

# Mayor and Council Communication

DATE: 04/09/24

M&C FILE NUMBER: M&C 24-0261

LOG NAME: 03FY2024 GAS LEASE RELATED APPROPRIATIONS

## **SUBJECT**

(ALL) Authorize Increase for Estimated Receipts and Appropriations in Multiple Funds by a Combined Total Amount Up to \$3,830,086.52, Allocated Proportionately, to Record Fees Paid to Wells Fargo Bank, National Association, for Trust Management Services, to Transfer to the General Fund for Reimbursement of Expenses Associated with the Management of City-Owned Mineral Interests and Administrative Expenditures, to Transfer to the Community Tree Program Fund to Supplement Operational Funding, Adopt Appropriation Ordinances, and Amend the Fiscal Year 2024 Adopted Budget and Fiscal Years 2024-2028 Capital Improvement Program

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## **RECOMMENDATION:**

It is recommended that the City Council:

1. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the General Endowment Gas Lease Fund in a total amount up to \$482,719.88 by
  - A. Increasing (City Project No. 100801) in the amount up to \$61,500.00, from available trust distribution, for the purpose of funding Wells Fargo trust management fees;
  - B. Increasing (City Project No. 101770) in the amount of \$387,544.88, from available annual authorized trust distribution, for the purpose of transferring to the General Fund for public art contract and support;
  - C. Increasing (City Project No. 101770) in the amount of \$33,675.00, from available Gas Lease Royalty revenue, for the purpose of transferring to the General Fund to cover the administrative costs of managing City-owned mineral interests; and
2. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the General Gas Lease Capital Project Fund (City Project No. 101770) in the amount of \$47,801.06, from available Gas Lease Royalty revenue, for the purpose of transferring to the General Fund to cover the administrative costs of managing City-owned mineral interests; and
3. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Aviation Endowment Gas Lease Fund in a total amount up to \$1,727,904.92 by
  - A. Increasing (City Project No. 100801) in the amount up to \$177,254.66, from available trust distribution, for the purpose of funding Wells Fargo trust management fees;
  - B. Increasing (City Project No. 101770) in the amount up to \$1,501,652.13, from available annual authorized trust distribution, for the purpose of transferring to the Aviation Gas Lease Cap Projects Fund;
  - C. Increasing (City Project No. 101770) in the amount of \$48,728.13, from available gas lease royalty revenue, for the purpose of transferring to the General Fund to cover the administrative costs of managing City-owned mineral interests; and
4. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Aviation Gas Lease Capital Project Fund in the amount of \$48,679.32, from available Gas Lease Royalty revenue for the purpose of transferring to the General Fund to cover the administrative costs of managing City-owned mineral interests; and
5. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the PARD Endowment Gas Lease Fund in a total amount up to \$476,490.90 by
  - A. Increasing (City Project No. 100801) in the amount up to \$48,000.00, from available trust distribution, for the purpose of funding Wells Fargo trust management fees;
  - B. Increasing (City Project No. 101770) in the amount up to \$409,383.54, from available annual authorized trust distribution, for the purpose of transferring to the PARD Gas Lease Capital Projects Fund;
  - C. Increasing (City Project No. 101770) in the amount of \$19,107.36, from available Gas Lease Royalty revenue, for the purpose of transferring to the General Fund to cover the administrative costs of managing City-owned mineral interests; and
6. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Municipal Golf Gas Lease Capital Fund (City Project No. 101770) in the amount of \$3,878.00, from available Gas Lease Royalty revenue, for the purpose of transferring to the General Fund to cover the administrative costs of managing City-owned mineral interests; and
7. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Lake Worth Gas Lease Capital Project Fund (City Project No. 101770) in the amount of \$117,292.60, from available Gas Lease Royalty revenue, for the purpose of transferring to the General Fund to cover the administrative costs of managing City-owned mineral interests; and
8. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the PARD Gas Lease Capital Project Fund in a total amount of \$731,506.35 by
  - A. Increasing (City Project No. 100801) in the amount up to \$2,006.03, from available Gas Lease Royalty revenue, for the purpose of funding Wells Fargo trust management fees;
  - B. Increasing (City Project No. 101770) in the amount of \$20,536.32, from available Gas Lease Royalty revenue, for the purpose of transferring to the General Fund to cover the administrative costs of managing City-owned mineral interests;
  - C. Increasing (City Project No. 101770) in the amount of \$52,772.00, from available Gas Lease Royalty revenue, for the purpose of transferring to the General Fund to cover the cost associated with one Management Analyst I in the Park & Recreation Department;
  - D. Increasing (City Project No. 101770) in the amount of \$656,192.00, from available Gas Lease Royalty revenue, for the purpose of transferring to the Community Tree Planting Program Fund to fund the Community Tree Planting Program; and
9. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Water/Sewer Endowment Gas Lease Fund in a total amount up to \$178,250.49, by

- A. Increasing (City Project No. 100801) in the amount up to \$21,500.00 from available trust distribution, for the purpose of funding Wells Fargo trust management fees;
  - B. Increasing (City Project No. 101770) in the amount of \$5,158.00, from available Gas Lease Royalty revenue, for the purpose of transferring to the General Fund to cover the administrative costs of managing City-owned mineral interests;
  - C. Increasing (City Project No. 101770) in the amount of \$151,592.49, from available annual authorized trust distribution, for the purpose of transferring to the Water and Sewer Gas Lease Cap Projects Fund; and
10. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Water/Sewer Gas Lease Capital Project Fund in the amount of \$15,563.00, from available gas lease royalty revenue for the purpose of transferring to the General Fund to cover the administrative costs of managing City-owned mineral interests; and
11. Amend the Fiscal Year 2024 Adopted Budget and Fiscal Years 2024-2028 Capital Improvement Program.

**DISCUSSION:**

The purpose of this Mayor and Council Communication (M&C) is to appropriate royalty and investment income derived from the City's gas lease funds.

**Gas Well Trust Investment Income and Royalty Revenue**

In 2008, the City Council adopted amendments to the City's Financial Management Policy Statements (FMPS) to establish the Trust known as The Fort Worth Permanent Fund (M&C G-16013). The governance and applicable use of the income derived from the Trust were last updated on September 26, 2023 (M&C 23-0842) in the FMPS. The City's gas lease funds produce investment income and royalties throughout the year, which is then used to fund eligible projects and other approved activities. This M&C gives permission for the funds to cover trust management fees, approved operational needs, and transfer to gas lease capital project funds. At a later date, authorization will be sought to appropriate funds into projects transferred to the gas lease capital project funds in this M&C.

The following information presents the activities related to the management and use of gas lease funds.

**Wells Fargo Trust Management Fees**

The City Council authorized an agreement with Wells Fargo Bank, N.A. (Wells Fargo), to serve as Corporate Trustee (M&C P-11467) on December 11, 2012. All of the accumulated money that had been designated for inclusion in the Trust was transferred to Wells Fargo in June 2013. In accordance with the terms of the written Trust Agreement and the FMPS, the Trust is maintained as a consolidated account and divided into five sub-accounts. Funds in the Trust are invested in accordance with the City Council's adopted Investment Policy and Strategy for the Trust.

During the first quarter of Fiscal Year 2022, the Financial Management Services Department (FMS) issued a Request for Qualifications for Trust management services. Through that competitive process, Wells Fargo was once again selected to serve as the Trustee (M&C 22-0212) on March 29, 2022.

The City Secretary contract (CSC No. 57771) requires the City to pay Wells Fargo for the costs of management fees for the identified City funds. Each participating fund is allocated its proportionate share of the total cost based on the relative percentage that mineral revenues for that fund for the year bear to the total mineral revenues received during the year.

The chart below shows the participating funds with estimated fees for Fiscal Year 2024 and prior year deficits that will need to be covered with this M&C. The Wells Fargo trust management fees are paid out of gas lease investment income.

Fund Name	FY2024 Estimated Fees	Prior Year Deficits
13002-General Endowment Gas Lease	61,500.00	
53001-Aviation Endowment Gas Lease	162,000.00	15,524.66
13001-PARD Endowment Gas Lease	48,000.00	
33002-PARD Gas Lease Capital Project		2,006.03
53003-Water/Sewer Endowmt Gas Lse	21,500.00	

**Mineral Management Administration Costs**

The Financial Management Policy Statements (FMPS) includes a provision allowing periodic transfers of gas lease revenues to the General Fund to offset budgeted administrative costs in the Property Management Department (PMD). These costs are associated with the management of City-owned mineral interests with the allocation of such costs being proportional among all gas revenue funds.

In accordance with the FMPS, the costs associated with the management of City-owned mineral interests and the distribution of revenues therefrom should be proportional among all gas revenue funds according to each fund's relative percentage of the total revenue collected in all funds during that reporting period.

The total administrative costs were allocated proportionately based on revenues deposited into each gas lease-associated fund during each Fiscal Year. The chart below shows the allocation charged to the funds with the associated amount for Fiscal Year 2024 and prior year deficits that will be covered with this M&C.

Fund Name	FY2024 PMD Mineral Management Fee	Prior Year Deficits
13002-General Endowment Gas Lease	33,675.00	
33005-General Gas Lease Capital Prj	34,938.00	12,863.06
53001-Aviation Endowment Gas Lease	40,219.00	8,509.13
53002-Aviation Gas Lease Cap Proj	40,216.00	8,463.32
13001-PARD Endowment Gas Lease	15,475.00	3,632.36
33004-Muni Golf Gas Lease Cap Proj	3,878.00	
33001-Lake Worth Gas Lse Cap Project	79,399.00	37,893.60
33002-PARD Gas Lease Capital Project	15,962.00	4,574.32
53003-Water/Sewer Endowmt Gas Lse	5,158.00	
53004-Water/Sewer Gas Lease Cap Proj	15,563.00	

**Park & Recreation Department (PARD) Position, General Fund**

The PARD Gas Capital Project Fund supports one Management Analyst I in the Park & Recreation Department. These transfers offset dependence on the General Fund.

**Park & Recreation Department (PARD), Community Tree Program**

Since October 1, 2017, the first draw from the endowment trust earnings, have been appropriated to support the PARD Community Tree Planting Program operating program (City's Financial Management Policy Statements, Section I (Gas Related Revenue & Expense / Expenditure Policy, VI. Expenditures/Expenses 7.)

In prior years, the actions requested above were brought to Mayor and Council through various M&C's and annual budget adoption over the course of each fiscal year. This M&C consolidates all FY2024 needs into one request, with the intent to build these activities into the annual budget process beginning with FY2025.

**Additional Information Contact:** Ashley Clement 8505