CITY OF HOUSTON, TEXAS
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) as well as Ordinance No. 2003-474, dated May 21, 2003. New policies were adopted by Ordinance No. 2014-1078 in December 2014. In May 2018, the policies were amended by Ordinance No. 2018-390 to revise and update the amended and restated financial policies as a result of the two-year requirement. The policies were again revised and updated by Ordinance Nos. 2020-999 and 2023-726.

The intent of the City's policies is to protect public assets and to foster reliance on public information for decision-making purposes at all levels both internally and externally. The policies establish a framework within which 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. Managers and supervisory personnel are responsible for establishing, executing, and maintaining the financial policies and procedures at the detail level within their specific business units.

A. Definitions

Accounting Transactions – All financial/accounting entries required to be recorded in the City's general ledger system, by the due date outlined in this policy including but not limited to fiscal year-end expenditure and revenue accruals except for the following: (a) Other Post-Employment Benefits (OPEB) - Health, (b) OPEB – Long Term Disability (LTD), (c) Workers Compensation, (d) Pension, (e) , OPEB Trust Fund, (f) TIRZ Assets, (g) Legal Liability, (h) Grant Equalization, (i) Arbitrage, (j) Project Cost Recovery, (k) Compensated Absences, and (l) Final Residual Transfer from Revenue Fund to Appropriate Other Funds as Required by Ordinance/Policy. This definition is intended to align with section K.5.

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.

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 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 G.2.).

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.

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.

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; beginning in FY2020, there shall be a statement explaining why the City is, or is not, in compliance with said policy. Where the City is not in compliance, the statement shall also include a plan for how the City will achieve compliance.

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.

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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.

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 G.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)

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.

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 Adopted Budget General Fund expenditures (excluding debt service payments and transfers for pay-as-you-go (PAYGO) capital expenditures) or (b) $25 million, which may be used in accordance with the definition of the fund. Transfers necessary to meet this requirement shall occur by July 31 of each fiscal year. 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 (BSF) has concluded, to restore the Budget Stabilization Fund to at least minimum levels:
    (i.) If the event <u>does not</u> qualify for reimbursement as a state or federally declared disaster, the City shall allocate sufficient funds within 365 days of the date the funds are transferred out of the BSF.
    (ii.) If the event <u>does</u> qualify for reimbursement as a state or federally declared disaster, the City shall allocate sufficient funds by the end of the second subsequent full fiscal year.

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.

E. Special Revenue Fund Reserve Policy

1. The proposed and adopted operating budget each year shall include the budgets of all special revenue funds that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
2. Certain special revenue funds 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. Any fiscal year-end fund balance that exceeds the established maximum cash reserve of the special revenue fund may be transferred to the General Fund, subject to City Council approval of an ordinance revising the ordinance establishing such special revenue fund and specifically authorizing such transfers, where such City Council approval is required.

F. 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.

    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.

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.

G. 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.
2. All post-employment and employee benefit systems will be financed in a manner to fully and systematically fund all liabilities, with the City making all necessary payments in compliance with contractual obligations and statutory requirements and in a manner that results in full amortization of liabilities over a closed 30-year period. City Council shall be fully informed if sufficient funds are not allocated in the current budget.
3. The City's annual proposed and adopted budgets and a presentation 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.
4. Each enterprise fund of the City shall maintain revenues which support the full (direct and indirect) cost of the services provided. (NOTE: This is not intended to preclude appropriate use of fund balance in line with enterprise fund balance policy described in Section D.1. above).
5. A comprehensive analysis of City fees and rates shall be performed on a rotation basis no later thanevery five years by Finance Department or an independent outside third-party contractor as deemed feasible in conjunction with the Department administering the fee, except for impact fees, which shall be made no later than every ten years, and presented to BFA. Legislatively mandated or contractually required fees are exempted from the comprehensive analysis. 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).
6. 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:
    a. Sales Tax Revenues – pass-through payments related to strategic partnership agreements and transfers related to Chapter 380 agreements;
    b. Property Tax – pass-through transfer amount to the Dedicated Drainage and Street Renewal Fund for captured revenue and transfers related to Chapter 380 agreements;
    c. Municipal Service Fees revenues – pass-through transfer amount to Police Special Service Fund for police services in certain reinvestment zones and;
    d. Other collection revenues – payment to vendors based on commission-based contracts.
7. 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, and shall include appropriate comparisons to relevant competing employers from the public, non-profit and/or private sectors.
8. 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% biennially beginning in FY2020 and

continuing until annual funding reaches at least 2% of Current Replacement Value at which time it will remain constant.

9. 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 or 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.

H. 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.

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.

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

4. 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.

5. Beginning in FY2019, over the five-year CIP, an average of 2% of the Current Replacement Value of all General Fund facilities shall be included for capital maintenance in each fiscal year of the CIP and every CIP thereafter. Such funds may be used on any owned General Fund facility.

6. Except as required by law or legal agreements, proceeds from the sale of land or other assets shall be designated to the General Fund; and except as required by law or legal agreements, no City bond covenants or similar agreements shall prohibit such designation or limit the use of such proceeds.

I. 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:
   a. An in-depth analysis of economic conditions, revenues, expenditures, and all long-term obligations including debt, pensions, health benefits, accrued leave, and investment in facilities, 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. Annually, 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 shall include an appropriate number of downside scenarios (at least one) anticipating lower investment rates of return.

3. When a union contract is presented to City Council for adoption, supporting materials provided to the Council shall include an actuarial report estimating the impact of the proposed union agreement on pension system costs.

J. 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.

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.

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.

4. 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.

5. 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.

6. To reduce the General Fund transfer for debt service while remaining in compliance with all relevant bond or other debt covenants and indentures, 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 12% of General Fund revenues (excluding state and federal grants), at which point the maximum is to be held constant and remain at 12%.

7. The City will maintain average weighted General Obligation bond maturities of 12 years or less.

8. When refunding debt, excluding special facility 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.

9. Excluding special facility debt, and other than periodic refunding 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.

10. All City financings must be approved by the Finance Working Group and must first be analyzed for long-term affordability and compliance with the City's financial policies and other legal or administrative requirements.

11. The City shall review all outstanding debt at least annually for the purposes of identifying refunding opportunities.

12. A formal procurement process shall be conducted by the Finance Working Group periodically when selecting underwriters in order to promote fairness, objectivity and transparency. The process will be an open process that will allow the pool to remain open and allow the addition of new firms on an ongoing basis. The selection committee shall report results to BFA and present the approved list of underwriters for the following year. Criteria for inclusion shall include questions related to the areas listed below to distinguish firms' qualifications and experience, including but not limited to:
    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.

K. 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.

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

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 Annual Comprehensive Financial Report (ACFR). The final published ACFR will be made public and uploaded to the City's website no later than 180 days after the last day of the City's fiscal year in accordance with state law.

4. To the extent practicable, all Component Units of the City must follow all City accounting, audit and financial reporting policies.

5. The City will complete a year-end soft close of its books within 6 working days after August 31st of each year. The Accounting Transactions will be booked in a timely manner and General Ledger accounts will be reconciled by departmental unit to facilitate the year-end soft close.

6. The Single Audit Report (SAR) (annual audit) will be uploaded to the Federal Audit Clearinghouse within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the fiscal year. The SAR 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.

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.

L. Internal Control Over Financial Reporting Policies

1. The City's internal control structure will be based on the Committee of Sponsoring Organizations of the Treadway Commission on Fraudulent Financial Reporting (`) 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.

2. The Single Audit Report as addressed in K.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).

M. Local Economic Development Policies

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

   Priority 1: Foster increased economic opportunity for underserved Houstonians with the goal of reducing poverty and unemployment. To this end, the City shall prioritize financial incentive programs and resources to targeted areas (distressed, declining, brownfield or poor performing) that have poverty and unemployment rates above the City average to enhance their long-term sustainability.

   Priority 2: Through collaborative development of partnerships and strategic use of incentive programs to leverage third party financial resources, and with an emphasis on fostering technology and innovation, 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 3: Create programs designed to address a specific development deficiency within a defined geographic boundary with the intended outcome of stabilizing the local area. The City shall perform market and business analyses to identify target areas to focus its efforts. Priorities will be established to address specific development deficiencies, high poverty and/or unemployment areas, inadequate quality of life, assets, housing disparities and insufficient access to food.

2. The City shall utilize varied market and business analyses and reports compiled by Mayor's Office of Economic Development Division or third-party sources to identify target areas to focus its efforts. Priorities will be established to address specific development deficiencies, high poverty and/or unemployment areas, inadequate quality of life, assets, housing disparities and insufficient access to food. Upon identifying target areas that are distressed or otherwise deficient in relation to any economic development priority listed above, with primary emphasis on areas where poverty, unemployment, and/or underemployment above the City average are identified, the City shall establish the criteria, guidelines and performance metric by which to evaluate projects submitted for certain incentive consideration.

3. The City shall determine the most appropriate economic development program(s) available to address one or more economic development priorities and, where applicable, engage public or private partners to contribute financial or other resources to achieve the desired economic or development outcome.

4. The City shall set forth project eligibility and/or scoring criteria to include: minimum job creation, minimum compensation levels, minimum private investment, justification for public participation, qualifying public improvements (including City infrastructure), term of incentive, financial viability of developer, public purpose for financial assistance, and where applicable total project costs. Project eligibility and scoring criteria shall give clear preference and greater weight to projects that offer community benefits including, but not limited to: employee compensation above the minimum required; provision of employee health benefits; hiring/employment of people living in communities identified as having poverty, underemployment, and/or unemployment above the city average; open opportunities for employment and job training for individuals with barriers to employment (specifically, individuals with criminal records and low educational attainment); and quality workforce housing for families earning no more than 120 percent of the Houston metropolitan area's median family income. Specific minimum thresholds for all criteria shall be reflected in local ordinances or policies governing use of economic development tools such as grants, loans, tax abatements and other programs.

5. Standardized application and evaluation formats will be adopted by the Economic Development Committee or the equivalent appropriate committee as defined by the Mayor for use in consideration of economic development projects.

6. 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 each type of job to be created by the applicant, distinguishing between temporary/seasonal vs. permanent jobs, part-time vs. full-time jobs, and newly created vs. retained jobs;
   f. Wages, salaries, and benefits to be offered by the applicant to the job holders for each type of job, the ability of the applicant to locate or relocate in another state, or another city in the region;
   g. Impact the project will have on the City;
   h. Specific plans and goals for delivery of community benefits such as those identified in Section M.4. above;

i. The City's proposed investment in the project, including total investment and investment per job proposed for creation;
j. Project applicant's performance on other City-incentivized projects during the five years preceding the date of application, where applicable; and
k. Projected market value of the proposed project.

7. The standard evaluation criteria for economic development projects shall include, but are not limited to, the following:
   a. Scope and appropriateness of economic development tools;
   b. Eligibility in accordance with Section M.4. above;
   c. Compliance with the City's standard application format; and
   d. Performance for any prior approved projects.

8. 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 for projects receiving local city incentives.

9. The Mayor's designee shall report annually to the Economic Development Committee (and/or any other committee charged with overseeing economic development activities) 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. Such reports shall be published prominently on the City's website within 30 calendar days of presentation to the appropriate committee. Annual reports shall include, but are not limited to, the following:
   a. Amount of the investment each recipient committed to expend or allocate;
   b. Amount of the investment each recipient expended or allocated;
   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, the range of actual salaries with benefits component of the new jobs created, and the number of jobs created that provide health benefits for employees.
   f. Community benefits to be delivered as part of the project agreement; and
   g. Community benefits delivered, including identification of any areas where benefits delivered did not meet projected levels specified in the project agreement.
   h. For Chapter 380 agreements, tax abatements and Texas Enterprise Zone endorsements, annual reporting shall also include:
      i. The projected economic value to the City at the time of execution of the agreement through the respective project's completion;
      ii. Any alterations to the projected economic value to the City;
      iii. Economic benefits realized by the City since the execution of the respective agreements; and
      iv. Analysis of the positive and negative impacts (economic and otherwise) on the community and immediately surrounding communities.

10. The Mayor's designee shall hold a public hearing for each recommended economic development project at least 10 days before the City Council may vote on the proposed project's application. This hearing may be held before the Economic Development Committee or other appropriate City Council committee established by the Mayor; the proposal and related unrestricted information shall be made available to the public at least three days prior to the public hearing.

N. Tax Increment Reinvestment Zone (TIRZ) Policies

CITY OF HOUSTON, TEXAS
FINANCIAL POLICIES

The Mayor's Office of Economic Development (MOED) will manage, administer and govern the TIRZ Program in accordance with the stated TIRZ Policy developed in 2023 under the administration of Mayor Sylvester Turner. The MOED will be required to present the compliance of items #1-#5 below to the Economic Development Committee on an annual basis if any actions were approved by council in the prior year. For any council-approved action that is noncompliant, the MOED must provide the rationale for noncompliance.

1. Creation: Tax Increment Reinvestment Zones will be considered only when the area proposed clearly demonstrates a nexus between the proposed eligible TIRZ projects and economic growth spurred by new investment within the proposed geographic boundary. Evidence must demonstrate:
    a. At least 50% projected increase in the Assessed Value from development during the initial TIRZ term life.
    b. Clearly defined goals, defined projects and a plan for attracting private investment
    c. Immediate or near term "committed or known" private investment within year 1
    d. Ability to meet stated development and revenue goals reflected in an Economic Impact Study

2. Life Extensions: The life extension of an existing TIRZ will be evaluated and considered if the extension:
    a. Is required to secure financing for an approved project to expedite construction.
    b. Will provide for additional time to complete an approved project.
    c. Will generate revenue for projects reflected in a project plan if supported by a planned new investment.
    d. Is needed to leverage new local, state, federal or philanthropic funding.

3. Termination: Termination will be recommended if:
    a. A TIRZ has either met the objectives defined in the zone's project plan, or
    b. A TIRZ has "underperformed" and has been unsuccessful at meeting the objectives defined in the Zone's project plan after 15 years from its creation.

4. Boundary Adjustments:
    a. Annexations into existing Zones will be evaluated and considered for any of the following scenarios:
        i. further the objectives of the TIRZ's project plan;
        ii. will attract private investment in the proposed area;
        iii. support an application to the state or federal housing agency for the development and construction of low-income housing; or
        iv. support an application for state, federal, or philanthropic funding for transportation, park, or other infrastructure.

    b. De-annexations will be evaluated and considered if the reduction in the boundary will either:
        i. increase the revenue generated in the area remaining after the reduction;
        ii. increase the City's capacity to designate other areas for Tax Increment Financing considering the 25% statutory limitation.

5. Non-Contiguous TIRZ: Non-Contiguous TIRZs will be evaluated and considered on a case-by-case basis where the criteria in Chapter 311 are met. Additional considerations must include an alignment between the area proposed for annexation with the existing TIRZ and the existing TIRZ's capacity to generate revenue sufficient to meet its project plan objectives and to fund public capital infrastructure in the proposed area that is likely to encourage private investment or spur economic development.

6. TIRZ Performance: Mayor's Office of Economic Development Division will engage regularly with each TIRZ Board to assess and evaluate the TIRZ's performance relative to the goals, revenue generation, and timeline for the delivery of capital projects stated in the project plan.

TIRZs that are either not performing or underperforming to the project plan will be required to provide an action plan that will encourage and attract private investment ultimately increasing the revenue generated within the Zone to construct projects as defined in the project plan.

7. TIRZ Budgets and Capital Improvement Plans: The Annual Budget and CIP will be presented to City Council for approval only after the operating budget and capital projects have been reviewed and approved by the Mayor or designee, Finance, Houston Public Works, and the TIRZ/Redevelopment Authority Boards.

   The budget will only reflect projects with identified funding sources (including existing funding sources or approved future funding sources) and contain a minimal capital reserve as established by the Finance Department.

8. Debt Authorization and Issuance: The City's Finance Department and the TIRZ Bond Team will work cooperatively on all bond related matters including "pre-issuance" meetings, appointment of bond-related providers to ensure governance and to benefit from the City's providers which may have lower issuance cost options.