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**Property Tax Abatement and
Economic Development
Program Agreement Review
(Winner, LLC)**

October 5, 2018



**City of Fort Worth
Department of Internal Audit**

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Background

The City of Fort Worth's Economic Development Department (ED) administers programs that are designed to promote economic development within the city. Three programs administered by ED include property tax abatements, relocation tax abatements and economic development program agreements.

Property Tax Abatements: Chapter 312 of the Texas Tax Code allows the City of Fort Worth to grant tax abatements on the value added to properties that meet eligibility requirements. A tax abatement is the full or partial exemption from ad valorem taxes on eligible properties - for a period of up to 10 years and an amount of up to 100% of the increase in appraised value. Eligible tax abatements result from improvements begun after the execution of the tax abatement agreement.

Relocation Tax Abatements: Chapter 312 of the Texas Tax Code also allows the City of Fort Worth to offer abatements as an incentive for businesses displaced by major infrastructure projects, in accordance with the City's Relocation Incentives Policy.

Economic Development Program Agreements: Economic Development Program Agreements (EDPAs) are made in accordance with Texas Local Government Code 380, which authorizes the City of Fort Worth to administer economic development programs that promote local economic development. The purpose of these local agreements is to reimburse private developers for the range of expenses that may contribute to a financing gap, yielding projects financially infeasible.

The City of Fort Worth provides property tax abatements and EDPAs to promote business development projects that:

- result in the creation of new full-time jobs for Fort Worth residents and Central City residents;
- are located in the Central City;
- result in development with little or no additional cost to the City, while producing a positive economic impact to the tax paying citizens of Fort Worth;
- have a positive impact on Fort Worth companies and Fort Worth certified Minority/Women Business Enterprise (M/WBE) companies; and,
- promote quality, affordable housing and/or mixed income development.

As authorized by the City Council, a percentage of property taxes is abated based on the businesses' compliance or non-compliance with contractual requirements (i.e., number of employees, supplies and service expenses, construction expenses, etc.).

In 2015, the City of Fort Worth entered into a property tax abatement agreement and Chapter 380 economic development program agreement with Winner, LLC to construct a data center of at least 100,000 square feet by the completion deadline (December 31, 2017). In return, the City agreed to abate 10% of the City's incremental ad valorem property taxes on the land and improvements, based on the increase in land values and improvements for the 2018 tax year over their values for



2015 tax year values. The City also agreed to abate 10% of the City's incremental ad valorem property taxes on new taxable tangible personal property, based on the taxable assessed value of the new taxable tangible personal property. The City agreed to pay Winner, LLC 10 annual program grants for their compliance with the construction cost requirements and installation of new taxable tangible personal property.

Winner, LLC began the project in 2015 and completed it in 2017.



Objective

The objective of this review was to determine whether Winner, LLC complied with requirements imposed by the City Council, in return for receiving property tax abatements and Chapter 380 program grants.

Scope

Our review covered calendar years 2015, 2016, and 2017. The scope of our review consisted of the City of Fort Worth's Property Tax Abatement and Chapter 380 Economic Development Program Agreements with Winner, LLC (developer for the Facebook Project) and requirements for the first year of the project.

Methodology

The Department of Internal Audit performed the following:

- reviewed pay applications, vendor invoices, construction billings, check copies, bank statements, and other applicable documentation to ensure compliance with construction spending requirements;
- verified vendor addresses via the City of Fort Worth's Geographic Information System;
- reviewed M/WBE certification forms and documentation from the North Central Texas Regional Certification Agency to verify M/WBE compliance requirements; and,
- reviewed Certificate of Occupancy data from the City's Planning and Development Department's files, to verify square footage requirements.



Audit Results

The Property Tax Abatement and Chapter 380 Economic Development Program Agreements Review, for Winner, LLC, was conducted as a part of the Department of Internal Audit's Fiscal Year 2018 Annual Audit Plan. Winner, LLC was selected for review because it was in the first year of the Property Tax Abatement and Chapter 380 Economic Development Program Agreements.

Since this review was to report on the extent by which Winner, LLC complied with the City of Fort Worth's Property Tax Abatement and Chapter 380 Economic Development Program Agreements, the Department of Internal Audit did not deem it necessary to obtain any responses from management. The following table depicts the results of our review.



Audit Results (continued)

Contractual Requirements	Winner, LLC (Facebook) (Year 1 of 10 for 380 Agreement)	Contractual Requirements	Winner, LLC (Facebook) (Year 1 of 10 for Tax Abatement)
Total Employees		Total Employees	
Required	NA	Required	N/A
Actual	NA	Actual	N/A
Max. Available Program Grant	NA	Max. Available Program Grant	N/A
Eligible Program Grant	NA	Eligible Program Grant	N/A
Fort Worth Residents		Fort Worth Residents	
Required	NA	Required	N/A
Actual	NA	Actual	N/A
Max. Available Program Grant	NA	Max. Available Program Grant	N/A
Eligible Program Grant	NA	Eligible Program Grant	N/A
Central City Residents		Central City Residents	
Required	NA	Required	N/A
Actual	NA	Actual	N/A
Max. Available Program Grant	NA	Max. Available Program Grant	N/A
Eligible Program Grant	NA	Eligible Program Grant	N/A
Total Supply/Service		Total Supply/Service	
Required	NA	Required	N/A
Actual	NA	Actual	N/A
Max. Available Program Grant	NA	Max. Available Program Grant	N/A
Eligible Program Grant	NA	Eligible Program Grant	N/A
Fort Worth Spending		Fort Worth Spending	
Required	NA	Required	N/A
Actual	NA	Actual	N/A
Max. Available Program Grant	NA	Max. Available Program Grant	N/A
Eligible Program Grant	NA	Eligible Program Grant	N/A
FW M/WBE Spending		FW M/WBE Spending	
Required	NA	Required	N/A
Actual	NA	Actual	N/A
Max. Available Program Grant	NA	Max. Available Program Grant	N/A
Eligible Program Grant	NA	Eligible Program Grant	N/A
Total Construction		Total Construction	
Required	\$125,000,000.00	Required	\$125,000,000.00
Actual	\$784,208,081.00	Actual	\$784,208,081.00
Required commercial square footage	100,000	Required commercial square footage	100,000
Actual commercial square footage	466,810	Actual commercial square footage	466,810
Required residential square footage	NA	Required residential square footage	N/A
Actual residential square footage	NA	Actual residential square footage	N/A
Max. Available Program Grant	100.00%	Max. Available Program Grant	N/A
Eligible Program Grant	100.00%	Eligible Program Grant	N/A
FW Construction Spending		FW Construction Spending	
Required	\$50,000,000.00	Required	N/A
Actual	\$74,215,330.00	Actual	N/A
Max. Available Spending Credit	\$100,000.00	Max. Available Program Grant	N/A
Eligible Spending credit	\$100,000.00	Eligible Program Grant	N/A
FW M/WBE Construction Spending		FW M/WBE Construction Spending	
Required	\$25,000,000.00	Required	N/A
Actual	\$1,209,061.00	Verified Amount	N/A
Max. Available Spending Credit	\$50,000.00	Max. Available Program Grant	N/A
Eligible Spending credit	\$2,420.00	Eligible Program Grant	N/A
New Taxable Tangible Personal Property		New Taxable Tangible Personal Property	
Required	\$125,000,000.00	Required	\$125,000,000.00
Actual	To be determined by ED	Actual	To be determined by ED
Max. Available Program Grant	100.00%	Max. Available Program Grant	20.00%
Eligible Program Grant	To be determined by ED	Eligible Program Grant	To be determined by ED
TOTAL AVAILABLE PROGRAM GRANT	100.00%	TOTAL AVAILABLE TAX ABATEMENT	20.00%
TOTAL ELIGIBLE PROGRAM GRANT	100.00%	TOTAL ELIGIBLE TAX ABATEMENT	20.00%



Acknowledgements

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