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# Property Tax Abatement and Economic Development Program Agreement Review

June 17, 2016



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

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Fort Worth, Texas 76102

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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 2016 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 calendar year 2015.

### **Opportunity for Improvement**

Further Enhance the Project  
Completion Report

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## **Executive Summary**

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The Department of Internal Audit conducted a review of six (6) active property tax abatements/Chapter 380 agreements between the City of Fort Worth and various business entities located throughout the city. These six companies were selected for review because they were in the first year of a tax abatement/380 agreement or were in the first year of a new phase of a tax abatement/380 agreement.

The six (6) agreements included in our review were between the City of Fort Worth and the following companies:

- American Airlines, Inc.;
- Bell Helicopter Textron, Inc.;
- Elan West 7<sup>th</sup>, L.P.;
- HCA Health Services of Texas, Inc.;
- NGC Renewables, LLC.; and,
- West Bend/Fort Worth River Plaza, L.P.

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

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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 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:* EDPA's 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

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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

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Our review covered calendar year 2015. The scope of our review consisted of the following six (6) active agreements between the City of Fort Worth and various businesses located throughout the city.

- American Airlines, Inc.
- Bell Helicopter Textron, Inc.
- Elan West 7<sup>th</sup>, L.P.
- HCA Health Services of Texas, Inc.
- NGC Renewables, LLC.
- West Bend/Fort Worth River Plaza, L.P.

## Methodology

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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, W-2's 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.



## Audit Results

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The chart on the following page documents the compliance requirement categories and amounts, along with the amounts reported by the companies to support attainment of these requirements.

The Project Completion Report is utilized by businesses to report abatement compliance results. Currently, the Report requires the reporting of construction costs according to the following three categories:

- Total of all Construction Dollars Spent this Reporting Period
- Total Construction Dollars Spent with Fort Worth Companies
- Total Construction Dollars Spent with Fort Worth M/WBE Companies

Since some of the City of Fort Worth's abatement agreements specify requirements for other categories, such as hard construction costs, the Department of Internal Audit recommends revising the Project Completion Report to include other applicable contract components.



## Audit Results (cont'd)

CONSTRUCTION, EMPLOYEES AND SUPPLY & SERVICE	American Airlines Integrated Operations Center (Abatement Year 1 of 10)	Bell Helicopter Phase IV (Year 4 of 19 for 380 Agreement)	Elan West 7th (Abatement Year 1 of 10)	HCA Health Services of Texas, Inc. Phase II (Year 3 of 10 for 380 Agreement)	NGC Renewables (Abatement Year 1 of 10)	West Bend/FW River Plaza (Year 1 of 10 of 380 Agreement)
<b>Total Employees</b>						
Required	1,300	4,500	N/A	20	N/A	N/A
Actual	1,455	3,208	N/A	540	N/A	N/A
Max. Available Abatement	15.00%	6.25%	N/A	5.00%	N/A	N/A
Eligible Abatement	15.00%	4.46%	N/A	5.00%	N/A	N/A
<b>Fort Worth Residents</b>						
Required	218	900	N/A	57	N/A	N/A
Actual	177	838	N/A	59	N/A	N/A
Max. Available Abatement	10.00%	12.50%	N/A	5.00%	N/A	N/A
Eligible Abatement	8.10%	11.64%	N/A	5.00%	N/A	N/A
<b>Central City Residents</b>						
Required	73	225	N/A	28	N/A	N/A
Actual	32	229	N/A	0	N/A	N/A
Max. Available Abatement	5.00%	12.50%	N/A	5.00%	N/A	N/A
Eligible Abatement	2.15%	12.50%	N/A	0.00%	N/A	N/A
<b>Total Supply/Service</b>						
Required	N/A	N/A	N/A	N/A	N/A	N/A
Actual	N/A	N/A	N/A	N/A	N/A	N/A
Max. Available Abatement	N/A	N/A	N/A	N/A	N/A	N/A
Eligible Abatement	N/A	N/A	N/A	N/A	N/A	N/A
<b>Fort Worth Spending</b>						
Required	\$150,000	\$1,000,000	N/A	\$50,000	N/A	N/A
Actual	\$0	\$28,078,879	N/A	\$480,832	N/A	N/A
Max. Available Abatement	2.50%	6.25%	N/A	5.00%	N/A	N/A
Eligible Abatement	0.00%	6.25%	N/A	5.00%	N/A	N/A
<b>FW M/WBE Spending</b>						
Required	\$125,000	\$500,000	N/A	\$25,000	N/A	N/A
Actual	\$0	\$3,346,750	N/A	\$172,367	N/A	N/A
Max. Available Abatement	2.50%	6.25%	N/A	5.00%	N/A	N/A
Eligible Abatement	0.00%	6.25%	N/A	5.00%	N/A	N/A
<b>Total Construction</b>						
Required	\$55,000,000	\$15,000,000	\$35,000,000	\$40,000,000	\$8,500,000	\$50,000,000
Actual	\$59,689,297	\$15,914,587	\$40,875,145	\$49,302,473	\$8,930,880	\$54,802,704
Max. Available Abatement	30.00%	37.50%	15.00%	40.00%	35.00%	50.00%
Eligible Abatement	30.00%	TBD (a)	15.00%	40.00%	35.00%	50.00%
<b>Hard Construction Cost</b>						
Actual	N/A	\$70,827,809	N/A	N/A	N/A	N/A
<b>FW Construction Spending</b>						
Required	\$14,922,324	\$21,248,343	\$12,281,973	\$14,790,742	\$2,679,264	\$12,110,875
Actual	\$8,095,998	\$26,008,081	\$3,535,929	\$0	\$146,418	\$20,463,304
Max. Available Abatement	10.00%	12.50%	10.00%	10.00%	5.00%	30.00%
Eligible Abatement	5.43%	TBD (a)	2.88%	0.00%	0.25%	30.00%
<b>FW M/WBE Construction Spending</b>						
Required	\$14,922,324	\$17,706,952	\$10,234,948	\$12,325,618	\$2,171,796	\$10,092,396
Actual	\$6,820,556	\$13,828,940	\$408,495	\$0	\$22,919	\$860,458
Max. Available Abatement	10.00%	6.25%	10.00%	5.00%	5.00%	20.00%
Eligible Abatement	4.57%	TBD (a)	0.40%	0.00%	0.05%	1.71%
<b>New Taxable Tangible Personal Prpty.</b>						
Required	\$33,000,000	\$160,000,000	\$20,000,000	N/A	N/A	N/A
Actual	Note 1	\$112,118,392	\$66,826,848	N/A	Note 1	N/A
Max. Available Abatement	N/A	N/A	N/A	N/A	35.00%	N/A
Eligible Abatement	Note 1	N/A	N/A	N/A	Note 1	N/A
<b>Reduction for not completing Phase II/III</b>	N/A	0.00%	N/A	N/A	N/A	N/A
<b>Reduction for not meeting Phase IV New Taxable Tangible Personal Property Minimum Amount</b>	N/A	-5.00%	N/A	N/A	N/A	N/A
<b>TOTAL AVAILABLE ABATEMENT</b>	80.00%	80.00% (b)	35.00%	80.00%	45.00%	100.00%
<b>TOTAL ELIGIBLE ABATEMENT</b>	65.25%	TBD (a)	18.28%	60.00%	35.30%	81.71%

(a) To be determined by the Economic Development Department. Based upon information provided by the company, Internal Audit was not able to separate construction expenses from taxable tangible personal property expenses.

(b) The maximum amount for Bell Helicopter is 80%, regardless of the total accumulated.

Note 1: Contract states that the property value is to be determined by the appraisal district.



## Acknowledgements

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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.