

City of Fort Worth

Department of Finance

Federal Debt Compliance Policy



I. Authority:

The Fort Worth City Council is responsible for legislation, policy formulation, and overall direction setting of the government. This includes the approval of financial policies which establish and direct the operations of the City of Fort Worth. The City Manager is responsible for carrying out the policy directives of the City Council and managing the day-to-day operations of the executive departments, including the Department of Finance. This policy shall be administered on behalf of the City Manager by the Chief Financial Officer/Director of Finance.

II. Introduction:

The Water and Sewer Fund is an Enterprise Fund operating similar to a business in the private sector. However, as a tax-exempt governmental unit, the Fund does not pay franchise fees or property taxes normally required from a private utility. Therefore, other revenue generating concepts are employed to account for lost property tax and franchise fee revenue associated with a municipally owned utility: payment-in-lieu-of taxes (PILOT), and street rental revenue.

PILOT is a revenue mechanism designed to account for lost property tax revenue.

The Street Rental Fee payment to the General Fund is designed to account for lost revenue associated with franchise fees.

III. Purpose:

The purpose of this Water and Sewer policy is to outline fee assessments required to provide revenue comparable to what the General Fund would receive from a private utility. Additionally, this policy is intended to address Water and Sewer fund transfers supporting the City's Public Art Program from general Water and Sewer operations.

PILOT is intended to offset ad valorem taxes lost due to the tax-exempt status of the Water and Sewer System property.

The Street Rental Fee payment to the General Fund is intended as an assessment in lieu of franchise fees the General Fund would receive in return for use of the City's streets and rights-of-way if the Water and Sewer System were a private utility enterprise.

IV. Methodology:

Prior to any assessment of Water and/or Sewer fees or funding City programs resulting in expenses budgeted and recorded to the City's financial records, the Mayor and City

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Council hereby designate the Financial Management Services Department with the responsibility to determine and certify such transfers constitute Excess Pledged Revenues. As defined and required by the Water and Sewer System's revenue financing program Master Ordinance (Ordinance 10968), applicable Supplemental Ordinances, and other applicable bond covenants, the Water & Sewer Fund must produce Gross Revenues and other Pledged Revenues sufficient to: (a) pay all current Operating Expenses (including labor, materials and equipment necessary to render efficient service), and (b) produce Net Revenues for each fiscal year at least equal to the Annual Debt Service requirements during the fiscal year. All transfers under this policy may only be made from revenues in excess of such required amounts (Excess Pledged Revenues). The certification shall be provided to the Water & Sewer Department, and a copy shall be maintained in the records of the Financial Management Services Department. The rates established by the Water and Sewer Enterprise Fund shall include the payment of street rental fees, PILOT, and funding the City's Public Art program.

PILOT is be calculated by applying the effective property tax rate to the net book value of the applicable Water and Sewer capital assets, exclusive of certain capital assets. Capital assets subject to PILOT are assets classified as Plant and Property including Construction in Progress. However, transmission, distribution pipe, and hydrants are excluded from the capital assets PILOT calculation.

An example of the PILOT calculation:

$(\text{Plant Assets} - \text{Accumulated Depreciation} + \text{Work in Progress}) * \text{Current Tax Rate}$

"Plant Assets" are defined as the utility's plant and property assets as represented in the applicable Balance Sheet account(s). "Accumulated Depreciation" is defined as the accumulated depreciation directly applied to those "Plant Assets." "Work in Progress" is defined as all capital project expenditures not included in the Fixed Assets Inventory, but attributable to future Plant and Property assets to be placed in service. Values used to complete the PILOT calculation are derived from the most recently available Comprehensive Annual Financial Report. PILOT shall be treated as revenue within the General Fund for the purposes of cost recovery. However, PILOT is an operating expense within the Water and Sewer financial system records. PILOT transfers shall not exceed the PILOT calculation described above for any given year.

Street Rental Fee shall be calculated as: five percent (5%) of gross service revenue for Water and Sewer customers. Street Rental fees will be assessed to Wholesale Water and Sewer Revenues as specified in wholesale customer contracts. The intent is all wholesale contracts will reach a 5% street rental component by the end of calendar year 2017, December 31, 2017. Gross service revenue for Water and Sewer is defined as total system revenues excluding Interest Earnings, Gain/Loss on Sale of Assets, Other Fund Transfers,

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Impact Fee Transfers, Water Main Capacity Charge reimbursements, Sewer Per Acre Charges, Front Foot Charges, Refunds from external service providers, Sale of Capital Assets or Equipment, and any other non-service related revenues. Street Rental Fee shall be treated as revenue in the General Fund for the purposes of cost recovery. Street rental is an operating expense within the Water and Sewer Fund. The amount of the Street Rental Fee assessed will be included in annual retail and wholesale cost of service studies performed by the Water & Sewer Department included in the Department's annual operating budget.

V. Applicability and Scope:

This policy shall apply to the Street Rental Fee, PILOT, and funding for Public Art from the Water and Sewer Fund, under the budgetary and fiscal control of the City Manager and the City Council.

VI. Public Art Funding:

Funding for the Fort Worth Public Art Program, which was established in 2001 with the adoption of Ordinance Number 14794 will be provided by the Water and Sewer Enterprise Fund.

Public Art funding shall be calculated in accordance with current City Code requirements and developed through the City's annual budget process.

For the purposes of cost recovery, Public Art funding shall be treated as an operating expense of the Water and Sewer System. In any given year, the transfer shall not exceed the calculation described above.

The amount of the Public Art funding will be included in annual retail cost of service studies performed by the Water Department and included in the annual operating budget.