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Property Tax Abatement and Economic Development Program Agreement Review

June 2, 2017



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

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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.

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.).



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 receiving property tax abatements and/or grants.

Scope

Our review covered calendar year 2016. The scope of our review consisted of City of Fort Worth agreements with General Electric (GE) Manufacturing Solutions and Galderma Laboratories.

Since EDD staff performed compliance work pertaining to supply and service requirements of the Galderma Laboratories agreement, the Department of Internal Audit did not perform tests or verify the accuracy EDD's test results.

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 M/WBE certification forms from the North Central Texas Regional Certification Agency to verify M/WBE compliance requirements;
- reviewed documentation, such as W-2's, I-9s, and quarterly 941 business tax returns to ensure compliance with employee requirements; and,
- conducted on-site visits to verify reported compliance with requirement information.



Audit Results

The Property Tax Abatement and Economic Development Program Agreement Review was conducted as a part of the Department of Internal Audit's Fiscal Year 2017 Annual Audit Plan.

The Department of Internal Audit conducted a review of two (2) active Chapter 380 agreements between the City of Fort Worth and two business entities located within the city. These two companies were selected for review because they were in the first year of a Chapter 380 agreement or were in the first year of a new phase of a tax abatement/380 agreement.

The two (2) agreements included in our review were between the City of Fort Worth and the following companies:

- GE Manufacturing Solutions, LLC; and,
- Galderma Laboratories, L.P.

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

The following chart depicts the results of our analysis for GE Manufacturing Solutions, LLC and Galderma Laboratories L.P.



Audit Results (continued)

Contractual Requirements	GE Manufacturing Solutions, LLC (Year 1 of Phase II)	Galderma Labs, LP (Year 1 of 10 for 380 Agreement)
Total Employees		
Required	N/A	320
Actual	N/A	383
Max. Available Abatement	N/A	10.00%
Eligible Abatement	N/A	10.00%
Fort Worth Residents		
Required	N/A	96
Actual	N/A	117
Max. Available Abatement	N/A	5.00%
Eligible Abatement	N/A	5.00%
Central City Residents		
Required	N/A	38
Actual	N/A	25
Max. Available Abatement	N/A	5.00%
Eligible Abatement	N/A	3.29%
Total Supply/Service		
Required	N/A	N/A - outside of Internal Audit's scope of work
Actual	N/A	N/A - outside of Internal Audit's scope of work
Max. Available Abatement	N/A	N/A - outside of Internal Audit's scope of work
Eligible Abatement	N/A	N/A - outside of Internal Audit's scope of work
Fort Worth Spending		
Required	N/A	\$500,000
Actual	N/A	(a)
Max. Available Abatement	N/A	2.50%
Eligible Abatement	N/A	(a)
FW M/WBE Spending		
Required	N/A	\$250,000
Actual	N/A	(a)
Max. Available Abatement	N/A	2.50%
Eligible Abatement	N/A	(a)
Total Construction		
Required	\$13,575,000	\$11,250,000
Actual	\$28,879,676	\$11,824,727
Max. Available Abatement	35.00%	15.00%
Eligible Abatement	35.00%	15.00%
Hard Construction Cost		
Actual	N/A	N/A
FW Construction Spending		
Required	N/A	\$2,956,182
Actual	N/A	\$1,180,996
Max. Available Abatement	N/A	5.00%
Eligible Abatement	N/A	2.00%
FW M/WBE Construction Spending		
Required	N/A	\$2,956,182
Actual	N/A	\$366,718
Max. Available Abatement	N/A	5.00%
Eligible Abatement	N/A	0.62%
New Taxable Tangible Personal Property		
Required	N/A	N/A
Actual	N/A	N/A
Max. Available Abatement	N/A	N/A
Eligible Abatement	N/A	N/A
Reduction for not completing Phase II/III		
	N/A	N/A
TOTAL AVAILABLE ABATEMENT	35.00% (b)	50.00%
TOTAL ELIGIBLE ABATEMENT	35.00%	35.91% (c)

- (a) To be determined by the Economic Development Department.
- (b) Meeting construction requirements for Phase II allows for 5 additional years of program grants.
- (c) Limited to Internal Audit's scope of work



Acknowledgements

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