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**Neighborhood Empowerment Zone (NEZ) Audit
of the Residences at Eastland**

September 11, 2015



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

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Fort Worth, Texas 76102

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A Neighborhood Empowerment Zone (NEZ) Tax Abatement compliance audit of the Residences at Eastland was conducted as a part of the Department of Internal Audit's Fiscal Year 2015 Annual Audit Plan.

Audit Objectives

The objective of this audit was to determine whether owners of the Residences at Eastland townhome complex complied with contractual requirements imposed by the City Council in return for a 2014 property tax abatement.

Audit Scope

Our audit covered the period of August 1, 2013 through August 31, 2014.

Executive Summary

As a part of our FY2015 Annual Audit Plan, the Department of Internal Audit conducted a review of the tax abatement agreement between the City of Fort Worth and FW-Eastland Housing Partners, Ltd. for property located in a Neighborhood Empowerment Zone (NEZ). According to this agreement, the owners of the Residences at Eastland were required to spend \$11,736,566.00 on construction costs for required improvements of a 146 multi-family unit townhome complex. The complex was to be at least 180,501 square feet with 29 townhomes set aside for families with income at or below 80% of the Area Family Medium Income (AFMI). Meeting this requirement would allow the Residences at Eastland to receive a 100% tax abatement for five years on the improvement value of the complex, not including the value of the land.

The original contract requires 29 townhomes/units that consist of the following floorplan configurations.

- Four -- 2 bedroom / 2 bath
- Twelve -- 2 bedroom / 2½ bath
- Twelve -- 3 bedroom / 3½ bath
- One -- 4 bedroom / 3½ bath

During this audit, the Department of Internal Audit tested a sample of tenant files and documentation for the months of January and July 2014. The following information was reviewed.

- Tenant Names
- Reported Tenant Income
- Lease Agreements
- Number of Residents in the Townhome Complex
- Number of Bedrooms and Bathrooms in the Townhome Complex

Based upon audit work performed, the Department of Internal Audit determined that the Residences of Eastland set aside 29 townhome units for families with income at or below 80% of the AFMI as required. However, the three and four bedroom units had 2½ baths instead of the 3½ baths specified in the contract.

According to Neighborhood Services Department staff, there was an error in Exhibit D of the original contract, which documented the 3½ bath requirement. Neighborhood Services staff provided the Department of Internal Audit with a contract amendment that was in process of being finalized. The contract amendment corrected Exhibit D, by reducing the number of baths in the three and four bedroom units from 3½ to 2½. As of the end of fieldwork, the contract amendment had not been executed. Based upon the contract as amended, the Residences at Eastland will have met the set-aside requirements.

Since the prior year audit concluded that the Residences of Eastland met construction spending requirements of at least \$11,736,566.00, it was not deemed necessary to test for compliance with construction requirements. We did, however, review Tarrant Appraisal District records to verify that the complex was at least 180,501 square feet.



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[Exhibit I – Stop Six Neighborhood Empowerment Zone](#)



Background

The City of Fort Worth's Neighborhood Services Department administers programs designed to promote economic development within the City. The Neighborhood Empowerment Zone (NEZ) is one of those programs, by which incentives such as building permit fee waivers, release of city liens, and municipal property tax abatements can be granted to homeowners, investor-owners, and developers proposing new construction projects or rehabilitation projects that are located within the NEZ.

Chapter 378 of the Texas Local Government Code allows the City to create an NEZ and provides that a municipality creating an NEZ may enter into agreements with property owners abating municipal property taxes on property in the zone, if the property owners meet requirements outlined in their specific agreements. According to Section 378.002: "A municipality may create a neighborhood empowerment zone covering a part of the municipality if the municipality determines the creation of the zone would promote:

- (1) the creation of affordable housing, including manufactured housing, in the zone;
- (2) an increase in economic development in the zone;
- (3) an increase in the quality of social services, education, or public safety provided to residents of the zone; or
- (4) the rehabilitation of affordable housing in the zone."

Chapter 312 of the Texas Property Redevelopment and Tax Abatement Act of the Tax Code allows for tax abatements to be granted for eligible properties within a Reinvestment Zone. On February 24, 2004, the Fort Worth City Council adopted Resolution No. 3048 to designate the Stop Six area as a Neighborhood Empowerment Zone and adopted Ordinance No. 15886 to designate the area as Fort Worth Neighborhood Empowerment Reinvestment Zone No. 17.

On May 27, 2009, the City entered into a tax abatement agreement with FW-Eastland Housing Partners, Ltd for property located in the Stop Six Neighborhood Empowerment Zone. Pursuant to the agreement, the Residences of Eastland Housing Partners, Ltd was to rehabilitate the Residences at Eastland townhome complex in order to receive property tax abatements for the five years following completion of the project.

On April 15, 2014 and after the expiration of the reinvestment zone designation, the City Council adopted Resolution No. 4315-04-2014 to re-designate the Stop Six NEZ. Ordinance No. 21206-04-2014 was also adopted to re-designate the area as Fort Worth Neighborhood Empowerment Reinvestment Zone No. 17. See [Exhibit I](#) for a detailed map of this Zone.

Specific requirements called for the owners to spend a minimum of \$11,736,566.00 in construction costs for required improvements on the 146 multi-family unit townhome complex (located at 5500 Eastland Street) and encompassing at least 180,501 square feet. In order to receive a 100% tax abatement for five years on the improvement value of the complex (not including the value of the land), the Residences of Eastland complex was to set aside 29 townhome units for families with income at or below 80% of the Area Family Medium Income (AFMI).



Objective

The objective of this audit was to determine whether owners of the Residences at Eastland townhome complex complied with contractual requirements imposed by the City Council in return for a 2014 property tax abatement.

Scope

Our audit covered the period of August 1, 2013 through August 31, 2014.

Methodology

To achieve the audit objective, the Department of Internal Audit performed the following:

- reviewed executed contract between the City of Fort Worth and the Residences at Eastland;
- reviewed a sample of tenant lease agreements;
- reviewed Tarrant Appraisal District records;
- reviewed prior audit work papers;
- reviewed bank statements; and,
- conducted a site visit at the Residences at Eastland.

We conducted this audit in accordance with generally accepted government auditing standards, except for peer review.¹ 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.

Acknowledgements

The Department of Internal Audit would like to thank the Residences at Eastland staff and the City's Neighborhood Services Department for their cooperation and assistance during this audit.





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.

Exhibit I

Stop Six Neighborhood Empowerment Zone

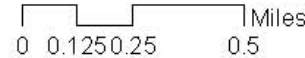


Legend

-  Neighborhood Empowerment Zone
-  Urban Village
-  Park
-  Residences of Eastland



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Source: Economic Development Department Files