

Financial Management Policy Statements (FMPS)

- ▶ **Council Policy 5000-19**
- ▶ **Ten Statements that Set the Direction for City's Financial Management**
- ▶ **Reviewed Bi-annually**
- ▶ **Adopted by City Council Resolution**



Why do we need FMPS?

- ▶ **Provide guidance to staff and Council in managing the City's finances**
 - **First adopted in 2002**
 - **Amended bi-annually**
- ▶ **Provides for consistent financial management practices**
- ▶ **Bond rating agencies expect to see formal adopted policies when assessing a city's financial strengths**
 - **This is a big part of our AAA bond rating**



Ten Topics of Policy Statements

- 1. Accounting, Auditing & Financial Reporting**
- 2. Financial Consultants & Vendor Selection**
- 3. Budget & Long Range Financial Planning**
- 4. Revenues & Other Resources**
- 5. Expenditures & Services**
- 6. Fund Balance/Working Capital**
- 7. Capital Expenditures & Improvements**
- 8. Debt**
- 9. Cash Management & Investments**
- 10. Grants**



Workshop Outline

- ▶ For each section of FMPS:
 - High-level review of current statements
 - Reference to document page numbers on slides
 - **Technical revisions recommended by staff**
- ▶ **Topics for further discussion**
- ▶ Next steps/ questions



Section 1

Accounting, Auditing & Financial Reporting



► **Pages 1-3**

Accounting & Financial Reports

- ▶ **Accounting Principles & Practices**
 - The City's accounting conforms to Generally Accepted Accounting Principles (GAAP) set forth by GASB
 - Annual financial reports & disclosure meet standards
- ▶ **Financial Management Reports**
 - Monthly financial reports per Charter requirement
 - Quarterly performance measure reports
 - Quarterly capital project reports



Audit & Finance/Audit Committee

- ▶ **Annual Audit**
 - **State law: accounts and records audited annually by a CPA firm licensed in Texas**
 - **Single audit of federal & state grants when necessary**
 - **State law: filed w/in 180 days of fiscal year end**
 - **City's target is 2nd meeting in February**
- ▶ **Finance/Audit Committee**
 - **Review and guide financial policy and strategic financial issues as determined by City Manager or City Council**
 - **Defines role of committee related to audit**

▶ **Page 2**



Disclosure & Check Signers

- ▶ **Continuing Disclosure**
 - **Required annual disclosure filed within 180 days of fiscal year end per bond covenants**
 - **Material events: (Rule 15c2-12) within 10 days of event**
- ▶ **Signature of Checks**
 - **Identifies three authorized signers on City checks**
 - **Two signatures required on all checks**



▶ **Pages 2-3**

Proposed Revisions

- ▶ **Annual Audit**
 - Clarify role of auditor vs management
 - CAFR prepared to meet standards of GFOA awards program- Certificate of Excellence in Financial Reporting
- ▶ **Continuing Disclosure**
 - Annual disclosure and material event notices filed through the MSRB's EMMA® website

▶ Pages 2-3



Section 2

Financial Consultants



► **Pages 3-6**

Auditors & Arbitrage

- ▶ **Selection of Auditors**
 - Auditors appointed by City Council, report to City Council
 - Request proposals at least every 5 years
 - If not changing firms, rotate lead partner & lead reviewer
 - Engagement letter presented annually
- ▶ **Arbitrage**
 - Performs required calculations under IRS regulations



Attorneys

- ▶ **Delinquent Tax Attorney**
 - Contracted through Fort Bend County in conjunction with contract for property tax billing & collection
- ▶ **Bond Counsel**
 - Independent expert to provide objective legal opinion concerning issuance of bonds and tax-exempt status
- ▶ **Disclosure Counsel**
 - Used in complex bond transactions, provides an added layer of assurance that the City's financial position is presented accurately in bond documents

▶ Pages 4-5



Municipal Advisor & Depository Bank

- ▶ **Municipal Advisor**
 - Advise and support the City through debt issuance
 - Must be registered with SEC and MSRB
 - May not serve as underwriter on any bond transactions
- ▶ **Depository Bank**
 - Contract not to exceed 5 years
 - Accounts may only be opened by designated employees



Proposed Revisions

- ▶ **Selection of Auditors**
 - **Added language to emphasize the auditor's independence from management:**
 - **Appointed by City Council**
 - **Reports to City Council**
 - **Reference that rotation of partners is in compliance with Sarbanes Oxley Act of 2002**

▶ **Pages 3-4**



Section 3

Budget & Long Range Financial Planning



► **Pages 6-13**

Balanced Budget

- ▶ **Operating budget structurally balanced in compliance with state law & City charter**
- ▶ **Current Funding Basis**
 - **Recurring expenditures funded by recurring revenue**
- ▶ **Use Of Non-recurring Revenues**
 - **Defines one-time expenditures**
 - **Remove sales tax incentive grant payments**
 - **Defines one-time revenues**

▶ **Pages 6-7**



Property Taxes

▶ Tax Rate

- City Manager to recommend a tax rate- City finances require to operate efficiently, yet effectively, & meet the City Council's expectations: services provided /service levels
- When economic conditions permit, City Manager to Recommend a Tax Rate not Greater than the ETR plus 3%
- Goal is not to exceed average annual increase of 3% on residential tax bill unless voters approve a GO Bond Ref.

▶ Tools to Manage Growth in Tax Bills

- Property Revaluation, Tax Rate, Homestead Exemption

▶ Pages 7-8



Property Taxes

- ▶ **Homestead Exemption**
 - Homestead exemption review based on anticipated revaluation increases
 - Changes must be approved prior to July 1
- ▶ **Over-age and Disabled Persons Exemption**
 - Currently \$70,000



Sales Tax

- ▶ **Sales tax to fund recurring operations capped at 50%**
 - **Goal is to reduce dependence on sales tax for recurring operations, set aside extra funds for one-time needs**
- ▶ **Sales tax to be estimated conservatively**
- ▶ **Sales tax from Incentive Grant Agreements**



Pay As You Go CIP Funding

- ▶ **Transfers for Pay As You Go CIP:**
 - **Sales Tax:** target is 10% of GF Base Sales Tax
 - **Water/WW:** target is \$2 million/year
- ▶ **Goal is to adequately fund ongoing rehabilitation**



Revenue Estimates

- ▶ **Revenue Estimating for Budgeting**
 - **Conservative, Analytical Approach**
 - **Reduce likelihood of revenues falling short of budget**
 - **Avoid mid-year service changes**
- ▶ **Water/Wastewater Revenues**
 - **Utility and Surface Water Fund budgeted based on average year's rainfall/consumption**
 - **Adjustments to rates based on revenue requirements over the five year forecast**



Employee Compensation

- ▶ **Employee Compensation (Merit Pool)**
 - **Budget for Merit Increases when funds are Available**
 - **City Does not Give Cost of Living Increases**
 - **Plan approved by Council & Administered by City Manager**



Budget Management

- ▶ **Budget Management**
 - Budget adoption by one reading of an ordinance per Charter
 - Amend or adjust based on level of change needed
- ▶ **Defines when budget amendments are needed**
 - Operating Budget
 - Capital Projects Budget



Operating Deficits

- ▶ **Corrective Actions to be taken if revenues fall short of anticipated levels mid-year**
 - 1. Reduce Transfers to CIP**
 - 2. Manage Vacant Positions**
 - 3. Defer Capital Purchases**
 - 4. Expenditure Reductions**
 - 5. Hiring Freezes**
 - 6. Freeze Merit Increases**
 - 7. Use of Fund Balance**
 - 8. Increase Fees**
 - 9. Lay off Employees**



Five Year Forecast

- ▶ **Five year forecast prepared for the following funds**
 - **General Fund**
 - **Debt Service Funds**
 - **Tourism Fund**
 - **Water/Wastewater Utility Fund**
 - **Surface Water Fund**
 - **Airport Fund**
 - **ED Corporations (SLDC/SL4B)**
 - **Capital Improvement Program**

▶ **Pages 12-13**



Proposed Revisions

- ▶ **Sales tax to fund recurring operations**
 - **Recommend reducing to 45%**
- ▶ **Transfers for Pay As You Go CIP**
 - **Eliminate: Sales Tax transfer from General Fund**
 - **Increase Water/WW: target from \$2M to \$2.5M per year**
- ▶ **Property Tax- Homestead Exemption**
 - **SB1 limits reduction or repeal below 2014 value (7%)**

▶ **Pages 8-9**



Proposed Revisions

- ▶ **Sales Tax (consistent with Spring 2017 retreat direction)**
 - **Current year's projected revenue = baseline for budget preparation, net of audit adjustments & one time payments**
 - **Positive February CPI:**
 - **Year 2 growth = lesser of CPI or 3%**
 - **Year 3-5 growth = 3%**
 - **Negative February CPI:**
 - **Year 2 growth = flat from current year budget**
 - **Year 3 growth = lesser of 3% or 5-year average CPI**
 - **Year 4-5 growth = 3%**

▶ **Page 9**



Proposed Revisions

- ▶ **Water/Wastewater Revenues**
 - **Add Surface Water Fund**
 - **Clarify avg. consumption excludes wet & dry years**
- ▶ **Increases necessary to maintain revenue coverage requirements to be made in advance of anticipated bond issues, if possible, to allow for smaller increases to be made over time**



Proposed Revisions

- ▶ **Budget Management**
 - **Charter 6.03b requirement for budget adoption by one reading of an ordinance no later than September 25th**
 - **Local Government Code 102.009(a)- governing body may only levy taxes in accordance with the budget**
 - **Should tax rate not support the adopted budget, the budget shall be amended as soon as possible to balance the budget to anticipated revenues**



Proposed Revisions

- ▶ **Operating Deficits**
 - **Implemented by City Manager**
 - **Remove reduction of CIP transfer as 1st step**
- ▶ **Five Year Forecast**
 - **Assumptions used to prepare the five-year forecast to be consistent with those used to prepare the annual operating budget, unless directed by City Council**

▶ **Pages 12-13**



Further Discussion

- ▶ **Property Taxes**
 - **Tax Revenues**
 - **Growth Assumptions**
 - **Tax Rate**
 - **Homestead Exemption**
 - **Over-age & Disabled Persons Exemption**
 - ▶ **Employee Compensation**
 - **Changes to be based on Compensation Philosophy Project**
- ▶ **Pages 7-10**



Section 4

Revenues & Other Resources



► **Pages 13-16**

Property Taxes

- ▶ **Airport Taxes (Transfer)**
- ▶ **Rebates to Municipal Utility Districts (expenditures)**
 - **City rebates 50% of city property taxes collected within in-city MUDs to the districts**
- ▶ **Assignment of taxes to Tax Increment Reinvestment Zones**
 - **TIRZ #1- 100% of City taxes**
 - **TIRZ #3- 50% of City taxes**
 - **TIRZ #4- 50% of City taxes**



Sales Tax Revenue

- ▶ **Allocation of sales tax revenue**
 - **General Fund/Economic Development Corporations**
 - **Transfer to Capital Projects fund from General Fund**
- ▶ **Sales tax revenue above the budgeted amount can be used for non-recurring expenses or transferred to the Capital Improvement Fund for PAYG capital projects**
- ▶ **Sales tax on aircraft sale/purchase**
 - **Transfer to the airport fund or set aside for airport projects**

▶ **Pages 13-14**



Other Revenues

- ▶ **Administrative Service Charges**
 - **Allocated through a cost allocation model**
- ▶ **Utility Transfer to Debt Service Fund**
 - **Intent is for Utility Fund to support annexed MUD debt for water/wastewater projects**
 - **Utility Fund should be self-supporting**
 - **Recalculate based on affordability upon assumption of additional debt**



Other Revenues

- ▶ **Surface Water Revenues**
 - Account for mandated reduction in groundwater usage
 - Ensure equity among all GRP participants
- ▶ **Water/Wastewater Billings**
 - Billed in arrears, customer meters read monthly
- ▶ **Revenue Collections**
 - Identify outsourced billing & collections and delinquent receivable collections
 - Write off of uncollectible accounts

▶ Pages 14-15



User Fees

- ▶ **Aim to set fees that recover cost of services**
 - **Services benefit a specific user, aim to recover more from fees vs taxes**
 - **Non-resident surcharges**
- ▶ **Annual adjustment based on CPI**
- ▶ **Enterprise Funds**
 - **Seek to eliminate subsidization to enterprise funds**
 - **Five year forecast is the basis for rate change considerations**
 - **Build plan around smaller annual increases vs larger ones periodically**



Proposed Revisions

- ▶ **Eliminate 10% PAYG Capital Projects transfer**
- ▶ **Allocation of sales tax revenue above the budgeted amount**
 - **Replenish any drawn-down fund balance**
 - **Provide a one-time boost to rehab funding**
 - **Fund capital projects w/o a funding source**
 - **Fund one-time expenditures in following year budget**
- ▶ **Revenue collections**
 - **Add property tax billing & collections via Fort Bend County**

▶ **Pages 13-15**



Proposed Revisions

- ▶ **User Fees**
- ▶ **Evaluate for any changes through FY18 strategic project**
 - **Creation & revision**
 - **Non-resident surcharges**



Section 5

Expenditures & Services



► **Pages 17-18**

Operating Expenditures

- ▶ **Purchasing & Vendor Selection**
- ▶ **Business Plans**
- ▶ **Annual Program of Services**
- ▶ **Maintenance of Capital Assets**
- ▶ **Periodic Program/Service Reviews**
- ▶ **Outsourcing of Services**

▶ **Pages 17-18**



Proposed Revisions

- ▶ **Purchasing & Vendor Selection**
 - **Clarify that Council approval is required for all purchases that exceed \$50,000 of City funds over the term of the contract**



Section 6

Fund Balance / Working Capital

► **Pages 18-21**



Fund Balances

- ▶ **Five categories of governmental fund balances**
 - **Per GASB**
- ▶ **General Fund Balance Policy**
 - **Maintain unassigned fund balance equivalent to 3 months of normal recurring operating costs based on the current year budgeted expenditures**
- ▶ **Inter-Fund Loans**

▶ **Pages 18-19**



Enterprise Funds Working Capital

- ▶ **Cash Equivalent Balance Policy Minimums**
 - **Utility Fund: 25% of budgeted O&M expenses**
 - **Airport Fund: 25% of budgeted O&M expenses excluding fuel for resale**
 - **Surface Water Fund: 50% of budgeted expenses**
- ▶ **Use of Fund Balance/Working Capital**
 - **Only for emergencies, non-recurring items or major capital purchases**
 - **Plan to replenish within 2 years if falls below minimum**



Fund Balances/Working Capital

- ▶ **Debt Service Funds**
 - Tax Exempt: 10% of annual debt service
 - Taxable- defined by bond documents
 - ▶ **Special Revenue Funds**
 - Tourism: 10% of budgeted HOT revenue
 - ▶ **Internal Service Funds**
 - Fleet Replacement: 10% of inventory asset value
 - Tech Replacement: 10% of technology asset value
 - ▶ **Economic Development Corporations**
 - SLDC & SL4B: 15% of budgeted sales tax
- ▶ Pages 20-21



Proposed Revisions

- ▶ **Fund Balance Policy**
 - **Surface Water Fund: 50% of budgeted expenses less any debt service reserve for revenue bonds**
 - **Tech Replacement: 10% of inventory asset value**
 - **Employee Benefits: Carry a reserve equal to 20% of anticipated medical plan claims**
 - **Corporations- remove prior FB reference**
- ▶ **Inter-Fund Loans**
 - **Any changes to repayment terms to be approved by City Council and clearly identified in the budget document**

▶ **Pages 18-21**



Section 7

Capital Expenditures & Improvements

► **Pages 21-25**



Capital Expenditures & Improvements

- ▶ **Capitalization Threshold**
 - **Cost > \$5,000 for Individual Item**
 - **Useful life > 1 Year**
 - **Track for control items between \$1,000 to \$4,999**
- ▶ **Five Year Capital Improvement Plan (CIP)**
 - **Required by City Charter**
 - **Describes process for development**
 - **Limits based on affordability from long range forecast**

▶ **Pages 21-22**



Five Year CIP/Capital Assets

- ▶ **Projects that can't be included within available funds to be shown in an appendix of unfunded projects**
- ▶ **Defines various CIP funds**
- ▶ **Community Redevelopment Projects**
- ▶ **Joint Capital Improvement Projects**
- ▶ **Replacement of fleet & technology capital assets on a regular schedule**

▶ **Pages 22-24**



Five Year Capital Improvement Program

- ▶ **Capital Expenditure Financing**
 - **Methods of funding**
- ▶ **Pay as you go Capital Improvements**
 - **Budgeted based on funding available**
 - **Avoids debt issuance, projects only move forward when funds are available**
- ▶ **Capital Projects Management**
 - **Project managers report monthly**
 - **Shared with Council quarterly**

▶ **Pages 24-25**



Proposed Revisions

► Five Year CIP

- **Affordability determined by revenue assumptions used to build the five year forecast**
- **Unfunded projects considered for future funding or a bond referendum**
- **Remove rehabilitation from General CIP fund (non-bond) as now funded in Operating Budget**
- **New fund to track grant funded projects (state & federal)**

► **Pages 22-23**



Section 8 Debt

► **Pages 25-29**



Debt Financing

- ▶ **Uses Debt Financing**
 - Debt to be used when assets cannot be constructed or acquired through use of current revenue
 - Not used to fund operating expenditures
 - Pay cash where possible for capital improvements
- ▶ **Bond Ratings**
 - In evaluating additional debt issuance, the City shall take rating agency statements in regards to financial condition of the City into account

▶ Pages 25-26



Affordability & Capacity

- ▶ **Affordability**
 - Evaluate capacity in both Debt Service Fund and General Fund
 - Shift tax rate to support significant O&M Impact of capital improvements funded through debt
- ▶ **Debt Capacity**
 - Upper limit on dollar amount of capital improvements affordable through debt issuance
 - Includes assumptions of growth, payoff of existing debt, market factors and financial ratios

▶ **Pages 26-27**



Bond Issues

- ▶ **Defines conditions under which CO's are appropriate**
- ▶ **GO Bonds/ Bond Elections**
 - **Timing & Analysis of Impact**
 - **Bond Referendum & Associated Materials**
- ▶ **Revenue bonds**
- ▶ **Debt structures**

▶ **Pages 27-28**



Other Debt Topics

- ▶ **Debt Refunding**
- ▶ **Interest Earnings & Remaining Bond Proceeds**
- ▶ **Sale Process: Competitive vs Negotiated**
- ▶ **Underwriter Selection**
- ▶ **Rating Agency Presentations**
- ▶ **Bond Ratings**
- ▶ **Lease/Purchase Agreements**



Further Discussion

- ▶ **General Obligation Bond Elections vs issuance of CO's**
 - **Affects sections on:**
 - **Certificates of Obligation**
 - **General Obligation Bonds**
- ▶ **Revenue Bonds**
 - **Clarify that surface water projects will be funded from the issuance of Revenue Bonds in the future to minimize impacts on tax-backed debt ratios**

▶ **Pages 27-28**



Section 9

Cash Management & Investments

► **Pages 30-31**



Cash Management & Investments

- ▶ **Investment Management**
- ▶ **Investment Strategy**
- ▶ **Interest Income**
- ▶ **Arbitrage Investments & Reporting**
- ▶ **Depository**
- ▶ **Collateralization**

- **No revisions recommended**

▶ **Pages 30-31**



Section 10 Grants

► **Page 31**



Grants

- ▶ **Grant Guidelines**
- ▶ **Grant Review & Acceptance**
 - **All grants to be submitted to city council for consideration**
 - **If not included in the budget, amend budget for revenues and expenditures from grant**
- ▶ **Grant Termination and/or Reduced Grant Funding**
 - **No revisions recommended**



Further Discussion

- ▶ **Not currently part of FMPS**
 - **Funding of projects outside the City Limits**
 - **Evaluate alternatives: Economic Development Sales Tax**



Topics for Workshop Discussion

- ▶ **Property Taxes: Assumptions for Budget Development**
 - **Five Year Capital Improvement Plan**
 - **GO Bond Election vs CO's**
 - **Relationship between Property Taxes & CIP**
 - **Debt Capacity in Debt Service Fund**
 - **Operating Budget Development**
 - **Employee Compensation**
 - **Sales Tax Assumptions**



Next Steps

- ▶ **Confirm list of substantive topics for discussion**
- ▶ **Workshops for more in-depth discussion**
 - **March 3 & 17**
 - **Follow up on March 27 if needed**
- ▶ **Concurrence on agreed upon assumptions for FY19 budget by the end of March**
- ▶ **Resolution to adopt revised FMPS**
- ▶ **Next Bi-Annual Review = FY2020**
- ▶ **Answer questions & discuss proposed revisions**

