SUBJECT: POLICY AND HISTORICAL USE OF INTEREST EARNINGS

The purpose of this budget response is to give an overview of the Use of Money and Property Category, interest earnings, and how funds in this category are allocated each year.

Use of Money and Property Budget Category

Use of Money and Property is a category including revenue Fort Worth yields from deploying various assets. The largest source is typically interest earnings (also described as investment income), which is a use of money.

Interest Earnings Budgeting and Financial Policy

The use of General Fund interest earnings, predominantly for one-time costs, is guided by City policy. A small amount of interest earnings (less than $2M in FY2026) is budgeted each year to cover a portion of the cost of employees who support the issuance and maintenance of City debt, but the vast majority of what has been appropriated in recent years has been as money becomes available and needs are identified.

Until recently, Fort Worth's Financial Management Policy Statements (FMPS) expressly limited the use of investment income to cash defeasance and early retirement of City debt. In FY2024, the FMPS Revenue Policy was updated to include sections XVI-XVII, which allows allocation of some investment income to one-time initiatives, capital projects, contributions to fund balance and operating costs directly associated with administration of debt, cash and investments. The exact policy language is below:

XVI. Governmental Funds Investment Income Allocation

Absent an applicable provision of law or contractual agreement. the allocation of pooled investment income for all governmental funds where the General Fund is the "home fund" shall be recorded as investment income in the City's General Debt Service Fund to offset interest costs associated with outstanding debt issuances and to accumulate cash which can be used to pay off debt prior to maturity to achieve debt service savings.

A. Investment income derived from the investment of bond or debt proceeds shall be allocated to the applicable debt service fund.
B. Surplus Governmental Funds' investment income derived from resources other than bond or debt proceeds can remain in the General Debt Service Fund or may be allocated to the following uses, as recommended by the City Manager:

1. One-time initiatives;
2. Capital projects; or
3. Move to the General Fund for the purpose of contributing to Unassigned Fund Balance

XVII. Investment Income to Offset Debt, Cash, and Investments Administration Costs

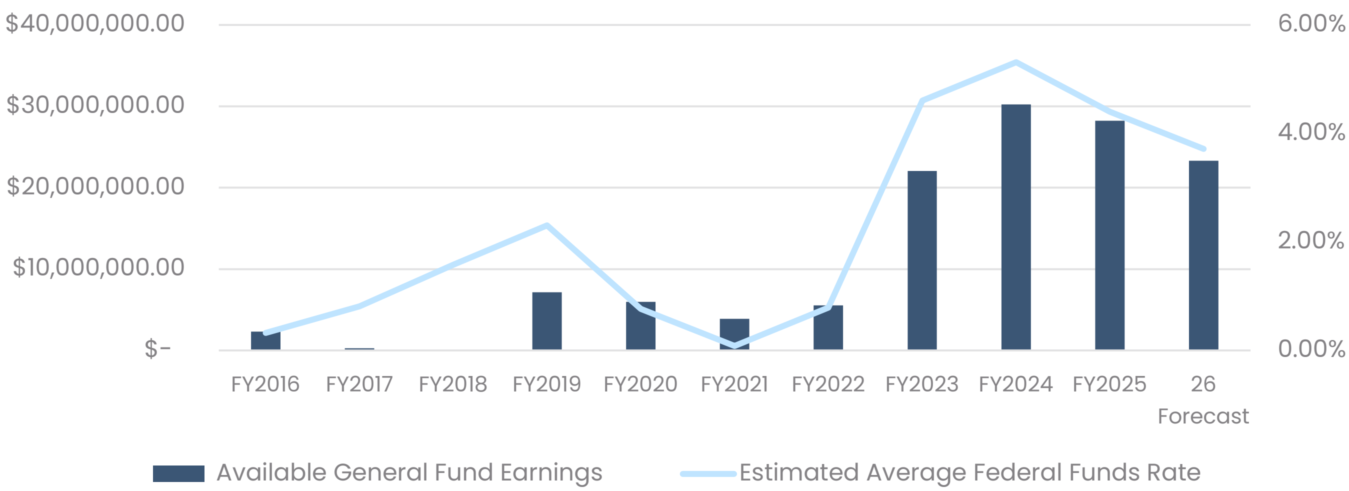
A portion of Governmental Funds' investment income other than that which is derived from the investment of bond or debt proceeds will be credited to the General Fund to offset General Fund expenditures associated with the administration of debt, cash, and investments. These expenditures include but are not limited to:

A. Personnel costs (salaries and benefits) associated with the portion of time applicable to the execution of debt administrative and related compliance activities.
B. Supplies
C. Printing
D. Training and Professional Development
E. Professional and Consulting Services
F. Technology (one-time or subscription)
G. Other directly related expenditures

The amount of General Government Funds' investment income to be credited to the General Fund to offset General Fund expenditures associated with the administration of debt, cash, and investments will be determined annually in conjunction with the annual budget development process.

Interest Earnings History

Below is a recent history of year-end interest earnings recorded in the General Fund. The availability of interest earnings is determined primarily by cash balances and interest rates. The former are relatively steady but peaked in recent years because of large grant balances which were spent gradually; the latter are volatile, depending primarily on Federal policy.



Below is the detail on interest earnings allocations for the previous three fiscal years, demonstrating the City's best practice of appropriating funds to one-time uses for capital projects and reserve balances. These appropriations are approved by City Council through M&C action.

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Tier One Interest Income Allocation History

Date	M&C	Amount	Purpose
8/22/2023*	23-0706 03FY2023 WINDUP	$ 7,000,000	FWHFC loan for SW Baptist Seminary property (repaid)
		2,500,000	West 7th St bridge illumination project
		9,630,000	Transfer to Risk Fund (to address reserves shortfall)
		$ 19,130,000	Allocation Total
1/23/2024	24-0001 03FY2023 CLOSING	$ 8,075,596	Capital project shortfalls
1/14/2025	25-0003 03FY24 CLOSING	$ 24,717,000	Capital project shortfalls
		5,000,000	Transfer to Risk Fund (to address reserves shortfall)
		$ 29,717,000	Allocation Total
9/16/2025	25-0812 03INTEREST EARNINGS	$ 6,500,000	Contribution to Cowgirl Hall of Fame
		3,129,070	Panther Island Project
		3,100,000	Transfer to Group Health Insurance Fund (to address reserves shortfall)
		870,930	Childcare Associates Early Learning Center
		14,023,122	Add to General Fund Fund Balance
		$ 27,623,122	Allocation Total

* Prior to 2023, interest income was historically recorded to the general debt service fund, per policy. Earnings were used strategically to cash defease or pay down bonds early, resulting in additional debt capacity or tax rate savings

We are tentatively forecasting approximately $16M in gross interest earnings available to the General Fund in FY2027. This considers a potential for Fed interest rate cuts and is a conservative estimate. These earnings will be recommended for appropriation later in the year, likely to restore reserve requirements in the Risk Fund following the $11.25M Atatiana Jefferson settlement, reserve requirements in the Group Health Fund, and any other fund balance requirements or capital needs.

If you have questions concerning this information, please contact Brady Kirk, FWLab Assistant Director, at 817-392-8712 or Alex Laufer, FMS Assistant Director, at 817-392-2268.

Jesus "Jay" Chapa
City Manager