

**DEPARTMENT of URBAN DEVELOPMENT
COMMUNITY REDEVELOPMENT AREAS
and TAX INCREMENT FINANCING
AUDIT 06-20
NOVEMBER 9, 2006**



CITY OF TAMPA

Pam Iorio, Mayor

Internal Audit Department

Roger Strout, Internal Audit Director

November 9, 2006

Honorable Pam Iorio
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

RE: Audit 06-20, Community Redevelopment Areas and Tax Increment Financing

Dear Mayor Iorio:

Attached is the Internal Audit Department's report on Community Redevelopment Areas and Tax Increment Financing.

We thank the management and staff of the City's Urban Development Department and the Budget Division, and the Hillsborough County Property Appraiser's Office for their cooperation and assistance during this audit.

Sincerely,

Roger Strout
Internal Audit Director

cc: Darrell Smith, Chief of Staff
Bonnie Wise, Revenue and Finance Director
Mark Huey, Economic and Urban Development Administrator
David Parkinson, Development Services Manager

DEPARTMENT of URBAN DEVELOPMENT
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Auditor



Audit Supervisor



Audit Director

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INTRODUCTION

The City has established eight Community Redevelopment Areas (CRAs) (see statistics, page 3) each with a separate Tax Increment Financing (TIF) provision¹. The authority for the designation was the Community Redevelopment Act of 1969, Chapter 163, Part III, Florida Statutes. The program is administered by the City's Department of Urban Development (the Department).

Tax Increment Financing (TIF) is an economic incentive program offered by the City to encourage development and redevelopment. TIF is a development incentive to eliminate blight and to fund redevelopment that otherwise would not occur. It is intended to reduce or eliminate adverse conditions in an area and to enhance the tax base. TIF is based on the premise that redevelopment will result in an increase in value of real property and other economic activity that will generate new tax revenue in the TIF. The new or increased local tax revenues resulting from TIF redevelopment projects are called "tax increments". The TIF funds are available to finance eligible project costs, such as the construction of public infrastructure, site clearance, and related project costs.

The last taxable valuation before establishment of a TIF is designated as the base year. Increases in taxable values, both from new construction and from general price appreciation, are considered the taxable increments. Taxes collected by taxing authorities attributable to the increments are reinvested in the TIF.

Generally, 95 percent of the increments collected by taxing authorities are refunded to the TIFs. TIF Funds are accounted for in separate City of Tampa trust and agency funds. Taxing authorities that are financing all eight of the TIFs are as follows:

- City Of Tampa
- Hillsborough County Board of County Commissioners²
- Tampa Port Authority

Changes in the Florida Statutes have exempted the following taxing authorities from remitting to the newer TIFs.

- Children's Board of Hillsborough County
- Hillsborough Area Regional Transit Authority (HARTLINE)

¹ As used in this report, the term "TIF" includes the corresponding CRA.

² Pursuant to an interlocal agreement, the County is only required to pay 70 percent of the amount that would otherwise be due with respect to the Ybor I TIF. The other TIFs are billed for the full 95 percent.

Other taxing authorities, such as the School District and the Library, are exempt from remitting TIF revenues.

The Hillsborough County Property Appraiser (HCPA) prepares a Preliminary Valuation of each TIF district as of January 1 each year. A letter is sent to the City each June indicating the total taxable value of each TIF, the base year value, and the increment attributable to the TIF. Using this data, the City then bills each taxing authority based upon its adopted millage. Payments are received during the first quarter of the following fiscal year, usually in December. Additional valuations as of the same date are provided at other times, as explained later.

TIF funds are used in a variety of ways to improve the quality of life and economic growth of the districts. These vary by district, but include:

- Streetscape
- Signage
- Promotion
- Special Events
- Clean Ups
- Stormwater
- Affordable Housing
- Land Assemblage
- Rehabilitation Loans
- Construction of Police District III Headquarters
- Debt Service on Convention Center and Centro Ybor

STATISTICS³

TIF District	Year Established	Size (Acres)	Taxable Increment Value⁴	FY 2006 Projected Revenue
Downtown-Original Core ⁵	1983	688	\$718,324,841	\$10,048,262
Downtown-New Core	1988	182	94,343,049	1,274,901
Ybor I	1988	193	139,665,894	1,545,353
Ybor II	2004	216	21,784,590	284,038
Channel	2004	200	48,024,450	626,165
Drew Park	2004	811	47,639,824	621,150
East Tampa	2004	4,817	209,387,436	2,730,091
Old TPD Site	2005	78	6,739,898	87,878
Totals		7,185	\$1,285,909,982	\$17,217,838

The Preliminary Valuation, as of January 1, 2006, to be used for Fiscal Year 2007 (FY07) billings indicates an overall increase in the Taxable Increment Values of 57 percent. Revenues will increase by the same percentage, assuming no changes in millage rates of the various taxing authorities. The largest percentage increase will be in the Channel District (133%); the largest dollar increase will be in the Downtown-Original Core (\$3.3 million additional revenue).

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Department's FY06 Audit Agenda. The objectives of this audit were to determine if:

1. TIF funding is being collected in accordance with applicable regulations and agreements.
2. Funds are being appropriated and spent in accordance with applicable rules.

³ Comparative data for three years is presented as Appendix I

⁴ Preliminary Valuation by Hillsborough County Property Appraiser as of January 1, 2005.

⁵ The Downtown Original Core is sometimes referred to as the "non core"

STATEMENT OF SCOPE

The audit period included the operations of the TIF programs from October 1, 2004, through March 31, 2006. Taxable values received from the HCPA on various occasions up to and including June 29, 2006, were also utilized in order to provide recent analytical data and projections for FY07. Source documentation was obtained from the Department and its CRA offices, and the HCPA. Original records as well as copies were used as evidence and verified through physical examination. Corroborating evidence was obtained from the City's Budget and Accounting Divisions.

STATEMENT OF METHODOLOGY

Judgmental sampling was used where appropriate to support audit findings. Electronic data was obtained from the City's MapInfo System. MapInfo is a program for analyzing Geographic Information System data. The data source for this audit was the HCPA database. This program was used to generate City-defined TIF parcels. This was then compared to parcels included in TIF valuations used by the HCPA by means of a database query. This is described more fully under "Taxable Property Database." Material exceptions generated from this query were confirmed during the audit by accessing the database and tax roles directly.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the City's financial system (FAMIS). FAMIS was previously determined to be reliable and no additional work was necessary. Based on these assessments and tests, we concluded that the data was sufficiently reliable to be used in meeting the audit's objectives.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. The HCPA did not accurately include all parcels within the Tax increment Financing District. The City has now expanded the use of analytical software to assist in reconciling future valuations from the HCPA database with City records.
2. Policy needs to be established regarding appropriation of interest earnings that accumulate in TIF funds.

TAXABLE PROPERTY DATABASE

At the time each TIF district is established, the HCPA is provided with the legal description of the district. The HCPA then determines which parcels are within each TIF district. The HCPA extracts taxable values of the parcels to generate the total taxable value for the base year and Preliminary Valuation and Final Valuation letters in subsequent years. The City has not received itemized listings of parcels and values in each TIF to support these totals.

We requested supporting documentation for the Preliminary Valuation letter issued June 29, 2006, which will be the basis for FY07 billings. We then ran a query comparing folio⁶ numbers in the HCPA and Department databases. We found 113 parcels⁷ with a taxable value of \$112 million that are in TIF districts, but were not included in the HCPA valuation. Two parcels, both hotels in the Original Core TIF, accounted for \$102 million of the difference. One parcel in the East Tampa TIF accounted for \$6 million. Another 50 parcels accounted for the balance of the difference.

We also found parcels listed in a TIF that were outside the boundary. The taxable value of these parcels is approximately \$5.6 million.

Using the same data we obtained, the Department plotted the two databases graphically in MapInfo and arrived at the same results with respect to the material items.

We calculate the loss of revenue to the TIFs for FY07 at approximately \$1.6 million. This includes \$700,000 from the City of Tampa and \$900,000 from the other taxing authorities. We are unable to determine at this time if the same errors existed in past years since the City did not receive documentation supporting the values of the TIF districts prior to this audit.

RECOMMENDATION 1

The City should request the database used for each valuation from the HCPA. Responsibility to reconcile this database with City records using analytical software needs to be assigned. Reconciliation of that database with City records should be performed and any differences resolved.

AUDITEE RESPONSE

We concur with the recommendation. For several years the City has been receiving a database from HCPA for the Special Assessment Districts. Our review process of those districts began with a sampling survey of parcels to determine accuracy. Over time that has now developed into a GIS overlay process that includes all parcels. This year we expanded that process to the CRA's. We have had several meetings with HCPA and in the future will be receiving databases not just for the Special Assessments, but also the CRA's. We are continuing to work with the HCPA and our T & I staff to ensure that the overlay processes that we will use for next year's rolls will be accurate and serve as an acceptable format for resolving differences.

⁶ A folio is a unique reference number assigned to a parcel of land by the HCPA.

⁷ Includes 60 parcels that were not taxable.

TAXABLE PROPERTY DATABASE (continued)

AUDITOR'S COMMENT

We are pleased that we were able to assist the Department in identifying property omitted from the Preliminary Valuation and that the Department has begun to work with HCPA to resolve this problem in the future.

RECOMMENDATION 2

A determination should be made as to whether underpayments occurred in prior years and if these may be pursued.

AUDITEE RESPONSE

Upon consultation with outside legal counsel, the City will not be reviewing prior rolls and information from the HCPA to determine if any parcels were included or excluded in error. We are working with HCPA and T & I to ensure that a process for validation and resolution of differences in the future will occur before the preliminary valuation letter is issued by HCPA.

CHANGES IN VALUATION.

Final taxable values are determined by the HCPA several months after the TIF payments have already been received from the taxing authorities.

Hillsborough County adjusted the amount paid to each TIF based upon updated final tax roles for the prior year (i.e., the payments made during FY06 were increased or decreased based upon changes between the preliminary and final taxable values for FY05 billings). While these adjustments were noted by the City's Accounting Division, we found no reconciliation or managerial approval of them.

None of the other taxing authorities (including the City) are making such adjustments. We found nothing in the statutes that explained what, if anything, was supposed to be done when the final valuation was issued. We believe all of the taxing authorities should be using the same procedure, if adjustments are appropriate.

RECOMMENDATION 3

The City should establish a procedure for reviewing and approving or challenging any adjustments from amounts billed. Determine if other taxing authorities should be making similar adjustments when the final taxable values are provided by the HCPA.

AUDITEE RESPONSE

Appropriate City management has been involved in the issue of taxing authorities making adjustments to the invoices we send them. Upon consultation with outside legal counsel, we will be advising all taxing authorities of the statutory process along with their next invoice.

INTEREST EARNINGS ON TIF FUNDS

In March, 2005 TIF General Ledger account numbers were converted to a new sequence when the new TIFs were created. The old Ybor TIF fund had a cash balance of approximately \$182,000 at the time of conversion. The balance was never transferred to the new account nor was it appropriated. Interest on pooled cash continues to post monthly, but no other transactions post to this fund. The balance was \$195,000 as of June 30, 2006.

Interest accruing to the various current TIF funds is not being appropriated. Florida Statutes⁸ provide that funds not appropriated by the end of the fiscal year are to be returned to the taxing authorities from which they were received. It is unclear whether this provision applies to interest earnings.

RECOMMENDATION 4

The account balance should be transferred to the proper account. Upon transfer, the funds should be appropriated. Interest on other TIF funds should be appropriated before the end of each fiscal year.

AUDITEE RESPONSE

We concur with this recommendation. Appropriate steps have been formulated for the treatment of interest earnings. As the statute is silent regarding interest earnings, city policy was to record interest within the redevelopment fund and appropriate as needed for CRA programs and projects. Since it was not derived per F.S. 163.387(1), it was not considered subject to requirements of F.S. 163.387(7). Under consultation and advisement from both in-house and outside legal counsel, interest earnings will be recorded separately in a different trust and agency fund available for appropriation and use for community redevelopment purposes.

⁸ F.S. 163.387 (7)

RECOMMENDATION 5

A procedure should be established assigning responsibility to review and appropriate all remaining balances at the end of each fiscal year. This would include interest earnings and any other sources of unappropriated funds.

AUDITEE RESPONSE

We concur with this recommendation. It is our position that all tax increment financing derived revenues have been appropriated in accordance with state statutes, unappropriated balances referred to under this recommendation are addressed as part of our response for Recommendation #4 regarding interest earnings. Revenue and Finance and Urban Development agree to review and take appropriate actions regarding any TIF derived unappropriated revenues prior to year-end.