufficiently improved.

- L.10. The Mayor's designee shall report annually to BFA detailing the progress of each active project in which the City has provided an incentive....

  Much of the information required by this item was presented to the City Council's Economic Development Committee in April 2016, with copies subsequently provided to the Budget and Fiscal Affairs Committee in August. The City has collected average or projected wage information for employees of economic development partners; however, the City has not historically collected information on median wage or health benefits for economic development partners' employees. This item is to be part of the upcoming biennial review of the policies, and may be recommended for amendment when proposed revisions are brought to Council for consideration before the end of calendar 2016. Should this portion of the policies remain unchanged, staff will begin contacting the City's economic development partners and requesting the required data, with the understanding that partners holding previously negotiated agreements will not be under any contractual mandate to provide the information. Further, should the item in question remain unchanged, the City will adjust its reporting requirements going forward (where such adjustments have not already been made) for future economic development partners to include the specific information noted in the policies.

ADDITIONAL NOTE:

At C.2.b. and F.3., the policies align to require a plan for achieving structural budget balance (referencing use of fund balance at C.2.b. and use of non-recurring revenues for recurring expenditures at F.3.). Any funds proposing use of non-recurring revenues for recurring expenditures in FY2017 will be delivering justification and a plan to end dependence. In the case of the General Fund, the justification is made in the Preliminary

FY2017 General Fund Budget Summary presented on April 15, 2016, where the impact of achieving structural budget balance in FY2017 is quantified in terms of General Fund employees (more than 1,200 jobs). The FY2017 Budget takes strategic, sustainable steps to reduce not just the FY2017 funding gap, but those projected for future years – as highlighted in prior five-year forecasts, budget deficits are projected at least through the remainder of this decade.

Building on nearly $55 million of improvements to recurring revenues and expenditures, which represents a significant step to reduce reliance on one-time budget solutions, the new administration has been clear about its long-term plan for achieving structural budget balance by ensuring that recurring revenues are sufficient to cover recurring expenditures. Key components of the plan include continued focus on cost reductions through adoption of a new budget process and ongoing streamlining and identification of opportunities to improve efficiency. Negotiations with the City's three pension boards are ongoing, targeting establishment of agreements with all three pension systems' governing bodies that make the City's long-term obligations more manageable. With these in place, the administration intends to revisit the property tax revenue cap and may ask City Council to seek voters' direction on amendments to the cap.

These three elements – organizational streamlining that results in recurring savings, improved management of the City's long-term obligations through pension system changes enacted in partnership with pension boards, and potential revenue cap adjustments to better reflect the cost of City services taxpayers want and require – are to be central elements in the City's long-range financial plan. This strategic plan for achieving structural budget balance, the first action item listed in Plan Houston (the City's General Plan), is being developed during FY2017 and will further guide the City's long-term path to improved financial strength and stability through structural budget balance.

In C.4, the policies require the City to allocate sufficient funds by the end of the second subsequent full fiscal year to restore the Budget Stabilization Fund to at least minimum levels – the greater of 1% of General Fund expenditures (excluding debt service transfers and PAYGO capital expenditures) or $20 million. The City allocated $17 million to the 2015 Flood Disaster Fund in FY2015, leaving an estimated $3.1 million in the fund at the end of FY2016. The City plans to restore the Budget Stabilization Fund to required levels by the end of FY2017 using a combination of sources including, but not limited to, unspent funds in the FY2015 Flood Disaster Fund and FEMA reimbursements for flood response expenditures.