



FULTON COUNTY

**FULTON COUNTY, GEORGIA
OFFICE OF INTERNAL AUDIT**

**EAST POINT CORRIDORS TAX ALLOCATION
DISTRICT AUDIT REPORT**

October 7, 2013

TABLE OF CONTENTS

	PAGE
INTRODUCTION	1
BACKGROUND	1
OBJECTIVE.....	2
SCOPE	2
METHODOLOGY	3
FINDINGS AND RECOMMENDATIONS	3
CONCLUSION.....	5
EXHIBIT -A	6

Introduction

The Office of Internal Audit of Fulton County conducted an audit of the East Point Corridors Tax Allocation District. A Tax Allocation District (TAD) is a widely used economic development tool that offers local governments a way to revitalize their communities by expanding the tax base. Although the creation of the TAD generally leads to an increase tax revenues, it does not, however, increase taxes for residents or give tax relief for developers. TADs may act as a catalyst to help local governments attract private investment into physically or economically distressed areas with development and new businesses which create jobs, attract customers, generate sales tax, which in turn generates additional private investment.

Background

The Georgia Redevelopment Powers Law was enacted in 1985 to give additional powers to local municipalities in order to facilitate the redevelopment of blighted or economically depressed areas. Redevelopment Powers, if approved by local voters, can be used to create a TAD. One of the powers granted to local governments in this law was to issue tax allocation bonds to finance infrastructure and other redevelopment costs within a TAD. Local referendum on Redevelopment Powers is held during primary elections to establish the districts. A specific district is established once the government determines that the area is in need of redevelopment. The Redevelopment Plan explains why the area needs to be redeveloped and how the city plans to revitalize the area. The Plan provides the city with the powers to improve dilapidated facilities and to use tax increment financing (TIF) to achieve the goals of the Redevelopment Plan. The city adopts enabling legislation, which approves the Redevelopment Plan and establishes the base value, certified by the Georgia Department of Revenue (DOR), for the district. The other local taxing entities, i.e., school district, county and city, are consenting jurisdictions that have the option to participate in the TAD.

The Redevelopment District is the geographic area in which tax increment financing can be used. The terms, Redevelopment Area and TAD, are used interchangeably in Georgia, but most other areas refer to their TADs as TIF districts. TIF is an economic development tool used in a TAD to incentivize development that would not otherwise occur.

The tax increment is the difference between the amount of property tax revenue generated when the TAD is established (base assessed value) and the amount of property tax revenue generated after the TAD designation. When a TAD is created, the Georgia DOR certifies the base value for the district. Any growth in property taxes resulting from applying the mileage rate to the difference between the current market value and the base value of taxable properties is collected in a special fund and used for redevelopment costs inside the TAD and bond debt service. Only property taxes generated by the incremental increase in the values of these properties are available for use by the TAD.

East Point Corridors Redevelopment Plan was designed to fulfill the fundamental goals of the City's urban design and economic development strategies as follows:

- Connect homes, shops and offices;

East Point Corridors – Tax Allocation District Audit Report

- Enhance streetscaping and sidewalks;
- Emphasize pedestrian amenities by linking pathways and trails to parks;
- Improve access to transit and other transportation options;
- Expand housing options;
- Buggy Works expansion;
- Redevelopment of Tri-Cities Plaza;
- Construction of new public facilities, in particular recreation centers; and
- Improve the area’s basic water and sewer facilities.

As noted in the Redevelopment Plan, the financing potential of the East Point Corridors Tax Allocation District is predicated on allowing the “designated redevelopment agency to leverage future property tax increases through the issuance of TAD bonds”. The proposed bond issues were estimated to be \$86,908,137 over the anticipated 10-12 year initial development period and \$98,305,457 over the entire 25-year life of the TAD outlined as follows:

ANTICIPATED EAST POINT CORRIDORS TAD BOND ISSUES		
<i>Year of Issue</i>	<i>Amount of Bond Issue</i>	<i>Cumulative Bond Amount</i>
2010	\$62,722,174	\$62,722,174
2014	14,772,012	77,494,186
2018	9,413,951	86,908,137
2022	7,455,846	94,363,983
2026	3,941,474	98,305,457
	\$98,305,457	

The overall purpose of the East Point Corridors Tax Allocation District is to provide a financing mechanism to help facilitate the recommended improvements and implement the strategies outlined in the Redevelopment Plan. From the inception of the TAD to 2012, Fulton County has contributed \$446,923 in tax increment revenues. To date, there have been no bonds issued nor redevelopment work performed.

Objective

The objectives of our audit were to confirm that the tax allocation increments derived from ad valorem taxes levied on real property, tax allocation bond proceeds and related transfers within the TAD were accurately reported, verify the accuracy of the TAD financial reports, and determine if the Consent Resolution and Redevelopment Plan’s terms and deadlines were achieved.

Scope Period

The audit period covered by this review is the City of East Point’s TAD from December 31, 2006 to June 30, 2012.

Methodology

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. During our audit of the TAD, The City of East Point assigned a representative from Hollins & Knight Law Firm to assist us with the audit. The representative retrieved some but not all of the information requested. Additionally, we reviewed the work papers of the City of East Point's external auditors, which covered the annual financial information reported. We tested the Fulton County incremental tax collections and remittances and found no material exceptions. The City of East Point's fund accounting records for the Corridors TAD, as well as the detail records, regarding incremental tax collections, were not made available. We therefore performed alternative audit procedures and found no material differences in the total TAD tax revenues reported.

Generally Accepted Government Auditing Standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Although the scope of our audit was limited, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Findings and Recommendations

Finding 1 – Bond Issues and Redevelopment Plan Objectives not met

Bond issue for \$62,722,174 was planned for 2010 but no issues were made. As stated in the Redevelopment Plan, bond issues are critical to achieving the objectives of the Redevelopment Plan in attracting private investment for potential projects and creating and enhancing public improvements. A total of \$68.00 was spent from 2006 through 2012. The factors, which contributed to the Redevelopment Plan not being implemented, are discussed in the response to this finding. Due to the factors mentioned in the response to this finding, implementing the Redevelopment Plan and issuing the TAD bonds was not feasible. As a result, TAD property values were not enhanced and improvements were not added, both of which would have increased tax revenues.

Recommendation

Fulton County stakeholders should carefully review the response to this finding and determine whether viability of the Redevelopment of the Corridors is feasible. If TAD bonds are not issued by December 31, 2015, the Consent Resolution allows the County to terminate the agreement.

Response to Finding 1

The East Point Corridors TAD was created in 2006. Since that time, the City has used the existence of this TAD in its efforts to spur development in the City's commercial corridors.

Using assistance from the Corridors TAD as an incentive the City in late 2006, through the East Point Business and Industrial Development Authority (“BIDA”), issued an RFP soliciting developers interested in pursuing mixed use development in the area of downtown East Point known as the “Commons”. Selig Enterprises submitted the successful proposal and in the ensuing months, the City worked to reach an agreement with Selig. The City’s work with Selig was ultimately unsuccessful as a result of a combination of factors, including the following:

- *Challenges in assembling the site, much of which was controlled by the Fulton DeKalb Hospital Authority (which operated a clinic on the site) and Fulton County (which operated a branch library on the site).*
- *The Hospital Authority’s reluctance to relocate.*
- *The extent of the feasibility gap, (i.e., the amount needed for a parking deck and for relocation of the library and the clinic exceeded the amount of anticipated TAD proceeds).*
- *The 2008 economic downturn, which Selig perceived as eliminating housing demand and in turn eliminating retail demand as well.*

In October of 2012, the City entered into a Development Agreement with Ledbetter Development LLC (“Ledbetter”) with respect to a \$29,000,000 retail center on Cleveland Avenue, between Springdale Drive and Sylvan Road, within the Corridors TAD. This Development Agreement requires Ledbetter to complete construction of the anchor portion of the center before being reimbursed by the City for certain extraordinary redevelopment costs (including the costs of asbestos abatement and site preparation. The City’s financial assistance will not exceed \$2,498,970. Of this amount, \$374,238 will take the form of fee waivers (i.e., the waiver of permit, tap and other fees) and the balance is anticipated to come from TAD proceeds (including the proceeds of a TAD bond issue). As required under the Development Agreement, Ledbetter acquired title to the project site in July of 2013. The Development Agreement also requires the construction of the anchor site to be completed by the summer of 2015 so that bonds can be issued before the end of 2015. Ledbetter anticipates that construction at the anchor site will be completed by the summer of 2014, in which case the bonds can be issued in 2014. Ledbetter has provisionally agreed to purchase the TAD bonds. See Exhibit A – Press Release

Conclusion

Our audit identified one essential finding of noncompliance with the Consent Resolution: The Redevelopment Plan was not implemented and no TAD bonds were issued. Since many of the problems that affected the implementation of the Redevelopment Plan have been cleared, the governing bodies of the City and the County should meet and reaffirm the short and long-term goals of the TAD. The County should also request a quarterly or semi-annual progress report be submitted to the Board of Commissioners and the County Manager.

East Point Corridors – Tax Allocation District Audit Report

Please provide a written response to this audit within 30 days. You may email your response to the County Manager and Brigitte Bailey, Administrative Coordinator III in the Office of Internal Audit at Brigitte.Bailey@fultoncountyga.gov. We would like to thank the City of East Point representatives for their assistance during this audit. The distribution of this report is reserved for the executive management of Fulton County and the Board of Commissioners and the City of East Point and its representatives.

EXHIBIT – A

EXHIBIT A-East Point Corridors TAD Audit Report dated 10-7-13

PRESS RELEASE: Ledbetter Properties Announces 30-Acre South Atlanta Retail Development
Caroline Peek
Sep 16, 2013

EAST POINT, GA – RH Ledbetter Properties, LLC, a third-generation family-owned real estate development and management firm headquartered in Rome, Ga.; assembled a 30-acre site along Cleveland Avenue to transform a blighted, residential development into a \$35 million, modern retail amenity for East Point. Situated just west of Interstate 85, Cleveland Avenue Crossing is a 173,000-square foot retail development located in the heart of the East Point Corridors Tax Allocation District (TAD) and represents the first retail project to receive TAD financing assistance along the Cleveland Avenue corridor. Ledbetter Properties closed on the final parcel on July 31 marking the commencement of the demolition of the existing structures.

“It’s been over a decade since the success of the award-winning Camp Creek MarketPlace, East Point’s first TAD initiative,” states Wright Ledbetter, chief operating officer, RH Ledbetter Properties, LLC. “Cleveland Avenue Crossing will benefit the City of East Point and its neighborhoods tenfold by creating hundreds of new jobs and thousands of dollars in tax revenues. It exemplifies our focus on improving the communities in which we invest, and we are confident that this new redevelopment will become a popular retail and service destination in South Atlanta.” Upon acquiring the property, Ledbetter Properties paid approximately \$1.1 million in outstanding property taxes to Fulton County and the City of East Point.

Construction of Cleveland Avenue Crossing is expected to begin in December upon completion of the demolition and remediation. The retail center includes a 153,000-square foot Walmart Supercenter along with 20,000 square feet of shop space and four outparcels that front Cleveland Avenue, ideal for restaurant and service tenants. The center is expected to be complete by November 2014.

The East Point Corridors TAD, which was established in 2006 to facilitate investment in East Point’s commercial core, is providing financing assistance valued at an estimated \$2.5 million to Ledbetter Properties to cover a portion of the project’s redevelopment costs. The development, approved earlier this year, is the first retail project along Cleveland Avenue to be approved for this public financing tool.

“The East Point Corridors TAD was established for projects like Cleveland Avenue Crossing,” explains The Honorable Earnestine D. Pittman, mayor, City of East Point. “Not only has Ledbetter’s attention to detail as well as the needs and concerns of the City of East been forefront throughout this process, the shopping center is set to reshape the Cleveland Avenue corridor and enhance the quality of life for residents of the surrounding neighborhoods – the ultimate goal of the TAD initiative.”

On this site starting in 1946, South Towne Apartments and Suburban Court Apartments were opened as premier housing communities along Cleveland Avenue, then a burgeoning South Atlanta commercial corridor. Now, the property consists of 58 condemned, asbestos-filled duplexes with a long-term vagrancy problem. Ledbetter Properties acquired the majority of the property that was already rezoned C2 commercial from Mayberry Partners, LLC under a short sale agreement with its lender Colony Capital, a Los Angeles-

East Point Corridors – Tax Allocation District Audit Report

based, privately-held independent global real estate investment firm. The development team further secured the TAD financing assistance and negotiated a roadway abandonment with the City of East Point in an effort to bring its redevelopment plans to fruition.

“It took a knowledgeable, diligent and exceptionally cooperative team to navigate the TAD compliance, roadway abandonment as well as the zoning modification process to make this redevelopment possible,” concludes Pittman. “I’m not sure anyone but Ledbetter could have made this a reality.”

Tax allocation districts are a form of tax increment financing, a tool that is widely used by local governments to serve as a catalyst for private investment into areas that are economically depressed or underdeveloped. Local governments increasingly utilize this tool, in part, because federal and state funds have become scarce. More information is available at www.eastpointcity.org.

About RH Ledbetter Properties, LLC

Now in its third generation, R. H. Ledbetter Properties, LLC is a family-owned real estate development and management firm headquartered in Rome, Ga. Ledbetter focuses on retail, medical service and medical office developments. With a portfolio of 1.8 million square feet in three states, Ledbetter Properties provides services in development, asset management and acquisitions. More information is at www.ledbetterproperties.com.

Contact: Jenn Weyand, 678.290.1460, jeweyand@bouncepath.net

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<http://m.nreionline.com/nreiwire/press-release-ledbetter-properties-announces-30-acre-south-atlanta-retail-development>