



Administrative Policy
Effective Financial and Performance Management

AP No.	4-10
Effective Date:	Upon Approval

1. POLICY STATEMENT

In accordance with Executive Order 1-53 Effective Financial and Performance Management (EO 1-53), and to assist decision-makers in managing the City of Houston’s (City’s) financial resources, this administrative policy lays out a performance/priority-focused approach to budgeting. The City’s traditional budget approach is built on incremental adjustments to prior-year budgets. By implementing this administrative policy, the City will improve transparency regarding how the City invests public funds, support improved prioritization of expenditures, and emphasize the City’s return on investment for taxpayers and other stakeholders. The focus will be on measuring and evaluating the use of public resources to achieve predetermined goals within prescribed time and financial limits.

2. POLICY PURPOSE

The purpose of this policy is to provide additional direction to departments regarding the financial and performance management improvements envisioned by EO 1-53. The focus of this first iteration of the policy is to move the City toward fulfillment of EO 1-53; improvements are to be identified during the FY17 budget process and through the first half of FY17, and are expected to be in place for incorporation into the FY18 budget.

3. SCOPE

This policy applies to all City programs, regardless of department, fund, or revenue source. Funds that serve solely in a “pass-through” capacity for moving monies to designated entities or purposes will receive lower priority for scrutiny than other funds, particularly in cases where the “pass-through” is mandated by law, policy, or contract documents. This policy is intended to complement, not to supersede, the City’s financial policies, budget ordinance, and other relevant laws.

4. DEFINITIONS

Diversion: Directing revenue to another entity when the City is entitled to such revenue under state law (from EO 1-53).

Goal: The combination of a performance measure, desired outcome for that measure, and a specific period of time in which the outcome is to be achieved

Mayor’s Executive Team (MET): The Mayor’s Chief of Staff, Chief Operating Officer, and Chief Business Officer or as otherwise defined by the Mayor.

Objectives: Clear targets for specific actions that mark interim steps toward achieving goals and outcomes.

Outcome: Results, benefits, or effectiveness of a program as measured by the consequences of an activity (its impact on a stated condition), not the activity itself (a program may serve internal and/or external customers).

Plan Houston: The City’s General Plan.

Program: A plan of action aimed at accomplishing a clear objective and specified outcomes, with details on

what work is to be done, by whom, when, what means or resources will be used, and what important community need(s) and priorities are being addressed and reflected.

5. POLICY DETAILS

Policies and procedures below are arranged to align with the ten requirements laid out in EO 1-53.

5.1 The City shall prioritize and emphasize outcomes in determining the proper operating budget and Capital Improvement Plan allocations for service provision (see EO 1-53 section 4.2.1).

5.1.1 Beginning with FY18, the City shall build its budget emphasizing outcomes based on a Program Performance Model (PPM), with information submitted as required by Section 5.1.2 below to serve as a baseline.

5.1.2 The PPM template shall be developed by the Finance Department and shall require departments to identify programs, objectives, outcomes, goals and initiatives; the initial PPM template shall be provided to departments in time for use in developing the FY18 budget, with future PPMs issued annually in time for use in developing each subsequent fiscal year's budget. The Finance Department and Planning and Development Department will coordinate to align the PPM template with Plan Houston.

5.2 Departmental budgets shall clearly communicate current and proposed levels of investment in programs (see EO 1-53 section 4.2.2).

5.2.1 Utilizing the PPM, all departments shall submit to the Finance Department a listing of proposed programs and outcomes by a date determined by the MET. The MET shall review and revise the proposed departmental programs and outcomes, including identification of instances where more than one department contributes to a proposed program or outcome, and shall present the list to the Mayor for consideration and adoption that will enable use for budget preparation in the upcoming fiscal year.

5.2.2 The Mayor will draw from proposed departmental programs and outcomes as forwarded by the MET to issue a City Program Performance Model for the upcoming fiscal year, including specific goals and outcomes prioritized by the administration.

5.2.3 Using the Program Performance Model's list of prioritized goals and outcomes, departments will be asked to identify resources allocated to various programs and outcomes in a PPM summary report that includes services:

5.2.3.1 Provided in the previous and current fiscal years; and

5.2.3.2 Proposed to be provided in the upcoming fiscal year.

5.2.3.3 Inputs shall include operating budget, capital improvement plan allocations and FTEs.

5.2.3.4 Initial PPM summary reports are to be provided by departments to the MET.

5.2.3.5 The Finance Department will work with the MET to consolidate departmental PPM summary reports and provide a comprehensive list of programs and outcomes, as well as a proposed scoring matrix for prioritizing budget proposals for the upcoming fiscal year, to the MET. The proposed budget scoring matrix will reflect policy-making considerations that may include, but will not be limited to:

5.2.3.5.1. Alignment with Plan Houston and the Mayor's prioritized goals and outcomes;

5.2.3.5.2. Legal mandates and requirements;

5.2.3.5.3. Changes in service demand;

5.2.3.5.4. Cost or revenue recovery; and

5.2.3.5.5. Opportunities for improved efficiency.

5.2.3.6 The MET will review and finalize the programs/outcomes list and budget scoring matrix and will provide it to the Mayor for his review and approval.

5.2.3.7 The final programs and outcomes list and budget scoring matrix will be issued to departments for use in developing the proposed budget for the upcoming fiscal year.

5.3 The City shall periodically conduct detailed and comprehensive budget reviews of every department or program (see EO 1-53 section 4.2.3).

5.3.1 Initially, one department or program will be chosen by the MET for a pilot budget review prior to June 30, 2016.

5.3.2 Subsequently, each fiscal year, the MET shall select multiple departments and/or programs to undergo comprehensive budget reviews. The MET shall schedule reviews at a frequency that ensures at least 30 percent of the City's total operating budget (including enterprise funds) is reviewed each fiscal year. Such reviews shall include capital improvement plan allocations. No department or program shall go more than three years without a detailed and comprehensive budget review.

5.3.3 At a minimum the comprehensive budget review will include but is not limited to:

5.3.3.1 Fiscal efficiencies,

5.3.3.2 Elimination of waste,

5.3.3.3 Organizational structure, including internal controls and budget/expenditure approval processes,

5.3.3.4 Historical vacancies,

5.3.3.5 Staffing levels,

5.3.3.6 Accuracy in budgeting,

5.3.3.7 Contract under/over spending, and

5.3.3.8 Program performance (including goals/objectives, measures, and performance improvement efforts).

5.3.3.9 The review may also include management policies in the areas of compensation and asset management.

5.3.4 By the end of FY17, and by the end of each subsequent fiscal year, the MET shall issue a memorandum to all City departments:

5.3.4.1 Identifying departments/programs selected for comprehensive budget review in the next fiscal year

- 5.3.4.2 Detailing that year's process, submission requirements and deadlines, and
- 5.3.4.3 Identifying who will be responsible for executing the comprehensive budget review, summarizing findings and making recommendations.
- 5.3.5 The comprehensive budget review shall result in an executive report to the Mayor recommending budgetary savings and efficiency improvements and targets of such initiatives.
- 5.3.6 Departments/programs that achieve the goals issued by the executive report (and within the time frame established) shall not be selected for a comprehensive budget review for at least two years, unless such a review is otherwise determined necessary by the Mayor.
- 5.4 Departments shall not transfer funds (budgeted monies or recorded expenditures) between programs or capital improvement projects without the Mayor's approval or that of the Mayor's designee (see EO 1-53 section 4.2.4).
 - 5.4.1 Expenditures for goods and services shall be booked to the appropriate General Ledger account in a fashion that is uniform across funds and business areas in order to increase the reliability of financial reporting and budgeting.
 - 5.4.2 Upon completion of a grant-funded program, grant-funded staff may not be transferred to the General Fund without review and approval of the MET in addition to authorization required by the City's financial policies.
 - 5.4.3 Until such time as programs have been identified within a department's operating budget, no department shall transfer funds or expenditures to or from any budget line item in the Personnel Services account group without approval from the Mayor or his designee.
 - 5.4.4 Funds may be transferred among capital improvement projects scheduled in the same year of the City's Capital Improvement Plan, provided that no more than 5 percent of a project's budget may be transferred to another project without approval from the Mayor or his designee. (This constitutes granting of the Mayor's approval as required by 6.4 above; capital project transfers of more than 5 percent of project budget will require specific approval from the Mayor or the Mayor's designee.)
 - 5.4.5 No project may be shifted to another fiscal year in the Capital Improvement Plan without approval from the Mayor or his designee.
- 5.5 Finance Department approval shall be required prior to any request for Council action that proposes utilization or diversion of City funds (see EO 1-53 section 4.2.5).
 - 5.5.1 As part of the routine agenda development process, the Finance Department, Agenda Office and other City departments will collaborate to ensure that all purchases, expenditures, diversions or other uses of City funds requiring City Council approval receive pre-approval from the Chief Business Officer/Director of Finance or designee before placement on the agenda for action.
 - 5.5.2 Departments shall, in conjunction with budgeting, plan upcoming procurement activities in a manner that allows the City to leverage its buying power, and shall coordinate with the Finance Department to ensure that foreseeable procurements are included in the City's annual procurement plan.
 - 5.5.3 The Finance Department may require justification of proposed procurements before proceeding to a solicitation of proposals or bids.
- 5.6 The City shall develop and maintain short-term specific objectives (targets) and outcomes that

facilitate fulfillment of broad, long-term goals (see EO 1-53 section 4.2.6).

- 5.6.1 Beginning in FY17, the City will identify strategic objectives and outcomes served by departmental budgets, drawing on Plan Houston and using the PPM model.
- 5.6.2 Departments shall propose key performance indicators to monitor outcomes. If the department's performance is not currently measured using outcome measures, the department shall define outcome measure(s) and establish a method to calculate and track these measures as indicators of program success by the beginning of FY18.
- 5.6.3 The Finance Department shall work with departments to identify appropriate measures and targets; all proposed measures and targets will be reviewed by the MET and approved by the Mayor or his designee.
- 5.6.4 The FY18 budget process and all subsequent fiscal year budget processes will be designed to ensure full alignment of departmental objectives and measures with the City's strategic objectives and outcomes.
- 5.7 The City shall develop and maintain a long-range financial plan with the focus on achieving annual budgets that are structurally balanced and clearly aligned with the achievement of short- and long-term goals (see EO 1-53 section 4.2.7).
 - 5.7.1 The long-range financial plan is to be under development by the Finance Department no later than August 2016, with completion targeted in time for the plan to be incorporated into the FY18 operating and capital budgets and subsequent budgets as appropriate.
 - 5.7.2 The plan shall be updated routinely to reflect changes in the City's financial circumstances and environment, laws and policies, and other factors justifying amendment to the plan; external assistance shall be secured as needed to support maintenance of a plan that achieves structural budget balance and fulfillment of the City's strategic objectives and outcomes.
- 5.8 Program and financial performance shall be continually evaluated, and adjustments made, to encourage progress toward achieving goals (see EO 1-53 section 4.2.8).
 - 5.8.1 Departments shall maintain accurate performance data in a centralized location managed by the Finance Department and will update such data in a timely manner (monthly, quarterly, annually as appropriate).
 - 5.8.2 Performance measures will be reviewed by departmental leadership with the Mayor or his designee no less than quarterly to identify progress toward desired outcomes, potential issues and appropriate adjustments, which may include redirection or discontinuation of programs, changes in resource allocation, and/or reprioritization of activities within a program.
 - 5.8.3 At least every two years beginning during FY17, the City will survey internal and external constituents to gauge customer satisfaction with internal and external City services; customer satisfaction will be included as a key performance measure for departments where relevant.
- 5.9 The City shall benchmark performance against its prior performance, and against the performance of other cities and appropriate organizations (see EO 1-53 section 4.2.9).
 - 5.9.1 The Finance Department will use the Mayor's strategic objectives and outcomes, and the Mayor's approved list of key performance indicators, to propose certain key performance indicators for benchmarking against other cities and organizations. These indicators will be reviewed by the MET and approved by the Mayor or his designee, and may be revised as part of adjustments made for the budget process.
 - 5.9.2 Benchmarking against prior City performance will be used to identify trends that highlight

program success or shortcomings over a period of time.

5.9.3 Benchmarking against other cities and organizations will gauge the City's performance using comparable measures, and will recognize significant differences in service delivery priorities, resources and environment.

5.10 Performance shall be reported regularly to internal and external stakeholders (see EO 1-53 section 4.2.10).

5.10.1 Performance measures will be highlighted on the City's website, such as via CitizensNet and HTV, and reported in presentations to the Mayor and City Council (including Council committees as requested by Council and directed by the Mayor).

6. ROLES AND RESPONSIBILITIES

6.1 Finance Department

6.1.1 Provides the Mayor and City Council with regular reports on the financial condition of the City.

6.1.2 Reviews all expenditures, transfers, and diversions of funds prior to City Council consideration of any such proposals.

6.1.3 Ensures City funds of any type are being spent in a manner that is in the best interests of the City as a whole, rather than the department making the expenditure.

6.1.4 Develops a system of performance measurement for use by departmental and citywide programs, and works with departments to ensure performance indicators are:

6.1.4.1 Quantifiable and measurable;

6.1.4.2 Relevant, understandable, timely, consistent, comparable, and reliable;

6.1.4.3 Reflective of the various components of a family of measures, including input, output, efficiency, service quality, and outcome measures.

6.2 Mayor's Citizen's Assistance Office

6.2.1 Assesses community conditions.

6.2.2 Schedules and promotes meetings throughout the fiscal year to obtain public input on City performance and priorities.

6.2.3 Collects and assembles citizen input for consideration by the Mayor, City Council and department directors.

6.3 Department Directors

6.3.1 Plan, develop and implement programs in line with City goals and desired outcomes.

6.3.2 Implement recommendations generated by comprehensive budget reviews.

6.3.3 Hold staff accountable for reaching department, program and City goals.

6.3.4 Propose reallocation of funds from programs that do not yield sufficient or satisfactory progress toward goals and outcomes to programs that demonstrate sufficient or satisfactory progress.

6.3.5 When drafting budget submissions, include information about:

6.3.5.1 What the department accomplished last year;

6.3.5.2 What is different in this year's request, and what benefits are anticipated from proposed adjustments; and

6.3.5.3 What goals the department proposes for the coming year (departmental goals will align with City goals and desired outcomes).

6.4 Planning and Development Department

6.4.1 Coordinates with departments regarding implementation of the City's General Plan (Plan Houston) in line with goals and outcomes established by the Mayor and in close communication with the Finance Department to ensure that programs, goals and outcomes align with Plan Houston.

6.5 Controller's Office

6.5.1 Conducts financial and performance audits to identify effective, efficient practices and opportunities for improvement in service delivery and management of public resources.

6.5.2 Prepares accurate and timely financial statements.

7. RELATED DOCUMENTS AND INFORMATION

- Executive Order 1-53 (Approved January 19, 2016)
- Plan Houston
- Performance Management Model (To be updated and attached to this policy when prepared in accordance with this policy)

8. POLICY SPONSOR

Department: Finance Department