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<sup>††</sup> Audit Committee Member

**Economic Development  
Program Agreement Review  
(Trademark Property Company)  
Level II**

November 22, 2019



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

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## Background

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The City of Fort Worth's Economic Development Department (EDD) administers programs that are designed to promote economic development within the city. Three programs administered by the EDD 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 Chapter 380 of the Texas Local Government Code, 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 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, an economic development program grant is based on businesses' compliance or non-compliance with contractual requirements (e.g., minimum investment amount, minimum square feet of retail space, completion deadline, minimum employment, supply and service spending, construction expenses, etc.).

In 2014, the City of Fort Worth entered into an EDPA with the Trademark Property Company to construct a mixed-use development. In return, the City agreed to pay the Trademark Property Company certain economic development program grants.

Level I of the project was certified as complete in 2017, and Level II was certified as complete in 2019. Our review of Level II includes aggregate totals for Level I and II expenditures, as indicated by the EDPA.



## Objective

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The objective of this review was to determine whether the Trademark Property Company complied with requirements imposed by the City Council, in return for receiving Chapter 380 program grants.

## Scope

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Our review covered construction expenses through June 15, 2019, the amended Level II completion deadline.

The scope of our review included the City of Fort Worth's Chapter 380 Economic Development Program Agreement with Trademark Property Company (developer for the Waterside Project) and requirements for Level II of the project related to construction expenses and building square footage. Audit procedures performed were limited to verifying mathematical accuracy, limited testing of invoices and proof of payments.

## Methodology

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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 (GIS);
- reviewed M/WBE certification forms and other documentation from the North Central Texas Regional Certification Agency to verify M/WBE compliance requirements; and,
- reviewed Planning and Development Department and Tarrant Appraisal District records to verify square footage requirements.

We were not engaged to evaluate the effectiveness of the City's economic development program agreement nor assess the effectiveness of internal controls. We, therefore, do not express an opinion or a conclusion, and had we performed additional procedures, other matters may have come to our attention that would have been reported. The sufficiency of the agreed upon procedures is solely the responsibility of management. We, therefore, disclaim responsibility for the sufficiency of those procedures.



## Results

The Economic Development Program Agreement Review of the Trademark Property Company was conducted as a part of the Department of Internal Audit's Fiscal Year 2019 Annual Audit Plan. Since this review was to report on the extent by which Trademark Property Company complied with the City of Fort Worth's EDPA, the Department of Internal Audit did not deem it necessary to obtain any responses from management.

Based on the City's GIS system, the Trademark Property Company reported spending approximately \$4.3 million with an MWBE vendor. Internal Audit verified that the vendor was a certified MWBE vendor with a Fort Worth mailing address. However, that mailing address was not within the corporate limits of the City, as was required by the contract. These expenditures were, therefore, not included in Internal Audit's MWBE spending total. However, we concluded that Trademark Property Company still met the MWBE requirement. Based on the results of our review, the Trademark Property Company is eligible for the total construction grant made available under the agreement. The following chart depicts the results of our analysis.

Contractual Requirements	Level I Reported	Levels I and II Cumulative
<b>Employment/Ft Worth Resident/Central City Resident</b>	<b>To be determined by the EDD</b>	
<b>Service Supply/Ft Worth/MWBE Spending</b>	<b>To be determined by the EDD</b>	
<b>Total Construction</b>		
Required	\$90,000,000	\$125,000,000
Actual	\$90,074,574	\$125,964,425
Required commercial/retail/office/residential square footage	325,000	435,000
Actual commercial/retail/office/residential square footage <sup>(1)</sup>	352,500	923,178
Required commercial/retail/office square footage	140,000	180,000
Actual commercial/retail/office square footage <sup>(1)</sup>	164,958	192,208
Max. Available Program Grant	50.00%	50.00%
Eligible Program Grant	50.00%	50.00%
<b>Hard Construction Cost</b>		
Actual	\$62,477,549	\$86,259,616
<b>FW Construction Spending</b>		
Required	\$18,743,265	\$25,877,885
Actual	\$17,161,514	\$34,314,798
Max. Available Program Grant ( reduced after Year 1 )	25.00%	10.00%
Eligible Program Grant ( reduced after Year 1 )	22.90%	10.00%
<b>FW M/WBE Construction Spending</b>		
Required	\$15,619,387	\$21,564,904
Actual	\$8,201,868	\$24,335,423
Max. Available Program Grant ( reduced after Year 1 )	25.00%	10.00%
Eligible Program Grant ( reduced after Year 1 )	13.13%	10.00%
<b>TOTAL AVAILABLE CONSTRUCTION GRANT *</b>	<b>100.00%</b>	<b>70.00%</b>
<b>TOTAL ELIGIBLE CONSTRUCTION GRANT *</b>	<b>86.03%</b>	<b>70.00%</b>
<sup>(1)</sup> Square footage based on Tarrant Appraisal District files.		
* Percentages available from FW and FW M/WBE construction goals are reduced beginning in Year 2. The reductions are offset by service/supply spending requirements that are to be determined by EDD.		



## Acknowledgements

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The Department of Internal Audit would like to thank the Economic Development Department and the Trademark Property Company for their time, cooperation and assistance.