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**Property Tax Abatement
Agreement Review
(Andrews Distributing Company
of North Texas, LLC)**

August 30, 2019



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

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Fort Worth, Texas 76102

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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 the 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 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 are abated based on the compliance or non-compliance with contractual requirements (e.g., specific construction spending, minimum square feet of retail space, completion deadline, annual employment, annual supply and service spending, construction expenses, etc.).

In 2016, the Mayor & Council approved a Tax Abatement Agreement with Andrews Distributing Company of North Texas, LLC (Andrews) to construct a 400,000 square foot distribution center to be located on Northeast Loop 820. The Economic Development Incentive Application for the facility references a 520,343 square foot facility, including a warehouse, office and other buildings. The contract between the City and Andrews includes construction-related requirements in addition to non-construction requirements (that will be verified by the EDD). In return, the City agreed to provide Andrews with tax abatements on the increase in the real property value of improvements on the land for a term of five (5) consecutive years. The initial agreement between the CFW and Andrews required that the improvements be completed by December 31, 2017. However, due to unanticipated delays in completing the project, Andrews requested an extension of the completion deadline from December 31, 2017 to October 31, 2018. The CFW agreed



to the October 31, 2018 completion deadline extension. A temporary Certificate of Occupancy for the construction project was issued on October 31, 2018 and a final Certificate of Occupancy was issued on April 18, 2019.



Objective

The objective of this review was to determine whether the Andrews Distributing Company of North Texas, LLC complied with construction-related requirements imposed by the City Council, in return for receiving a tax abatement.

Scope

Our review covered construction spending reported through the final project payment.

The procedures performed were limited to verifying mathematical accuracy, limited testing of invoices and proof of payment, and verifying Fort Worth vendor locations.

Methodology

The Department of Internal Audit performed the following:

- reviewed pay applications, vendor invoices, construction billings, check copies, bank statements, and other applicable documentation to ensure compliance with construction spending requirements;
- verified vendor addresses via the City of Fort Worth's Geographic Information System; and,
- reviewed building permit 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 property tax abatement program 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.



Results

The Tax Abatement Agreement Review for Andrews Distributing Company of North Texas, 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 Andrews Distributing Company of North Texas, LLC complied with the City of Fort Worth's Tax Abatement Agreement, the Department of Internal Audit did not deem it necessary to obtain any responses from management.

The following table depicts the results of our analysis for the Andrews Distributing of North Texas, LLC Tax Abatement Agreement Review.

| Contractual Requirements | Andrews Distributing Company of North Texas, LLC, LLC (Year 1 of Agreement) |
|--------------------------------------------------------|-----------------------------------------------------------------------------|
| Overall Employment | To be determined by the EDD |
| Fort Worth Employment | To be determined by the EDD |
| Employment of Fort Worth Central City Residents | To be determined by the EDD |
| Fort Worth Supply and Service Spending | To be determined by the EDD |
| Fort Worth M/WBE Supply and Service Spending | To be determined by the EDD |
| New Taxable Tangible Personal Property | To be determined by the EDD |
| Total Construction | |
| Required | \$35,000,000 |
| Actual | \$47,729,859 |
| Required commercial square footage | 520,343 |
| Actual commercial square footage | 535,145 |
| Maximum Available Tax Abatement | 10.00% |
| Eligible Tax Abatement | 10.00% |
| Hard Construction Cost | |
| Actual verified | \$46,375,240 |
| Fort Worth Construction Spending | |
| Required | \$18,550,096 |
| Actual | \$1,046,467 |
| Maximum Available Tax Abatement | 5.00% |
| Eligible Tax Abatement | 0.28% |
| Fort Worth M/WBE Construction Spending | |
| Required | \$11,593,810 |
| Actual | \$0.00 |
| Maximum Available Tax Abatement | 5.00% |
| Eligible Tax Abatement | 0% |
| TOTAL AVAILABLE CONSTRUCTION INCENTIVE | 20.00% |
| TOTAL ELIGIBLE CONSTRUCTION INCENTIVE | 10.28% |



Acknowledgements

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