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**Property Tax Abatement and
Economic Development
Program Agreement Review**

July 17, 2015



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

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Fort Worth, Texas 76102

Audit Staff

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The Property Tax Abatement and Economic Development Program Agreement Review was conducted as a part of the Department of Internal Audit's Fiscal Year 2015 Annual Audit Plan.

Objectives

The objective of this review was to determine whether Fort Worth business entities complied with requirements imposed by the City Council in return for providing property tax abatements and/or grants.

Scope

Our review covered the 12-month period ended December 31, 2014.

Executive Summary

The Department of Internal Audit conducted an audit of 13 active property tax abatements/Chapter 380 agreements between the City of Fort Worth and various business entities located throughout the city.

Companies with documentation supporting their eligibility to receive the full property tax abatement/economic development grant included:

- GrandMarc Westberry, LLC;
- Omni Fort Worth Partnership, LLC. (Tax Abatement); and,
- Omni Fort Worth Partnership, LLC. (380 Agreement).

Companies with documentation supporting their eligibility to receive a portion of the property tax abatement/economic development grant included:

- Allied Electronics, Inc.
- Pratt Industries, Inc.
- Bell Helicopter Textron, Inc.
- Private National Mortgage Acceptance Company, LLC (PennyMac)
- Sundance Plaza, LLC.
- Renaissance Square, LLC.
- Carolina Beverage Group, LLC.
- Our Nation's Best Sports, Corp.
- Victory Packaging, LP.

A change in the agreement for Victory Packaging, LP was made and approved by M&C C-27304 dated May 19, 2015. Under the new contractual requirements, Victory Packaging, LP met its initial construction requirements.

Chase/Bank One did not meet requirements to receive any portion of the abatement.

Since this review was to report on the extent by which Fort Worth businesses complied with the City of Fort Worth's abatement and economic grant agreements, the Department of Internal Audit did not deem it necessary to obtain any responses from management.

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Background

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 EDD include property tax abatements, relocation tax abatements and economic development program agreements (EDPAs).

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 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.

Under each referenced program, abatements/agreements for which the business was eligible due to compliance in one or more categories could be decreased because of non-compliance in another category(ies).



Objective

The objective of this review was to determine whether Fort Worth business entities complied with requirements imposed by the City Council in return for providing property tax abatements and/or grants.

Scope

The scope of our review consisted of the following 13 active agreements between the City of Fort Worth and various businesses located throughout the city.

- Allied Electronics, Inc.
- Chase/Bank One
- GrandMarc (GM Westberry, LLC)
- OMNI Fort Worth Partnership, LLC (Tax Abatement)
- OMNI Fort Worth Partnership, LLC (380 Agreement)
- Pratt Industries, Inc.
- Carolina Beverage Group, LLC.
- Bell Helicopter Textron, Inc. (Phases II and III)
- Private National Mortgage Acceptance Company, LLC (PennyMac)
- Renaissance Square, LLC.
- Sundance Plaza, LLC; Sundance Plaza Buildings, LLC; Sundance Mural Building, LLC; and Cassidy Block, LLC (Sundance Square)
- Our Nation's Best Sports, Corp.
- Victory Packaging, LP.

Our review covered calendar year 2014.



Methodology

The Department of Internal Audit performed the following:

- reviewed vendor invoices, construction billings and other applicable documentation to ensure compliance with construction spending requirements;
- reviewed documentation, such as W-4s and I-9s, to ensure compliance with employee requirements;
- reviewed vendor invoices and other payment documentation to ensure compliance with supply and service spending requirements; and,
- conducted on-site visits to verify reported compliance with requirement information.

We conducted this audit in accordance with generally accepted government auditing standards, except for peer review¹. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹ Government auditing standards require audit organizations to undergo an external peer review every three years. A peer review is planned in 2017 for the three-year period ending December 31, 2016.



Audit Results

GrandMarc Westberry, LLC. provided documentation supporting their eligibility to receive the full property tax abatement and Omni Fort Worth Partnership provided documentation to support their eligibility to receive *both* their full property tax abatement and 380 agreement grants.

Eight (8) companies provided documentation to support their eligibility to receive portions of their tax abatement/380 grants. The portions available ranged from 8% to as high as 78.3%.

A change to decrease Victory Packaging's minimum real property investment from \$12M to \$11.5M was approved via M&C C-27304 on May 19, 2015. Victory Packaging, LP met their revised construction requirements. However, as of the end of audit fieldwork, a contract reflecting the authorized change had not been executed.

The documentation provided by Chase/Bank One did not support their eligibility to receive any portion of their available tax abatement.

The charts on the following three pages document the compliance requirement categories and amounts, along with the amounts reported by the companies to support attainment of these requirements.



Audit Results (cont'd)

CONSTRUCTION, EMPLOYEES AND SUPPLY & SERVICE	PennyMac (Year 0 of 10 for 380 Agreement)	Bell Helicopter Phase II & III (Year 1 of 19 for 380 Agreement) Bell received a tax abatement in first yr.)	Pratt Industries, Inc (Year 4 of 10 for Abatement)	Allied Electronics (Year 7 of 10 for Abatement)
Total Employees				
Required	150	4,500	140	485
Actual	181	3,798	173	463
Max. Available Abatement	20%	6.25%	10%	30%
Eligible Abatement	20%	5.28%	10%	8%
Fort Worth Residents				
Required	36	900	43	184
Actual	43	1,549	21	337
Abatement Reduction *	N/A	N/A	N/A	0%
Max. Available Abatement	10.0%	12.5%	10%	N/A
Eligible Abatement	10.0%	12.5%	0%	N/A
Central City Residents				
Required	9	225	17	92
Actual	14	525	11	120
Abatement Reduction *	N/A	N/A	N/A	0%
Max. Available Abatement	5.0%	12.5%	10%	N/A
Eligible Abatement	5.0%	12.5%	0%	N/A
Total Supply/Service				
Required	N/A	N/A	N/A	\$1,000,000
Actual	N/A	N/A	N/A	\$10,695,698
Max. Available Abatement	N/A	N/A	N/A	20%
Eligible Abatement	N/A	N/A	N/A	20%
Fort Worth Spending				
Required	N/A	\$1,000,000	N/A	\$2,673,925
Actual	N/A	\$34,259,584	N/A	\$2,580,269
Abatement Reduction *	N/A	N/A	N/A	10.0%
Max. Available Abatement	N/A	6.25%	N/A	N/A
Eligible Abatement	N/A	6.25%	N/A	N/A
FW M/WBE Spending				
Required	N/A	\$500,000	\$1,195,178	\$2,673,925
Actual	N/A	\$3,964,173	\$0	\$222,632
Abatement Reduction *	N/A	N/A	N/A	10.0%
Max. Available Abatement	N/A	6.25%	5%	N/A
Eligible Abatement	N/A	6.25%	0%	N/A
Total Construction				
Required	\$1,500,000	\$50,000,000	\$3,000,000	N/A
Actual	\$1,590,602	\$53,454,195	\$3,580,848	N/A
Max. Available Abatement	20%	37.50%	15%	N/A
Eligible Abatement	20%	TBD	15%	N/A
Hard Construction Cost				
Actual	N/A	\$53,454,195	N/A	N/A
FW Construction Spending				
Required	\$397,651	\$16,036,259	N/A	N/A
Actual	\$0	\$16,278,857	N/A	N/A
Max. Available Abatement	5.00%	12.5%	N/A	N/A
Eligible Abatement	0.00%	TBD	N/A	N/A
FW M/WBE Construction Spending				
Required	\$397,651	\$13,363,549	\$750,000	N/A
Actual	\$0	\$10,875,426	\$1,181,313	N/A
Max. Available Abatement	5%	6.25%	10.0%	N/A
Eligible Abatement	0%	TBD	10.0%	N/A
New Taxable Tangible Personal Prpty.				
Required	\$1,800,000	\$80,000,000	\$25,000,000	N/A
Actual	Note 1	Note 1	\$26,419,796	N/A
Max. Available Abatement	N/A	N/A	N/A	N/A
Eligible Abatement	N/A	N/A	N/A	N/A
Reduction for not completing Phase II	N/A	0%	N/A	N/A
Reduction for not meeting Phase II/III	N/A	0%	N/A	N/A
TOTAL AVAILABLE ABATEMENT	65.00%	80.00%	60.00%	50.00%
TOTAL ELIGIBLE ABATEMENT	55.00%	TBD	35.00%	8.00%
Source: CFW City Secretary files and individual company records				
* The percent by which eligible abatements are reduced due to non-compliance.				
Note 1: Contract states that tangible property value is to be determined by the appraisal district.				
TBD: To be determined by EDD as Internal Audit was not able to separate construction expenses from taxable tangible personal property expenses based upon information provided.				



Audit Results (cont'd)

CONSTRUCTION, EMPLOYEES AND SUPPLY & SERVICE	Omni Hotel (Year 7 of 10 for both Abatement and 380 Agreement)	Grandmarc Westberry, LLC (Year 9 of 10 for Abatement)	Chase / Bank One (Year 10 of 10 for Abatement)
Total Employees			
Required	250	6	N/A
Actual	540	8	1,469
Max. Available Abatement	N/A	N/A	N/A
Eligible Abatement	N/A	N/A	N/A
Fort Worth Residents			
Required	125	6	679
Actual	321	6	253
Abatement Reduction *	0%	0%	N/A
Max. Available Abatement	N/A	N/A	35%
Eligible Abatement	N/A	N/A	0%
Central City Residents			
Required	62	3	213
Actual	154	3	79
Abatement Reduction *	0%	0%	N/A
Max. Available Abatement	N/A	N/A	45%
Eligible Abatement	N/A	N/A	0%
Total Supply/Service			
Required	NA	N/A	N/A
Actual	\$754,076	N/A	N/A
Max. Available Abatement	N/A	N/A	N/A
Eligible Abatement	N/A	N/A	N/A
Fort Worth Spending			
Required	\$100,000	\$415,195	\$32,000
Actual	\$627,452	\$421,946	\$0
Abatement Reduction *	0%	0%	N/A
Max. Available Abatement	N/A	N/A	5%
Eligible Abatement	N/A	N/A	0%
FW M/WBE Spending			
Required	\$50,000	\$138,398	\$32,000
Actual	\$126,624	\$230,399	\$0
Abatement Reduction *	0%	0%	N/A
Max. Available Abatement	N/A	N/A	5%
Eligible Abatement	N/A	N/A	N/A
Total Construction			
Required	\$100,000,000	\$46,000,000	N/A
Actual	\$201,456,127	\$50,519,750	N/A
Max. Available Abatement	N/A	60%	N/A
Eligible Abatement	N/A	60%	N/A
Hard Construction Cost			
Actual	N/A	N/A	N/A
FW Construction Spending			
Required	\$20,000,000	\$7,060,000	N/A
Actual	\$51,011,881	\$10,472,799	N/A
Max. Available Abatement	N/A	25%	N/A
Eligible Abatement	N/A	25%	N/A
FW M/WBE Construction Spending			
Required	\$15,000,000	\$5,298,000	N/A
Actual	\$31,429,699	\$6,784,216	N/A
Max. Available Abatement	N/A	15%	N/A
Eligible Abatement	N/A	15%	N/A
New Taxable Tangible Personal Prpty.			
Required	N/A	N/A	N/A
Actual	N/A	N/A	N/A
Max. Available Abatement	N/A	N/A	N/A
Eligible Abatement	N/A	N/A	N/A
Reduction for not completing Phase II	N/A	N/A	N/A
Reduction for not meeting Phase II/III	N/A	N/A	N/A
TOTAL AVAILABLE ABATEMENT	100.00%	100.00%	90.00%
TOTAL ELIGIBLE ABATEMENT	100.00%	100.00%	0.00%
* The percent by which eligible abatements are reduced due to non-compliance.			



Audit Results (cont'd)

COMPLETION REPORTS CONSTRUCTION ONLY	Carolina Beverage <i>(Year 0 of 5 for Abatement)</i>	Our Nation's Best Sports <i>(Year 0 of 10 for 380 Agreement)</i>	Sundance Square <i>(Year 0 of 15 for 380 Agreement)</i>	Renaissance Square <i>(Year 0 of 20 for 380 Agreement)</i>
Total Construction				
Required	\$5,000,000	\$3,250,000	\$65,000,000	\$46,000,000
Actual	\$5,929,505	\$4,091,885	\$75,596,003	\$46,637,100
Max. Available Abatement	10%	25%	35%	70%
Eligible Abatement	10%	25%	35%	70%
FW Construction Spending				
Required	\$1,480,000	\$975,000	\$22,678,801	\$11,659,275
Actual	\$5,501,785	\$1,404,368	\$33,487,774	\$11,998,875
Max. Available Abatement	5%	2.5%	20%	15%
Eligible Abatement	5%	2.5%	20%	15%
FW M/WBE Construction Spending				
Required	\$925,000	\$812,500	\$18,899,001	\$11,659,275
Actual	\$102,919	\$0	\$2,348,466	\$1,067,939
Max. Available Abatement	5.00%	2.5%	5.00%	15.00%
Eligible Abatement	0.56%	0.0%	0.62%	1.37%
New Taxable Tangible Personal Prpty.				
Required	\$20,000,000	\$300,000	N/A	N/A
Actual	Note 1	Note 1	N/A	N/A
Max. Available Abatement	N/A	N/A	N/A	N/A
Eligible Abatement	N/A	N/A	N/A	N/A
Total Construction Square Footage				
Required	N/A	N/A	N/A	300,000
Actual	N/A	N/A	N/A	330,092
Max. Available Abatement	N/A	N/A	N/A	N/A
Eligible Abatement	N/A	N/A	N/A	N/A
TOTAL AVAILABLE ABATEMENT	20.0%	30.00%	60.00%	100.00%
TOTAL ELIGIBLE ABATEMENT	15.56%	27.50%	55.62%	86.370%

Source: CFW City Secretary files and individual company records

Note 1: New Taxable Tangible Personal Property Value to be determined solely based on Tarrant Appraisal District assessment per the agreement.



Acknowledgements

The Department of Internal Audit would like to thank Economic Development Department staff and local businesses included in this review for their time, cooperation and assistance.