

A. ~~Revenues from Gas Leases and Pipeline Agreements~~ (M&C G-14767, April 26, 2005; M&C G-15715, May 8, 2007; M&C G-16013, January 8, 2008; July 21, 2009 M&C G-16632)

Gas-Related Revenue & Expense/Expenditure Policy



I. Purpose:

This policy is intended to establish guidelines for the management of certain City gas-related revenue and associated expenditures/expenses in order to ensure reliable, equitable, and diversified allocation and use of these funds. The goal for these funds is to strike a balance between current and future needs that are funded from a non-recurring and unpredictable resource.

II. Scope:

This policy addresses revenue derived from (i) ad valorem tax on mineral valuations; (ii) leases for the development of natural gas from under City-owned property; (iii) license or easement fees paid for the installation of gas gathering pipelines under City-owned property; and (iv) income of the Fort Worth Permanent Fund (Trust).

III. Revenue Allocation:

A. Trust/Endowment Fund

1. The City ~~shall establish~~has established a Trust Fund that will be structured and governed in such a manner to achieve maximum investment flexibility, maximum investment protection, and professional investment management. The ~~trust~~Trust will be managed to ensure the long-term preservation and growth of the trust principal.
2. The Trust will be managed by a corporate trustee appointed by the City Council in accordance with the City Charter and the State Local Government Code. The ~~City's~~City's Chief Financial Officer ~~(CFO)/Director of Finance~~ will be empowered to make fund management decisions and recommendations ~~that are~~ consistent with an adopted investment policy of the City Council. ~~The CFO~~The Chief Financial Officer/Director of Finance shall serve as the financial guardian of the Trust ensuring fiscal stability, overseeing the ~~Trustee that is~~trustee appointed by the City Council, monitoring fund performance and recommending to the City Council the amount of funds available for disbursement annually, in accordance with ~~Section f~~this policy. The ~~CFO~~Chief Financial Officer/Director of Finance shall be ~~excluded~~precluded from making specific expenditure decisions, ~~which~~. Such decisions will be made by the City Council upon recommendation by the City Manager.
3. The Trust instrument may be substantively amended upon the affirmative vote of at least three-fourths of the City Council. Prior to such vote, the City Council shall hold three public hearings. Any vote to substantively amend the Trust instrument shall occur six or more months after the initial public hearing.

4. To the extent not in conflict with ~~any other~~ common law or any other statutes applicable to the Trust Fund, the trustee shall retain all powers granted to trustees by the Texas Trust Code, and particularly is to have the power to invest and reinvest the trust estate in accordance with the goals and stipulations of the governing ~~trust~~Trust instrument.
5. The determined percentage of bonus and royalty revenue from various sources are to be held in a consolidated account which will be divided into different sub-accounts ~~and such other sub accounts that may be approved by the City Council~~ including, but not limited to, the General Endowment Gas Lease Fund, the Aviation Endowment Gas Lease Fund, the Park System Endowment Gas Lease Fund, the Nature Center Endowment Gas Lease Fund, and the Water and Sewer Endowment Gas Lease Fund. Other sub-accounts may be created in order to account and track for funds as approved within this policy.
6. The goal of the Trust Fund is to produce income from investments and be a long-term income source ~~of revenue~~ for the benefit of both present and future ~~citizens of~~ Fort Worth citizens. The trustee, in close cooperation with the ~~CFO~~Chief Financial Officer/Director of Finance, will recommend to the City Council distribution procedures for the different funds of the ~~trust~~Trust consistent with the goal to preserve, as well as increase, the trust principal ~~of the trust~~. The amount of income available to be distributed each year from a particular fund of the ~~trust~~Trust shall be determined by the trustee and the ~~CFO~~Chief Financial Officer/Director of Finance consistent with the Trust agreement approved by ~~July 1 of each year~~the Mayor and ~~shall be based on a spending rule which allows for reasonable growth of the principal.~~City Council. In the event ~~that~~ investment regulations prohibit the intended growth and expansion of the ~~trust~~Trust, a provision for dissolution of the ~~trust~~Trust will be incorporated into the initial ~~trust~~Trust instrument. Dissolution of the Trust will first require a determination and recommendation of the ~~Corporate Trustee~~corporate trustee and the ~~CFO~~Chief Financial Officer/ Director of Finance.

1. ~~Amendment of the Public Funds Investment Act~~

7. DuringTo facilitate prudent management and reasonable returns and growth for the Trust Fund, during the 81st Legislative Session, the Public Funds Investment Act (~~State of~~ Texas Local Government Code Chapter 2256) was ~~successfully pursued~~amended. As amended the Act allows the Trust Fund to be managed in order to maximize investment flexibility. ~~Amendments to the Act were~~a flexible manner consistent with the Uniform Prudent Management of Institutional Funds Act (~~State of~~ Texas Property Code Chapter 163.~~005~~).

B. ~~3-~~Revenue from Current Receipts

1. Ad Valorem Tax Revenue Management

The ad valorem receipts on mineral valuations will be allocated to the general fund.

4. ~~Gas Related Revenue Management~~

2. Water and Sewer Fund

Bonus, royalty and other natural gas~~-~~related fee revenue derived from Water and Sewer assets, including pipeline easements and license agreements, will generally be allocated in the following manner, subject to outlined below, provided, however that no allocation may be

made except in compliance with the Water and Sewer System's Master Ordinance No.10968 and, upon appropriate action by and applicable Supplemental Ordinances and bond covenants. To the City Council declaring a surplus in the Water and Sewer Fund on an annual basis extent that gas-related revenues subject to this subsection are needed in accordance order to comply with state law covenants and duties for the System's Outstanding Obligations, they shall be allocated first to such compliance.

Funds from Water and Sewer property and Water and Sewer - Lake Worth Property Funds from Water and Sewer property located in and around Lake Worth (except the Nature Center and Refuge) shall be designated for qualified expenditures in the development and execution of the 2007 Lake Worth Capital Improvement Implementation Plan, until such time as the plan projects are completed.

Water and Sewer – Other Property

All revenue derived from other Water and Sewer assets will be allocated as follows:

- a. Seventy-five percent (75%) to the Water and Sewer Gas Lease Capital Projects Fund.
- b. Twenty-five percent (25%) of the revenues will be allocated to the Water and Sewer Endowment Gas Lease Fund.

3. Park land - Lake Worth

Funds from park land located in and around Lake Worth (except the Nature Center and Refuge) shall be designated for qualified expenditures in the development and execution of the 2007 Lake Worth Capital Improvement Implementation Plan, until such time as the plan projects are completed.

All other revenue derived from Water and Sewer assets will be allocated as follows unless a surplus is declared for the purpose of funding other City projects:

- ~~i. Fifty percent to Water and Sewer Gas Lease Capital Projects Fund.~~
- ~~ii. Twenty five percent of the revenues will be allocated to the Water and Sewer Endowment Gas Lease Fund; and~~
- ~~iii. Twenty five percent of the revenues will be allocated to the Utility Street Reconstruction Capital Improvement Projects Fund.~~

~~b. Parks Bonuses~~

~~Bonus revenues from gas leases associated with park Park land will be recorded in the Park Gas Lease Project Fund and will be designated for use for capital improvements at the park where the gas leases are located.~~

~~c. Federal/State Restricted Park Royalties and Fees~~

~~Royalties and other fees received from gas leases or license agreements associated with park land that has federal and/or state restrictions requiring proceeds to be spent within the park system, except for the Nature Center, shall be allocated as follows:~~

- ~~i. Fifty percent to the Park Gas Lease Project Fund; and~~
- ~~ii. Fifty percent to the Park System Endowment Gas Lease Fund.~~

3.4. Fort Worth Nature Center and Refuge

Allocation of Bonus

Bonus revenues from gas leases associated with the Nature Center will be allocated first to establish the Nature Center Endowment Gas Lease Fund ~~with \$10~~such that a ten million-dollar (\$10,000,000.00) corpus will be established within the Endowment Fund. Any remaining bonus funds will be allocated ~~50~~as follows:

- a. Fifty percent (50%) to the Nature Center Gas Lease Capital Improvement Program to implement the Nature Center Master Plan; and ~~50~~
- b. Fifty percent (50%) to the Citywide Park Gas Lease Capital Project Fund.

Allocation of Royalties and Other Lease Revenues

Royalty and all other revenue from gas leases associated with the Nature Center will be allocated in accordance with the paragraphs below. Allocation shall vary depending on whether such allocation occurs before or after Full Funding of the Master Plan as defined in the following paragraph.

In 2009, the City Council adopted Resolution 3765-07-2009, which endorsed allocation of \$62 million, adjusted for inflation, to provide full funding of the Nature Center Master Plan, which was incorporated into the City's Comprehensive Plan in February 2004 (M&C G-14276). In accordance with that Resolution, the term "Full Funding of the Master Plan" shall mean a total combined allocation to the Nature Center Endowment Gas Lease Fund and the Nature Center Capital Improvement ~~Projects Fund.~~ All Program of an amount that, as adjusted by the Consumer Price Index, represents the equivalent of \$62 million in 2009.

Until Full Funding of the Master Plan (as described above) has been achieved, all royalties and other revenue received from gas leases associated with the Nature Center will be allocated as follows:

- a. Twenty-five percent (25%) to the Nature Center Gas Lease Capital Improvement Program;
- b. Twenty-five percent (25%) to the Park Gas Lease Capital Project Fund; and
- c. Fifty percent (50%) to the Park System Endowment Gas Lease Fund.

~~Once a total~~After Full Funding of ~~\$62 million, the Master Plan~~ (as ~~adjusted with the Consumer Price Index to reflect the actual implementation schedule, in bonus, royalty and fee revenue,~~described above) has been ~~allocated to the~~achieved, all royalties and other revenues received from gas leases associated with the Nature Center ~~Endowment Gas Lease Fund and the Nature Center Capital Improvement Program, 50 percent of the subsequent revenues~~ will be allocated as follows:

- ~~a. Fifty percent (50%)~~ to the Park Gas Lease Capital Project Fund; and ~~50~~
- ~~a.b.~~ Fifty percent (50%) to the Park System Endowment Gas Lease Fund.

4.5. Park land - Municipal Golf Fund Courses

Bonus, royalty and other natural gas--related fee revenue derived from designated golf course property, including pipeline easements and license agreements, will be allocated ~~in the following manner:~~ solely to the Golf Gas Lease Capital Project Fund.

6. ~~Fifty percent to retire existing debt in the Golf Debt Service Fund and upon retirement of~~ Park land - Bonuses

~~iii. Unless otherwise specified in subsections 3-5 above, all debt, the revenue~~ bonus revenues from gas leases associated with park land will be applied to the restricted fund balance until such time that the required fund policy reserve is achieved; and

recorded in the Park

~~Fifty percent to the Golf Gas Lease Capital Project Fund to cash fund golf and will be designated for use for capital projects~~ improvements within the park system.

7. Park land - Royalties and Fees for Federal/State Restricted Parks

With the exception of the Nature Center, royalties and other fees received from gas leases or license agreements associated with park land that has federal and/or state restrictions requiring proceeds to be spent within the park system shall be allocated as follows:

- a. Fifty percent (50%) to the Park Gas Lease Capital Project Fund; and
- b. Fifty percent (50%) to the Park System Endowment Gas Lease Fund.

This same allocation shall be used for all gas-related revenues generated from the Fort Worth Nature Center and Refuge that are not otherwise allocated under subsection 4 above.

5.8. Municipal Airports Fund

Bonus, royalty and other natural gas--related fee revenue derived from airport property, including pipeline easements and license agreements, will be ~~recorded in the Municipal Airports Fund and will be~~ allocated in the following manner:

1. Fifty percent (50%) to ~~the Airports Aviation Gas Lease Capital Project Fund~~ for aviation capital improvement projects; and
2. Fifty percent (50%) to the Aviation Endowment Gas Lease Fund.

6.9. Pipelines in Public Rights of Way

Revenue derived from pipeline easements and license agreements in the public rights of way will be deposited to the General Fund to offset the staff costs associated with reviewing and managing the pipeline locations in relation to other utilities.

7.10. Property Owned by City-Affiliated Corporation

All gas-related revenues derived from property titled to any City-affiliated corporation, such as

local development corporations, Alliance Airport Authority, or the Housing Finance Corporation, shall be ~~deposited~~provided to ~~separate accounts~~such City-affiliated corporation to support its lawful activities ~~of such corporations~~ per the policies and oversight of ~~their~~its respective governing ~~boards~~board.

8.11. All Other Revenue

Except as noted in prior sections, all other revenue from bonuses, royalties and fees from gas leases, pipelines or related activities located on all other City property, including unrestricted park land, will be allocated as follows:

1. Fifty percent (50%) of the revenue will be allocated to the General Gas Lease Capital Projects ~~Reserve~~ Fund; and
2. Fifty percent (50%) of the revenue will be allocated to the General Endowment Gas Lease Fund.

9-12. Minimum Payment Threshold

Notwithstanding anything in ~~Section a through Section i~~this policy to the contrary, if a gas ~~lease~~-related revenue payment is \$500 or less, one hundred percent of the payment will be allocated to the respective Gas Lease Capital ~~Projects~~Project Fund.

5. Expenditure Criteria

13. Interest Income

Interest earnings received from any Gas Lease Endowment Fund will be allocated solely to the respective fund's Gas Lease Capital Project Fund.

IV. Expenditures for gas lease/Expenses

Expenditures/Expenses of revenues derived from lease ~~bonus~~bonuses and royalties, ~~ad valorem tax revenues~~, other gas-related revenue, and distributions from the Trust/Endowment Funds shall be appropriated for one time program initiatives and capital projects which meet one or more of the program and project criteria listed below:

1. ~~To expend on capital~~Capital projects with a minimum 10-year useful life;
2. To provide matching grant funds to leverage funds for capital projects;
3. ~~To expend on technology~~Technology with a minimum 5-year useful life;
4. ~~To contribute toward an~~Acquisition of equipment/ and fleet assets including contributions to a revolving replacement fund;
5. ~~To expend on capital~~Capital equipment with a minimum 10-year useful life;
6. To fund one-time community-wide economic and neighborhood development initiatives and projects;
7. To fund labor and materials associated with production, distribution and establishment activities for trees on public property (including ~~schools~~school and ~~Counties~~;county property);
8. To periodically transfer ~~gas lease revenues~~funds to the General Fund to offset budgeted administrative costs ~~in Planning~~associated with administering this policy and ~~Development, Law, managing the City's gas leases~~ and ~~the Financial Management Services Department for~~pipeline agreements, with the ~~leasing program. The~~ allocation of the cost being proportional among all gas revenue

funds ~~will be proportional to~~according to each fund's relative percentage of the total revenue collected in all funds, ~~(including the Trust/Endowment funds and City affiliated corporation funds,)~~ during that reporting period;

9. To periodically transfer ~~Parks~~Park funds from gas lease and pipeline revenues to the General Fund to offset program costs associated with leases, conversions, and pipelines, ~~etc.; and;~~

10. To replenish the Unassigned Fund Balance (for the General Fund), Assigned Fund Balance (all other Governmental Funds except the General Fund), or Net Position (for Enterprise Funds), if necessary, in any designated City fund, to meet the minimum reserve requirements established for that fund.;

~~a.~~ To make payments in support of arts organizations provided, however, ~~that~~ such payments may only be made using distributions from the General Endowment Gas Lease Fund and not from bonus, royalties, ad valorem tax revenues, or any other gas--related revenue.

11.