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**Economic Development
Program Agreement Review
(Clearfork Development
Company, LLC)**

Level II

July 12, 2019/ (Modified September 27, 2019)



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

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MODIFICATION: The Economic Development Program Agreement Review (Clearfork Development Company, LLC) Level II [released on July 12, 2019] did not include a statement that the Department of Internal Audit complied with GAGAS. Since the Department of Internal Audit conducted the review in accordance with GAGAS, page 2 of the initial report has been modified to include the required compliance statement. Results included in the initial report remain unchanged since the inadvertent omission had no impact on our results.

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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 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 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 businesses' compliance or non-compliance with contractual requirements (e.g., number of employees, supplies and service expenses, construction expenses, etc.). In 2014, the City of Fort Worth entered into an EDPA with the Clearfork Development Company, LLC to construct a mixed-use development. In return, the City agreed to pay the Clearfork Development Company, LLC certain economic development program grants.

Level I of the project was certified as complete in 2017, and Level II was certified as complete in 2018. Our review of Level II includes aggregate totals of Levels I and II, as indicated by the EDPA. The requirements for Level II include aggregate spending of \$240,000,000.00, and combined construction of 800,000 square feet in commercial/retail, office, or residential space. Additional incentives are available for spending with Fort Worth companies, and for spending with M/WBEs within Fort Worth.



Objective

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

Scope

Our review covered calendar year 2015 through calendar year 2018 for Level I and Level II. The scope of our review was limited to reviewing compliance with construction expense requirements of the project.

To calculate our final results, Level I data (validated in the previous review) was aggregated with Level II data, as required by the EDPA.

Methodology

The Department of Internal Audit performed the following:

- reviewed pay applications, vendor invoices, construction billings, check copies, bank statement information, and other applicable documentation to ensure compliance with construction spending requirements;
- verified vendor addresses via the City of Fort Worth's Geographic Information System;
- reviewed M/WBE certification forms and documentation from the North Central Texas Regional Certification Agency to verify M/WBE compliance requirements; and,
- reviewed Certificate of Occupancy data from the City's Planning and Development Department's files, 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.



Review Results

The EDPA Review for the Clearfork Development Company, LLC 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 the Clearfork Development Company, LLC 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.

The following chart depicts the results of our review for the Clearfork Development Company, LLC. We concluded that the results of our Level I review (included in an Internal Audit report issued on April 6, 2018) contained inadvertent errors related to construction costs. The errors had no impact on program grant eligibility related to total construction or Fort Worth construction spending, and had an immaterial impact on Fort Worth M/WBE program grant eligibility. The corrected totals, although immaterial, are included in the following table.

Contractual Requirements	Level I Reported	Level I Corrected	Levels I and II Cumulative
Total Employees	To be determined by the EDD		
Total Supply/Service	To be determined by the EDD		
Total Construction			
Required	\$180,000,000	\$180,000,000	\$240,000,000
Actual	\$425,653,856	\$212,826,928	\$271,327,456
Required square footage - residential & commercial	600,000	600,000	800,000
Actual square footage - residential & commercial	842,371	842,371	914,995
Max. Available Program Grant	50.00%	50.00%	50.00%
Eligible Program Grant	50.00%	50.00%	50.00%
Hard Construction Cost			
Actual	\$122,320,275	\$122,320,275	\$133,985,850
FW Construction Spending			
Required	\$36,696,082	\$36,696,082	\$40,195,755
Actual	\$119,827,607	\$120,292,716	\$125,908,129
Max. Available Program Grant (reduced after Year 1)	25.00%	25.00%	10.00%
Eligible Program Grant (reduced after Year 1)	25.00%	25.00%	10.00%
FW M/WBE Construction Spending			
Required	\$30,580,069	\$30,580,069	\$33,496,462
Actual	\$28,217,848	\$28,140,664	\$28,166,439
Max. Available Program Grant (reduced after Year 1)	25.00%	25.00%	10.00%
Eligible Program Grant (reduced after Year 1)	23.07%	23.01%	8.41%
TOTAL AVAILABLE CONSTRUCTION GRANT *	100.00%	100.00%	70.00%
TOTAL ELIGIBLE CONSTRUCTION GRANT *	98.07%	98.01%	68.41%
* 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

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