

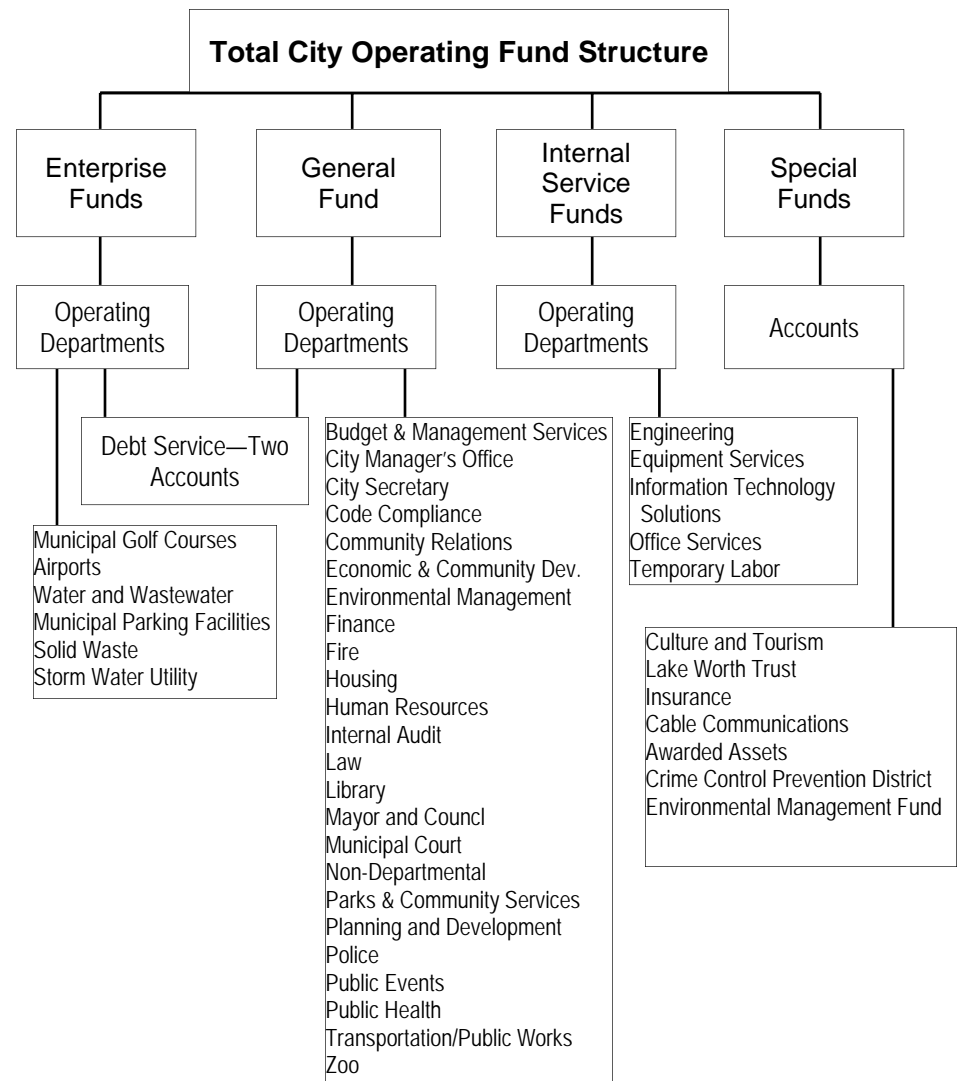
# CHAPTER 3: FINANCIAL TRENDS

Population and economic trends greatly affect the financial planning process of the City, as do international, national and regional financial trends. City officials must consider these, as well as City revenue trends, existing and potential debt service, and the cost of new facilities when responding to the needs of citizens. Periods of economic contraction require budgeting authority to continue providing services to citizens. Economic expansion and population growth call for detailed fiscal planning to provide new infrastructure and public services.

This chapter presents information on financial planning as it applies to a local governmental entity and summarizes past, present and future financial trends of the City of Fort Worth. Monies received by the City are accounted for by using a City Operating Budget and a Capital Budget. In the operating budget, accounts are grouped under the categories of Enterprise Funds, the General Fund, Special Funds and Debt Service Funds. The flow chart shown on the right lists specific departments funded through each. Enterprise funds account for City Services that are financed and operated much like private businesses, where the costs of providing services (both operating and capital costs) are financed through user charges. The City seeks to eliminate all forms of subsidization to enterprise funds. The General Fund receives the largest amount of revenue in the overall city budget. Internal Service Funds are established to account for the financing of goods or services provided by one department of the City for another. Special Fund accounts are set up to track revenue and expenses incurred for the various items listed.

Funds received from grants are handled through a separate budget. The adopted budget Grants Consolidated Action Plan for June 1, 2007 through May 31<sup>st</sup>, 2008 shows a total allocation of \$10,975,366 from the Department of Housing and Urban Development (HUD) to the City of Fort Worth. The HUD funding consists of five entitlement grants: Community Development Block Grant, Emergency Shelter Grant, Housing Opportunities for Persons with Aids, the HOME program and the American Dream Downpayment Initiative. Funds are allocated for administration, community facilities, housing programs, public service programs, economic development, emergency shelter and unprogrammed funds.

Fort Worth has an abundance of resources and a diverse economy that has made it successful in attracting new businesses, investment and jobs. According to the North Central Texas Council of Governments (NCTCOG), the total employment for the City of Fort Worth grew by 36.2 percent, from 330,350 in 1990 to 449,793 in 2000. The City has ample land for growth, excellent job-training facilities, a growing population and adequate infrastructure. These positive factors are an indication of economic prosperity, which typically leads to an expansion of the economic base and increased revenue for the City. Fort Worth has high investment grade bond ratings of Aa1, AA+ and AA from Moody's Investors Service, Standard and Poor's, and Fitch, respectively. All three rating agencies cited Fort Worth's growing and diversified economic base, manageable debt load and conservative financial management practices in determining their ratings.



The City's operating budget is composed of four funds that support operating departments and City accounts. Information in this chapter looks at the financial trends that impact these funds. (Source: *Budget and Management Services, 2007.*)

**Revenues**

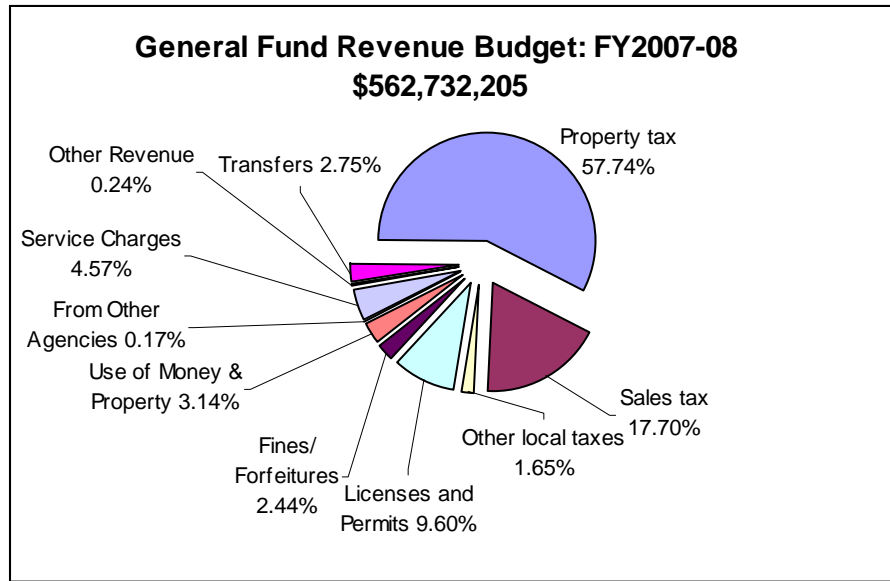
The largest single source of revenue for the City of Fort Worth is from local taxes: property (ad valorem) taxes and sales taxes. Fort Worth relies heavily on property tax revenues, with 57.74 percent of General Fund revenue collected from this source. Ad valorem taxes are paid on real property (real estate) and personal property according to the assessed value. Texas law states that all property is assessed on the basis of 100 percent of its appraised value, and real property must be reappraised every three years. Certain exemptions are allowed that lessen the tax burden for homestead property owners, persons 65 or older and disabled persons. As a result, some properties are totally exempt from taxes. Local jurisdictions set their own tax rates.

Over the past fourteen years, the City’s property tax rate has changed several times. The rate was reduced seven consecutive times beginning in FY1994-95, starting at 97.35 cents and reduced to 86.5 cents per \$100 value in FY2001-02. The tax rate remained unchanged for five years. In FY2006-07 and in FY2007-08 the tax rate decreased by half-cent each year. The current rate is .8550 per \$100 value. This rate is the lowest since 1986. Reductions in the tax rate have been possible due to the increase in total assessed value of real property from 1995 to 2007. Several factors contributed to this increase: 1) total value of all new construction increased from \$524 million to \$1,591 million; 2) the number of new single family homes built per year increased from 3,265 in FY1998-99 to 8,078 in FY2006-07 (the average value of new homes (\$122,963) was higher than existing homes (\$114,026); and 3) vigorous reassessment of real property by the Tarrant Appraisal District helps to increase revenue by reflecting the current value of real estate.

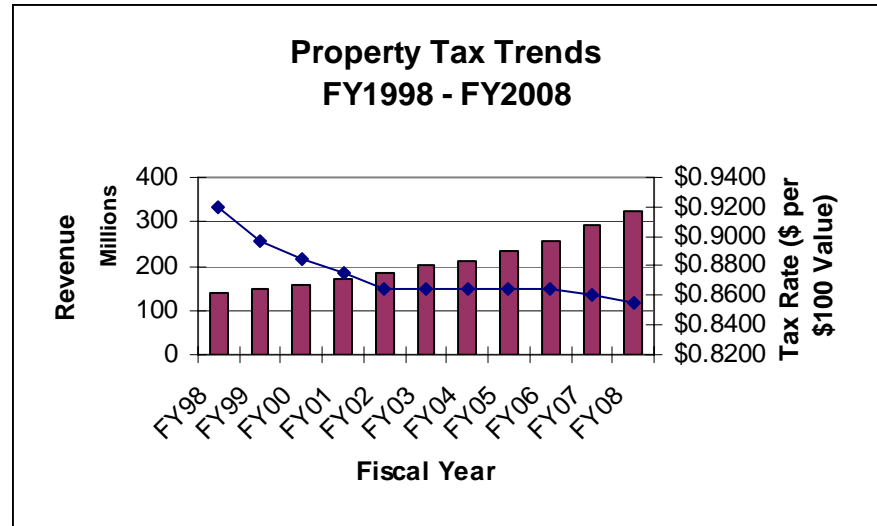
In FY2006-07, Fort Worth’s tax rate was 24.5 cents above the average tax rate of six other major Texas cities. Arlington, Austin, Dallas, El Paso, Houston and San Antonio tax rates averaged 61.4 cents per \$100 value for the 2007 tax year, with Austin having the lowest rate at 41.2 cents per \$100 value. One possible reason for this is the relatively low value of existing housing stock in Fort Worth. In FY2006-07, the appraised value of Fort Worth residential real estate was 24 percent below the average value in the six aforementioned major Texas cities. The relatively lower value is desirable for affordability but necessitates a higher tax rate for property owners.

Building activity has started to level off during this FY2006-07. As noted above, the average value of new homes built in FY2006-07 was \$122,963, while the average value of existing homes was \$114,026. The higher average value of new homes will help balance the comparatively low value of housing stock found in central city locations.

Sales tax, the second major source of tax revenue, comprises 17.70 percent of the General Fund revenue budget in FY2007-08. This proportion is expected to remain relatively stable over the next five-year period. Relying on one major source of income for the City is considered risky; therefore, increasing sales tax collections is desirable. This increase can only be accomplished by increasing retail sales, on



Property tax and sales tax revenues account for the majority of money in the General Fund. Budget percentages of revenue for FY2007-08 are shown in this chart. (Source: Budget and Management Services, FY08 Adopted Budget.)



The total amount of revenue collected from property taxes has increased since FY1998. Tax rates decreased from \$0.92 per \$100 of value in FY1998 to \$0.855 in FY2008. Property tax revenues are budgeted at \$324 million in FY2007-08. (Source: Budget and Management Services, FY08 Adopted Budget.)

which the tax is based. The base tax rate of 6.25 percent is set by the State and becomes state revenue. Local jurisdictions are permitted to collect an additional 2.00 percent maximum for city revenue. The City of Fort Worth collects the maximum, and the money is allocated to the following: 1.0 percent to the General Fund; 0.5 percent to the Fort Worth Transportation Authority Fund; and, 0.5 percent to a special Crime Control and Prevention District Fund. Sales tax collections are affected by national and local economic trends, including availability of discretionary income, shopping facilities and tourism revenues.

**Expenditures**

It is anticipated that approximately 55 percent of all revenue will be spent for General Fund items, 30 percent for water and waste water services, and approximately 15 percent on the Crime District, Solid Waste and other miscellaneous expenditures.

The City strives to balance anticipated revenues with expenses and to maintain adequate reserves to cover emergencies. Future deficits are covered by the accumulating reserve. If expenditures exceed revenues frequently or on a recurring basis, the tax base is not sufficient to support city services and could result in a reduction of city expenditures and related city services. To avoid this, the City has established certain policies, such as the one for General Fund reserves.

The City of Fort Worth has an established Financial Management Policy to maintain General Fund reserves at 10 percent of the adopted budget (net transfers to the General Debt Service Fund). For most of the past 17 years, the City has kept its fund balance level at or above the 10 percent goal. Over the past few budget cycles, implementation of extensive restraints on expenditures has helped maintain the City’s reserves close to the 10 percent goal.

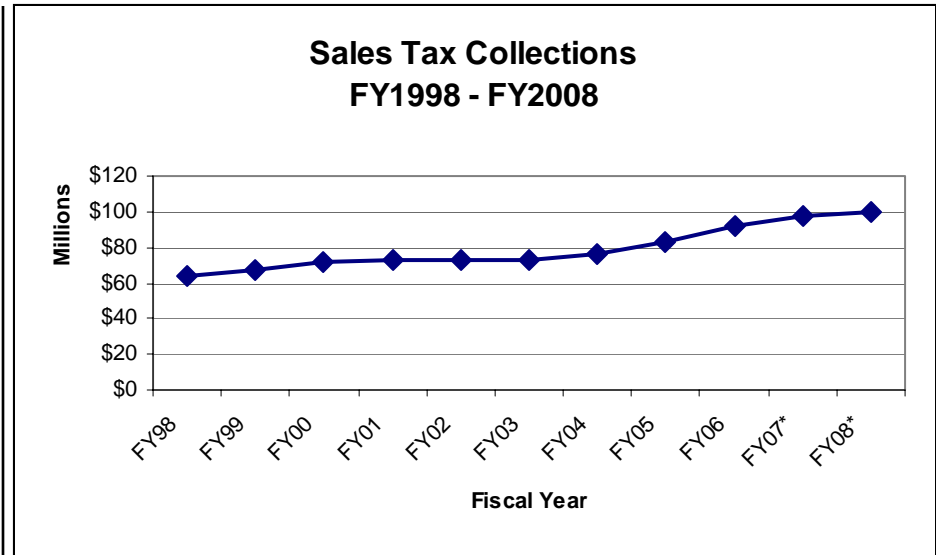
**Long-Term Debt**

The City monitors several debt ratios. The City strives to maintain its long-term debt at less than five percent of the taxable assessed valuation. Staying at or below this benchmark ensures that the City’s debt remains manageable. During the past five years, the City has maintained a debt to assessed value ratio below 2.0 percent.

Long-term debt per capita measures the debt burden on citizens. Outstanding long-term debt per capita is approximately \$625. It is projected to increase somewhat over the next several years due to the infrastructure needs of the City associated with growth.

**Debt Service**

Debt service is the amount paid as principal and interest on all bonds and other debt instruments. A ratio of 10 to 20 percent debt of total General Fund expenditures is considered acceptable. Over the past five years, Fort Worth’s debt service ratio has remained at the lower end of the acceptable range and is projected to remain well below the target maximum for the foreseeable future. In addition, the City continues to maintain an aggressive repayment schedule with over 60% of its general obligation debt repaid within 10 years.



Sales tax revenues increased \$28.4 million from FY98 to FY06. \*It is projected that sales tax collections will increase to \$97.5 million for FY07 and \$99.5 million for FY08. (Source: Budget and Management Services, FY08 Adopted Budget.)

**Budget Growth Areas: FY1998-2008**

	FY1998 (Millions of \$)	FY2008 (Millions of \$)	Change
<b>Police</b>	<b>\$75,351,377</b>	<b>\$157,743,460</b>	109.34%
<b>Fire</b>	<b>\$44,798,889</b>	<b>\$97,499,456</b>	117.64%
<b>T/PW</b>	<b>\$24,881,578</b>	<b>\$53,875,141</b>	116.53%
<b>Parks</b>	<b>\$13,299,570</b>	<b>\$29,058,975</b>	118.50%
<b>Library</b>	<b>\$8,946,784</b>	<b>\$17,733,904</b>	98.22%

\* Police expenditures exclude Crime Control and Prevention District.

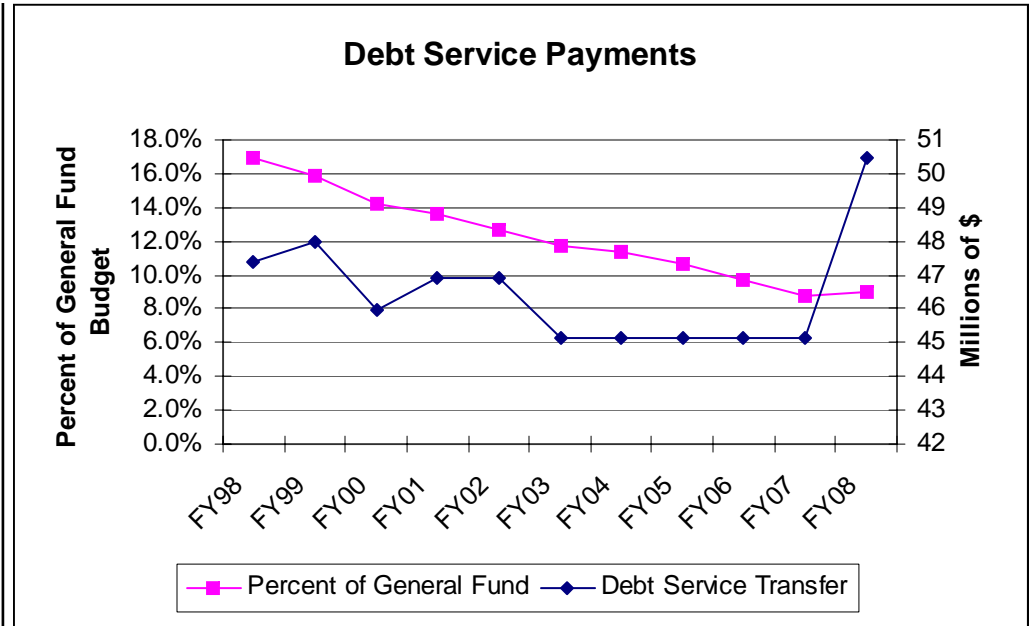
The Departments shown have seen the largest budget growth in the ten years between FY1998 and FY2008. (Source: Budget and Management Services, FY08 Adopted Budget.)

In 2004, voters approved the sale of \$273.5 million in general obligation bonds for capital improvements throughout the City. The City is considering another bond election in May 2008. Also, Certificates of Obligation have been sold and more are planned for a total amount of \$150 million to meet critical capital needs through 2010.

**Challenges and Opportunities**

Higher valued new homes and businesses will increase property tax revenues, but more property owners will require City services. A healthy balance of commercial and residential uses is desirable to maximize sales tax collections in addition to property taxes. It is important for the City to continue growing in a contiguous pattern, thereby avoiding unnecessary infrastructure costs. Generally, developers pay for on-site improvements, such as new local streets, wastewater control and water lines in subdivisions. The cost of upgrading or connecting collector and arterial thoroughfares, as well as upgrading or building public facilities is paid for by the City. Successful implementation of the growth center concept will help Fort Worth efficiently allocate funds needed to construct capital improvements.

Fort Worth has demonstrated fiscal prudence during recent years by reducing debt load and reducing the tax burden on citizens whenever possible. The next few years will challenge City leaders as they provide for continued population growth while maintaining an acceptable level of quality services for citizens.



Debt Service, as a percent of the General Fund budget, declined from FY98 to FY07. In FY98, it was 16.92% and by FY07, it had fallen to 8.79%. In FY08 there will be a slight increase to 8.97%. CFW has also paid off large portions of its debt and restricted new issuance so that the amount transferred remained steady at \$45.13M from FY03 to FY07. (Source: Budget and Management Services, FY08 Adopted Budget.)