

Memorandum



CITY OF DALLAS
(Report No. A13-001)

DATE: December 7, 2012

TO: Honorable Mayor and Members of the City Council

SUBJECT: Audit of Monitoring Controls Over Tax Increment Financing (TIF) Districts¹

The Department of Economic Development's (ECO) Tax Increment Financing Program (TIF Program) has sufficient monitoring controls to help ensure compliance with TIF District Agreements.

Judgmental samples of tax increment revenues (revenues) of approximately \$20.1 of \$26.2 million, or 77 percent, and TIF Districts' expenditures of approximately \$22 of \$24 million, or 92 percent, for calendar year 2011 showed: (1) revenues were properly supported and accounted for; and, (2) payments and transfers made to entities associated with these TIF Districts were for allowable expenses, adequately supported, and appropriately authorized.

The ECO, however, does not have formal TIF Program policies and procedures.

Background

A Tax Increment Financing district (TIF District) is a special purpose district that allows the City of Dallas (City) to reinvest added tax revenue from new development back into the geographical area where it originated.

The goal is to stimulate new private investment and thereby increase real estate values. Any increase in tax revenues (caused by new development and higher property values) is paid into a special TIF fund to finance improvements. Potential improvements include wider sidewalks, utilities, public landscaping, lighting, environmental remediation, demolition, and historic façades etc. which are authorized in the TIF District Plans.

Source: ECO

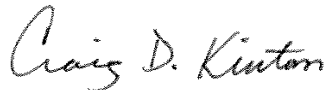
¹ We conducted an *Audit of Monitoring Controls Over TIF Districts* under the authority of the City Charter, Chapter IX, Section 3. This audit was part of our Fiscal Year 2011 Audit Plan approved by the City Council. This performance audit was conducted in accordance with generally accepted government auditing standards. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit objective was to evaluate whether the City has monitoring controls in place to ensure compliance with TIF District Agreements. The scope of the audit included transactions occurring from October 1, 2010 through September 30, 2011; however, certain other matters, procedures and transactions occurring outside that period may have been reviewed to understand and verify information related to the audit period. We interviewed department personnel, reviewed TIF District agreements, traced Ad Valorem tax revenues increment increases from Dallas Central Appraisal District (DCAD) records to the individual TIF District Financial Statements, verified mathematical accuracy, and performed various analyses of tax increments, TIF District expenses, and City payments and transfers.

As a result, ECO's monitoring responsibilities for the 17 individual TIF Districts are not formally documented. In addition, ECO cannot ensure that monitoring processes by personnel are properly documented and performed timely and consistently. Established policies and procedures are identified by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as a control activity needed to manage risk. Policies and procedures ensure that fundamental organizational processes are performed in a consistent way that meets the organization's needs.

We recommend the Director of ECO establish formal TIF Program policies and procedures that identify monitoring oversight responsibilities, as well as timing for completion of specific monitoring activities and required documentation (see Attachment I for Background and Attachment II for Management's Response).

We would like to acknowledge City management's cooperation and timely response in providing the information needed to complete this audit. If you have any questions or need additional information, please contact me at 214-670-3222 or Carol Smith, First Assistant City Auditor, at 214-670-4517.

Sincerely,



Craig D. Kinton
City Auditor

Attachments

- C: Mary K. Suhm, City Manager
- Jeanne Chipperfield, Chief Financial Officer
- Jack Ireland, Director – Office of Financial Services
- Karl Zavitkovsky, Director – ECO
- Karl Stundins, Manager, Area Redevelopment – ECO

Attachment I

Background

The Department of Economic Development (ECO) administers the Tax Increment Financing (TIF) Program in accordance with Chapter 311, *Tax Increment Financing Act*, of the Texas Tax Code. A Tax Increment Financing district (TIF District) is a special purpose district that allows the City of Dallas (City) to reinvest added tax revenue from new development back into the geographical area where it originated. The goal is to stimulate new private investment and thereby increase real estate values. Any increase in tax revenues (caused by new development and higher property values) is paid into a special TIF fund to finance improvements. Potential improvements include wider sidewalks, utilities, public landscaping, lighting, environmental remediation, demolition, and historic façades etc. which are authorized in the TIF District Plans.

The City, along with other jurisdictions where applicable (Dallas County, Dallas Independent School District, Dallas County Hospital District, Dallas County Community College, and Richardson Independent School District), participate at varying levels in the 17 currently active Tax Increment Financing (TIF) Districts. Each jurisdiction's tax increment revenues (revenues), for each TIF District, are based upon the jurisdiction's participation percentage, tax rate, and the estimated captured value. The estimated captured value is the difference between the current year tax assessment and the base year tax assessment for the property accounts within the TIF District's geographic location.

If revenues are generated, the County remits the revenues to each participating jurisdiction. The City receives its participation share of these revenues from the County. As Administrator of the TIF Districts, other jurisdictions remit their revenues to the City based on a funding request from the ECO. For each TIF District, the City maintains a separate Fund to account for all revenues received and expenditure activities.

Total TIF District commitments for funding public improvement projects are initially authorized in the TIF District Plan approved by the TIF District Boards (Board) and City Council. Individual projects within each TIF District are governed by a Development Agreement (Agreement) which is authorized by the Boards, ECO, and City Council. Each Agreement outlines the total commitment and allowable expenditures which can be reimbursed to the Developer for the project. In addition, payments for allowable expenditures are only made when: (1) revenues are available in the applicable TIF District Fund; (2) documentation of expenditures is adequately supported; and, (3) proper authorization by the Boards, ECO, and City Council has been obtained.

Currently, the City and Dallas County are the primary participants in the 17 active TIF Districts. In Fiscal Year (FY) 2011, of the approximately \$24.1 million in revenues collected from all participating jurisdictions, the TIF Districts received revenues of approximately \$17.5 million from the City and \$2.6 million from the County, respectively. Total revenues and expenditures in FY 2011 were approximately \$26.2 million and \$23.8 million respectively (see Table I on the following page).

Audit of Monitoring Controls Over Tax Increment Financing (TIF) Districts

Table I

**Fiscal Year 2011
TIF District Revenues and Expenditures**

Reinvestment Zone Number	TIF District Name	Fiscal Year 2011 Total Revenues **	Fiscal Year 2011 Total Expenditures ***
Zone # 1 *	State-Thomas	\$ 0	\$ 0
Zone # 2 *	Cityplace Area	87,865	6,767,989
Zone # 3	Oak Cliff Gateway	1,701,596	158,824
Zone # 4	Cedars	787,170	893,875
Zone # 5	City Center	2,899,530	620,052
Zone # 6	Farmers Market	713,242	62,371
Zone # 7	Sports Arena	6,186,864	2,687,480
Zone # 8	Design District	1,168,677	959,880
Zone # 9	Vickery Meadow	1,206,277	1,268,392
Zone # 10	Southwestern Medical	1,896,264	51,034
Zone # 11	Downtown Connection	8,412,974	8,432,648
Zone # 12	Deep Ellum	321,819	268,295
Zone # 13	Grand Park South	40,191	39,597
Zone # 14	Skillman Corridor	503,807	1,595,521
Zone # 15	Fort Worth Avenue	106,160	717
Zone # 16	Davis Gardens	163,659	280
Zone # 17	TOD	0	0
Zone # 18	Maple Mockingbird	25	3,505
Zone # 19	Cypress Waters	0	0
Totals		\$ 26,196,120	\$ 23,810,460

Source: 2011 TIF District Annual Financial Reports (Unaudited)

* Reinvestment Zones # 1 and # 2 are no longer actively collecting revenues as the TIF Districts budgeted improvements have been sufficiently funded. FY 2011 revenues for Reinvestment Zone # 2 were from interest and investments.

** Total Revenues represent revenues from the City and all other participating jurisdictions as well as interest and investment income. In addition, revenues could include grants from the City or Developer, Parking, and other miscellaneous sources.

*** Total Expenditures represent TIF District expenditures and include the following: Administrative Expenses, Capital Outlay, Non-Capital Outlay, Interest and Fiscal Charges, and Principal Retirements.

Management's Response

Memorandum

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City Auditor's Office



CITY OF DALLAS

DATE October 24, 2012
TO Craig D. Kinton, City Auditor
SUBJECT Response to Audit Report:
Audit of Monitoring Controls Over Tax Increment Financing (TIF) Districts

Recommendation 1:

We recommend the Director of ECO establish formal TIF Program policies and procedures that identify monitoring oversight responsibilities, as well as timing for completion of specific monitoring activities and required documentation.

Management Response/Corrective Action Plan

Agree Disagree

The Office of Economic Development agrees to prepare a TIF Program manual that documents existing policies and procedures and establishes oversight and monitoring responsibilities.

Implementation Date

The TIF Program manual will be completed by November 1, 2013.

Responsible Manager

Karl Stundins
(214) 670-1690

Sincerely,


Karl Stundins
Director, Office of Economic Development

C: Mary K. Suhm, City Manager
Ryan S. Evans, Assistant City Manager
Hammond Perot, Assistant Director
Jiroko Rosales, Assistant Director
Karl Stundins, Manager, Economic Development
Sheri Price, Manager, Economic Development
Sajid Safar, Accountant, Economic Development