

PART V

TOOLS FOR IMPLEMENTATION

CHAPTER 21: CAPITAL IMPROVEMENTS

Capital improvements are an important means of implementing the Comprehensive Plan. Major thoroughfares and public facilities are instrumental in defining the physical, social, and economic character of the city. Such projects, along with new water, sewer, and storm drainage facilities, play a critical role in implementing the City's plans for future land use and development.

The tables in Appendices D and E serve as a proposed multi-year schedule of capital improvements identified by City departments and cooperating agencies as desirable in the timeframe specified. These serve as a starting point for prioritization of needs and eventual allocation of financial resources. The tables do not imply any obligation to expend funds for the proposed projects, but they do represent a systematic identification of projected capital needs. This type of schedule is commonly referred to as a capital improvements program (CIP). Unlike the annual operating City Budget, the CIP is not legally adopted and does not require the expenditure of any monies itemized. It is simply a guide for City officials and others to use in estimating future expenditures for needed capital improvements and identifying possible sources of revenue for capital projects.

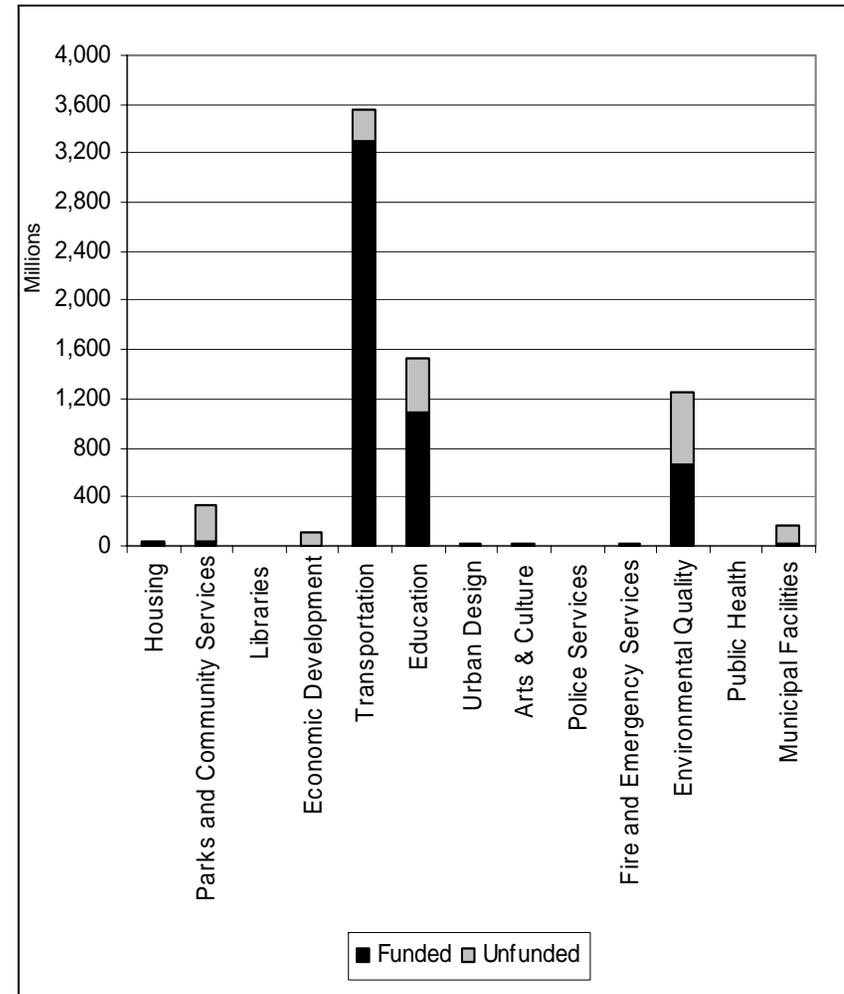
For the purpose of the Comprehensive Plan, a capital improvement is defined as "a physical improvement or asset constructed or purchased that has a minimum 15-year life expectancy and costs over \$100,000." Appendices D and E list capital improvements that may either be publicly funded or be accessible to the general public. It is the City's intent to financially constrain the list of unfunded City projects so as not to exceed the City's bonding capacity. City staff will be working on a financially constrained five-year CIP in 2011, with its completion and adoption expected in 2012.

The cost of capital improvements is generally non-recurring and may require multi-year financing. Although some new projects and the maintenance of completed projects are funded through the current operating budget, construction of most capital projects that are the responsibility of City government are paid for by issuing municipal bonds. Using this financing mechanism permits the City to pursue large-scale projects while simultaneously providing services on a consistent basis through the operating budget. The benefits from capital improvements last for many years; thus, issuing bonds spreads the tax burden over all residents, present and future, who will benefit from the projects.

In some cases, funds from private sources or other governmental entities can be used to supplement City funds or to finance capital improvements. Public-private joint ventures have become common, especially after federal funding cuts and Tax Reform bills in the 1980s adversely affected many federal programs. Federal and state grants are another source of CIP funding.

It is important for the City to remain disciplined in assuming debt. Before financing capital improvements, City officials must consider many factors, including the following:

Capital Improvement Projects Identified for the Next Five Years



The graph above depicts the total estimated costs of capital improvement projects identified for the next five years in Appendices D and E. Projects include estimated funding from a variety of federal, state, and local funds, as well as private funds and other sources. (Source: City of Fort Worth, 2011.)

- Economic trends affecting Texas and Fort Worth in the short term.
- Long term regional and national economic cycles and trends.
- Revenue trends for the City of Fort Worth.
- Current and projected total debt service and debt service per capita.
- Population growth trends and projections.
- Fiscal impact (continuing operating and maintenance costs imposed by capital projects).
- Leveraging and efficiency (seek opportunities to secure supplemental funding in light of budgetary constraints, economic downturns, and spending cuts).
- Timing feasibility (interruption of services and urgency of need).

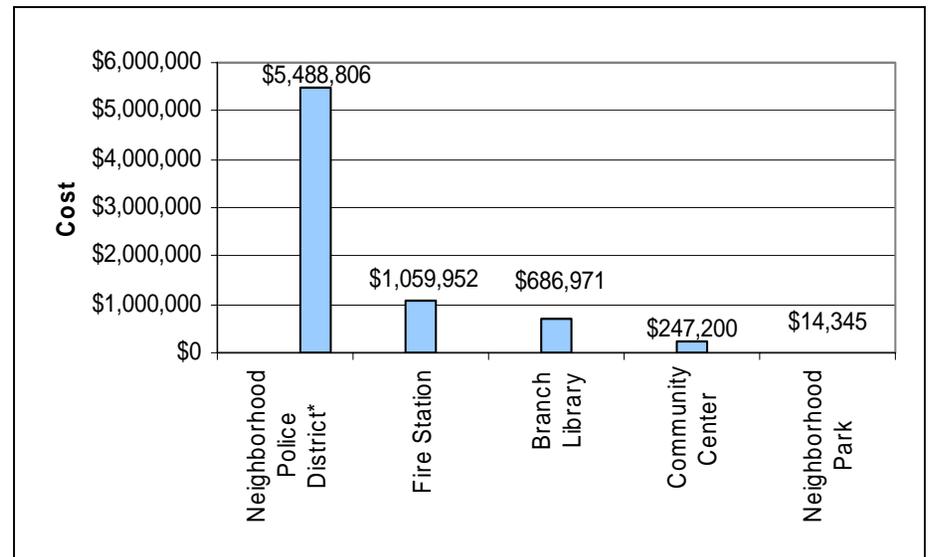
Although construction costs of capital facilities are financed by bonds, debt-service and on-going operating maintenance must be considered in future budgets. Typical costs involved in maintaining certain capital facilities are shown to the right. As population increases, City officials must consider the implications of building additional facilities in concert with upgrading the service level at existing facilities.

BACKGROUND

Nine bond elections have been held by the City of Fort Worth since 1978. To a certain extent, each reflected the economy of its period. Increased capacity for funding public facilities is needed in times of population increases and is most easily afforded during economic expansion. Additional information about debt ratio trends can be found in Chapter 3: Financial Trends.

- 2008: \$150 million for roadway infrastructure improvements. This approved bond program will construct and reconstruct neighborhood and arterial streets, improve intersections, and construct bridges. (4-year implementation)
- 2004: \$273.5 million for streets, parks, library, fire services, telecommunication towers, and an animal spay/neuter clinic. The City was able to afford the bond package without increasing the property tax rate. (6-year implementation)
- 1998: \$120 million for enhancement projects in the areas of streets, parks, fire services, libraries service, and public event facilities. The City was able to afford the bond package (1998-2003) without increasing the property tax rate.
- 1993: \$60 million for streets.
- 1990: \$20 million for streets (\$20 million for a Will Rogers Auditorium did not pass). This approved bond program primarily addressed reconstructing streets.
- 1986: \$160 million for streets, parks, library, public safety, and Will Rogers Memorial Coliseum Equestrian Center (the Heritage Trail Development for \$4.9 million did not pass).
- 1982: \$130 million for streets, public safety, municipal service improvements, City landfill improvements, library, public events, and parks.
- 1980: \$47.8 million for streets. This bond dealt primarily with reconstructing streets.
- 1978: \$92.5 million for streets, parks, fire, transportation improvements, aviation, public events, and police.

Average Annual O&M Costs for Typical City Facilities



The annual recurring expense of operations and maintenance (O&M) must be considered in future budgets when new capital projects are considered.

*The estimated cost, including salaries, of operating a Neighborhood Policing District combines resources provided by the General Fund with those provided by the Crime Control and Prevention District. (Source: Budget Office, 2011.)

STRATEGIES

The City should continue to remain disciplined in assuming debt as the City's financial policy dictates. The following conditions should be favorable before proposing major bond programs or other debt instruments:

- Local, regional, and national short and long term economic trends.
- Debt service less than 20 percent of net operating revenues.
- Long-term debt less than five percent of the City's total assessed values.
- General fund reserves at least 10 percent of the adopted budget.
- Match funds with other sources of funding to stretch dollars. These sources may include, but are not limited to current revenue, grant funds, and contributions.
- Accumulate retained earnings until the capital improvement can be paid for. Possible sources may include capital projects reserve fund, enterprise funds, public improvement district funds, and tax increment financing district funds.

Bonds and Other Debt Instruments

Debt instruments available to a municipality include the following: general obligation bonds, certificates of obligation, revenue bonds, industrial bonds, and commercial paper. Public property finance contractual obligations, contract revenue bonds, and anticipation notes are also available to municipalities, though Fort Worth seldom, if ever, uses these debt instruments.

- **General Purpose Bonds (General Obligation Bonds)**—Authorized by an election and backed by ad valorem taxes, they are used to pay for specifically approved projects. Future revenues are used to pay interest on the bonds and the principal amount when due. Interest income earned by the purchaser is tax free, which allows the purchaser to accept a lower interest rate. Capital improvements in Fort Worth are traditionally financed in this manner.
- **Certificates of Obligation (COs)**—Secured by ad valorem taxes and issued for limited purposes, such as land acquisition or funding a legal judgment. When combined with a limited (\$1,000 or more total) pledge of surplus revenue from an operating system (such as water, sewer, drainage, or sanitation), they can be issued for any lawful purpose authorized by City Council without citizen vote.
- **Revenue Bonds**—Used for and payable by operations such as water, sewer, stormwater, and solid waste. Fort Worth has utilized these bonds for City water and wastewater treatment plants, distribution facilities, and landfill projects.
- **Commercial Paper Program**—A short-term note program used for appropriation authority for construction and occasionally used to fund continual capital improvement efforts on an interim basis, such as the City's sewer improvement projects. Notes have maturities as short as one day or as long as one year. The City has authorized the issuance of up to \$125 million in Commercial Paper for both general purpose and water and sewer projects. The program is also used for eligible bond projects.
- **Industrial Revenue Bonds**—The Texas Development Corporation Act allows cities, counties, and conservation and reclamation districts to form non-profit industrial development corporations or authorities on their behalf. This is for the purpose of issuing taxable and tax-exempt bonds for eligible projects. An industrial development corporation acts as a conduit through which all monies are channeled. Generally, debt service on the bonds is paid by the business

Will Rogers Memorial Coliseum



The Will Rogers Memorial Coliseum, constructed in 1936 with general obligation bond funds, stands as a symbol of culture and pride for Fort Worth citizens. The facility was upgraded with 1998 general obligation bond funds. (Source: Planning and Development Department, 2009.)

Will Rogers Equestrian Center



The Will Rogers Equestrian Center was built as a result of the 1986 Bond program. The facility is used for numerous events during the year. (Source: Planning and Development Department, 2009.)

under the terms of a lease, sale, or loan agreement. As such, it does not constitute a debt or obligation of the governmental unit, the industrial development corporation, or the State of Texas. The Fort Worth Alliance Airport Authority, Inc., and Sunbelt Industrial Development Corporation are examples of this type of development corporation.

- State Revolving Loan—A low interest loan administered through the Texas Water Development Board used to finance improvements to water and wastewater collection systems, including plant facilities.
- Section 108—Loans guaranteed by the U.S. Department of Housing and Urban Development (HUD) and providing communities with a source of financing for economic development, housing rehabilitation, public facilities, and large scale physical development projects. Future Community Development Block Grant (CDBG) entitlement funds are pledged to secure funding should these loans default.
- Equipment Tax Notes—Equipment notes secured by ad valorem taxes and issued by the City, initially for the purpose of implementing an apparatus replacement plan for the Fire Department, but recently expanded to include technological purchases.

Current Revenues

Using current revenue from taxation, fees, service charges, or special assessments is a pay-as-you-go method used by the City to pay for improvements. Typically, revenue from certain sources is designated in advance to pay for specific projects.

- Tax Revenues—Ad valorem, sales, or other taxes can be designated for capital improvement projects. For example, monies received from a sales tax of 0.5 percent are placed into a special Crime Control and Prevention District Fund. In most cases, the City borrows money first and uses future tax revenues to retire that debt. For example, a recent two percent increase in hotel/motel occupancy taxes will retire bond money borrowed to upgrade the Fort Worth Convention Center. Fees from car rentals at DFW Airport can also be used to retire bond money to be borrowed to upgrade public events buildings.

Grant Funds

Grants are classified as either categorical or block, depending upon the amount of discretion allowed to the grantee. Generally, grants require in-kind contributions or matching funds. Some types of grants are targeted to provide basic services in lower income areas and are disbursed to non-profit organizations. Transportation grants are project-based, and Fort Worth projects must compete with other transportation projects in the region, state, or country depending on the source of funds. Proposed projects go through a rigorous ranking process by the City Planning and Development Department and/or Transportation and Public Works Department, the Metropolitan Planning Organization (MPO) staff, and the Texas Department of Transportation.

- Community Development Block Grant (CDBG)—Funds must be used for eligible projects and meet one of the Broad National Objectives: Low/Mod; Slum/Blight; Urgent Need. Most projects are funded either under a Low/Mod area criterion where funds must be spent in areas that consist of at least 51% low

Rolling Hills Water Treatment Plant and Central Laboratory

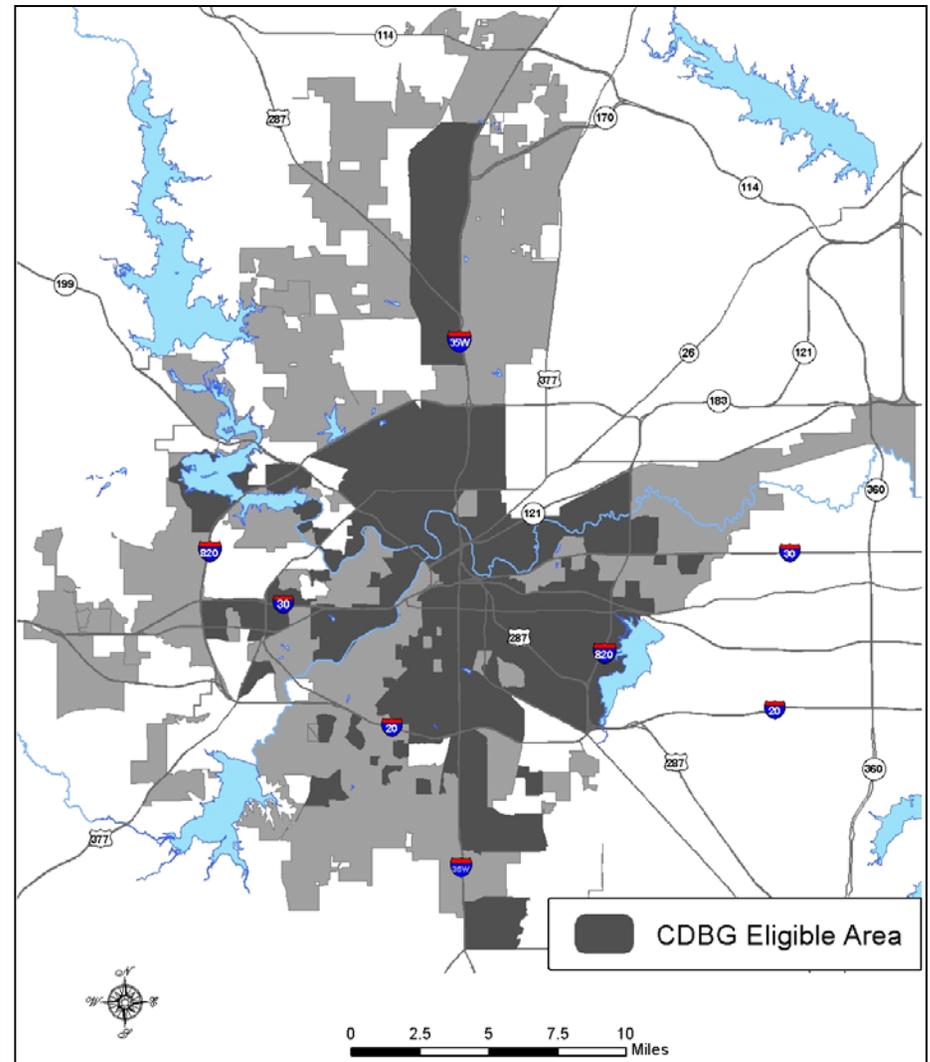


Aerial view of the Rolling Hills Water Treatment Plant and Central Laboratory. The plant was constructed in 1985 and the laboratory was constructed in 1998. Both facilities were funded by revenue from water sales and service charges. (Source: Water Department, 2009.)

to moderate income households (areas are designated as eligible based on the federal census), or Low/Mod person criterion where the population assisted by CDBG funds must have low to moderate incomes.

- HOME—A program administered by HUD that provides funding for the acquisition, rehabilitation, and new construction of moderate or lower income homes. This program mandates the participation of Community Housing Development Organizations (CHDOs) in developing affordable housing.
- Section 202 Program—Provides capital advances to finance the construction and rehabilitation of housing for low-income elderly persons and is administered by HUD. The capital advance does not have to be repaid as long as the project serves low income elderly persons for 40 years. It also provides rental assistance for Section 202 projects to help make them affordable.
- Economic Development Initiative (EDI) funds—Originate from HUD and are used to create jobs and encourage economic revitalization. Grant money can be used in tandem with Section 108 guaranteed loans.
- Defense Economic Adjustment Assistance Grant Program (DEAAGP)—Funds are used to help adversely impacted defense-dependent communities recover economically from realignments, closure of defense installations, or reductions or termination of defense contracts. The Texas Department of Commerce administers the grant money.
- Economic Development Administration (EDA) grants—Funds are used to help create immediate jobs for the unemployed by constructing or renovating public works and development facilities, including public buildings, historic structures, transportation facilities, water and sewer systems, and community facilities. Grants are administered by the U.S. Commerce Department.
- Texas Parks and Wildlife Department—Uses funds from sales tax levied on sporting goods to fund parks and recreational projects. Funds from this source are used by the Fort Worth Parks and Community Services Department.
- SAFETEA-LU (Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users)—Five-year federal transportation funding bill, from 2005 to 2009, that provides funding for specific transportation categories. Funding programs include: Highway Safety Improvement (HSIP), Surface Transportation Program-Metropolitan Mobility (STP-MM), Congestion Mitigation and Air Quality Improvement program (CMAQ), and Highway Bridge Replacement and Rehabilitation program. The U.S. Congress has yet to reauthorize SAFETEA0LU as of August 2011, acting instead to extend funding in annual appropriations.
- Urban Street Program—Funds are used on city streets classified as collector or higher in urbanized areas. The MPO for the region, North Central Texas Council of Governments receives allocations from the federal government based on the urbanized area population. Projects are then chosen based on traffic volume.
- Super Notice of Fund Availability (NOFA)—An annual consolidated national competition for funds coordinating nearly 50 programs that cut across traditional program lines. The Super NOFA released in 2004 covered several programs including housing, community development, economic development, empower-

CDBG-Eligible Areas Based on 2000 Census



HUD Community Development Block Grant (CDBG) funds must be used for eligible projects and meet one of the Broad National Objectives: Low/Mod; Slum/Blight; Urgent Need. The City received more than \$7.3 million during FY10-11. (Sources: U.S. Department of Housing and Urban Development, Planning and Development Department, Housing Department, 2011.)

ment programs, and homeless assistance programs. Nonprofits, public housing agencies, local and state governments, faith-based organizations, and others are each eligible for certain programs.

Contributions from Private and Non-Profit Sources

Many capital improvement projects that benefit the general public are financed entirely or in part with funds from private or quasi-public sources such as non-profit organizations or for-profit business ventures. The blending of private and public funds for the betterment of the community and in anticipation of future profits is desirable. Examples of organizations that have contributed funds to capital improvements in the Fort Worth area are cited below:

- Friends of the Fort Worth Nature Center and Refuge—A nonprofit, 501(c)(3) organization that provides funding to support the Nature Center programs and projects.
- Streams and Valleys, Inc.— A non-profit formed in 1969 for the purpose of planning and coordinating the beautification and recreational development of the Trinity River and its tributaries in Tarrant County. Funds originate from community organizations, foundations, and individual contributors.
- Developers participate in new development cost of roads and infrastructure based on the City of Fort Worth Policy for Installation of Community Facilities.

Retained Earnings

- The Capital Projects Reserve Fund—Used to accumulate surplus money from various funds and money from the sale of real assets. Money from the fund can be used to pay for land and building purchases, construction and maintenance projects, capital equipment and vehicles, and technology improvements.
- Enterprise Funds—Generated from fees paid for services and accumulated as retained earnings, if revenues exceed operations expenses. Examples of Enterprise Funds are golf, water and sewer, parking facilities, and airports.
- Public Improvement Districts—A defined area within a city or its extraterritorial jurisdiction created by City Council action where additional services or infrastructure are needed. Special assessments are levied on affected property owners and prorated according to the level of benefit received. Fort Worth has five PIDs, two commercial (Downtown and Camp Bowie) and three residential (Park Glen, Heritage, and Parkwood).
- Tax Increment Financing (TIF) districts—Denoted by specific boundaries and created by City Council to provide for infrastructure improvements within that area. The current assessed value of property located within the boundaries is used as the baseline figure. Future property tax revenues in excess of the baseline amount pay for improvements.
- Storm Water Utility—The utility collects and manages funds to reconstruct and upgrade storm drain systems and to provide operation and maintenance of the storm water system. Fees are determined by how much impervious area is on the property (impervious area is a hard surface such as a building, parking lot, or driveway). These hard surfaces cause rainwater to run off properties, rather than being absorbed into the soil. The utility went into effect in July 2006.

Downtown Public Improvement District



Conditions prior to public improvements and the establishment of the Public Improvement District in Downtown Fort Worth. (Source: Sundance Square Management, 1998.)



Federal Economic Development Administration funds were used to make improvements to Main Street. Funds from the Public Improvement District in Downtown Fort Worth pay for supplemental street and sidewalk cleaning and maintenance of the planter boxes. (Source: City of Fort Worth, 2009.)