

Jacksonville Economic Development Commission

Economic Incentive Monitoring

March 14, 2002

Report No. 549

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



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Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Jacksonville Municipal Code, we examined the activities of the Jacksonville Economic Development Commission (JEDC) regarding the monitoring of economic incentives and present this report thereon. Mayor Delaney created the JEDC in July 1996 with unanimous support from the Jacksonville City Council. Upon State legislative approval, the JEDC's formal authorities and powers went into effect July 1, 1997.

The JEDC is responsible for bringing projects and programs to Jacksonville that generate jobs and investment within the community. They are also responsible for pursuing business development including attracting new businesses, expanding existing businesses and lobbying efforts on the State and Federal levels. The JEDC performs these responsibilities through the administration of various economic incentive programs.

Each year JEDC prepares a project status report and classifies its projects into the following different categories. Category 1 projects include those projects that are completed and on the tax roll. Category 2 projects are those that are completed, but will not be on the tax roll for that year. Category 3 projects are not yet completed, and therefore, are not on the tax roll. The final classification, Category 4 projects, are projects that have been rescinded. As of December 31, 2001, there were a total of fifty-two Category 1 projects, three Category 2 projects, thirty-seven Category 3 projects, and seven Category 4 projects.

There are numerous types of Program/funding sources utilized by JEDC to provide economic incentives to Developers. The main types of Program/funding sources that have been used include: Housing and Urban Development (HUD) 108 loans, Enterprise Zone (EZ) Tax Exemptions, Qualified Target Industry (QTI) Grants, Northwest Jacksonville Grants (NWJ), Economic Development Transportation Funds (EDTF), Economic Development Grants (EDG), Countywide (CW) Grants, donation or sale of City Land, City Bond Funds, Industrial Revenue Bonds (IRB), and Northbank West Tax Increment District (NBW/TID).

STATEMENT OF OBJECTIVE

The objective of the audit was to determine if the JEDC is properly monitoring the recipients of Economic Development Incentives in accordance with the Agreements between the Developer and the City for the incentive, and taking appropriate action to ensure that recipients are in compliance with all requirements.

STATEMENT OF SCOPE

Projects occurring during the period from July 1, 1996 through December 31, 2001.

STATEMENT OF METHODOLOGY

For purposes of our testing, we only examined those projects classified as either Category 1 or Category 2 projects. From the list of Category 1 and Category 2 projects, we selected our sample for testing based on those that had more than one type of Program/funding source. A total of 14 Projects were tested. Twelve of these projects tested were Category 1 projects, representing 27% of the total of Category 1 projects (52 total projects). Two of the projects tested were Category 2 projects, representing 67% of the total of Category 2 projects (three total projects). In order to test each project, it was necessary to read each Agreement between the Developer and the City to determine what the specific requirements of the Agreement entailed on the part of the Developer, the JEDC and the City. The types of Program/funding sources that were tested included: Housing and Urban Development (HUD) 108 loans, Countywide (CW) Grants, Enterprise Zone (EZ) Tax Exemptions, Qualified Target Industry (QTI) Grants, donation or sale of City Land, Northwest Jacksonville Grants (NWJ), Economic Development Transportation Funds (EDTF), Economic Development Grants (EDG), City Bond Funds, and Northbank West Tax Increment District (NBW/TID). Industrial Revenue Bonds (IRB) were not included in testing. The IRBs are tax-exempt debt. The recipient must qualify under IRS guidelines, and they are allowed to issue bonds under the City's name. There are no clawbacks associated with these Programs and no cost to the City for them; therefore, they were not essential to test.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgements and conclusions regarding the organization, program, activity, or function under audit. This audit also included an assessment of applicable management controls and compliance with requirements of laws and regulations when necessary to satisfy audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDIT CONCLUSION

JEDC is monitoring the recipients of Economic Development Incentives in accordance with the Agreements between the Developer and the City for the incentive, and taking appropriate action to ensure that recipients are in compliance with all requirements. However, as noted below, due to the lack of consequences in some agreements to the Developer for not submitting the required informational reports, JEDC is limited in the actions they may take to ensure compliance with those reporting requirements.

AUDIT OBJECTIVE

After selecting the sample for the objective, all of the Agreements were read to determine the requirements on the part of both the JEDC and the Developer for monitoring incentives. Each Project Agreement had different language and specifications. The files were then examined to ensure that the proper monitoring documentation was located in the file. The appropriateness and adequacy of the monitoring performed by JEDC was assessed for each of the Projects.

The following are our findings and opportunities for improvement:

Finding #1:

Nine of the projects tested required, per the Agreements, that the Developer submits reports (quarterly, semi-annually, or annually) to JEDC regarding the status of the number of jobs created. Eight of the nine Agreements required that the reports include a narrative summary. Of these eight, seven (87%) did not submit a narrative summary. Beginning in 1999, JEDC attempted to meet reporting requirements by sending out annual surveys to the Developers that require them to give the status of the new jobs created. Thus far two years of these surveys have been obtained. However, the annual surveys do not contain a place for the Developer to provide a narrative description of the status of the project. In addition, one of the nine Developers did not return the survey; therefore, no status is available on the project. No documentation was available to support JEDC's follow-up efforts on delinquent reports. There is no requirement in any of the Agreements that stipulates that if the reports are not provided that there is any consequence or clawback against the Developer.

Recommendation #1:

We recommend that JEDC continue its practice of sending out annual surveys (or more frequent surveys for those projects that require it), but incorporate an area for the Developer to provide a narrative summary of the status of the Project. We also recommend that JEDC document their follow-up on surveys that are not returned. In the future, it may be beneficial for JEDC to incorporate penalties for non-compliance with these requirements into the Agreements, so that they have the tools to better enforce them. Potential penalties could include a termination or reduction in future funding or payback if the reports are not properly returned.

Opportunity #1:

It may be helpful to have checklists of information and monitoring requirements for all incentives available to better organize the files. As the information is placed in the file, the item could be initialed and checked off the list. Initially, some of the information such as a final copy of the Agreement and documentation stating the project was complete was missing from the file. These items were eventually located; however, better controls over files and their contents would have made the projects easier to maintain and monitor. Some files for the EDTF grants were not well organized. These files did not contain organization for the invoices sent in by the Developer or for the Quarterly reports that JEDC has to send to the Office of Tourism, Trade and Economic Development.

Opportunity #2:

Most of the Agreements that have job creation requirements state that the number of new jobs created should be reported quarterly, semi-annually, or annually to JEDC. However, the reports we reviewed did not require that any support be provided with the reports. Even though more recent agreements require that documentation be made available, we feel that it would benefit the JEDC to add a term to all future Agreements that requires support be submitted with the number of new jobs claimed to further enhance monitoring capabilities and provides a manner for reliance on the number of jobs presented by the Developer in the reports.

NOTEWORTHY ACCOMPLISHMENTS

Recognizing their need to properly monitor economic development projects with incentives, JEDC has developed a computer tracking system to monitor the status of each of the incentives given. This system flags items by due date and allows the responsible personnel to track the requirements of each individual agreement.

We would like to thank the staff at JEDC for their cooperation throughout the course of this audit.

Respectfully Submitted,

Robert O. Johnson, CPA
Council Auditor

Audit Performed by:

Sarina M. Wiechens, CPA

JEDC

JACKSONVILLE
ECONOMIC DEVELOPMENT
COMMISSION

March 18, 2002

Mr. Robert O. Johnson
Council Auditor
Suite 200, St. James Building
117 West Duval Street
Jacksonville, Florida 32202

Dear Bob:

We have reviewed your Audit Report concerning the monitoring of economic incentives by the Jacksonville Economic Development Commission (JEDC). We appreciate this opportunity to respond and we acknowledge the thorough and professional work performed by your staff.

Finding #1/Recommendation #1

In accordance with your recommendation, we have updated our annual survey to include a space for the Developer to provide a narrative description of the status of the project. Although the JEDC did follow up with a second request when surveys were not returned, we will require that documentation be placed in the file to reflect JEDC's follow-up efforts to enforce reporting requirements. Additionally, we agree that future Agreements should incorporate penalties for non-compliance with reporting requirements. However, we believe that such penalties should be required up to the point where all performance standards have not been met.

Opportunity #1

With regard to information that was initially missing from the file but "eventually located," it should be noted that these items were removed from the file by project managers who were engaged in follow-up work on the project. We intend, in the future, to require that "working copies" of such items be made available to project managers as needed and, in those rare instances where an "original" copy of an item needs to be removed from the file, a sign-out sheet will be placed in the file. We also agree that a hard copy of our electronic "checklist" will be included in the file. This will assist us in making sure that all required documentation is contained in the centralized file. It should also be noted that when JEDC took over responsibility for monitoring the EDTF grants, much of the information related to these files resided in various department of the City. JEDC staff has worked hard to gather all of the required information to ensure that these files are complete. JEDC is committed to continue its work in organizing these files for easier inspection.

Cecil Field Development Downtown Development Enterprise Zone Film & Television International Development
Jacksonville Economic Development Co. JIA Community Redevelopment Area Northwest Area Economic Development
Research & Development Sister Cities Small Business Sports & Entertainment

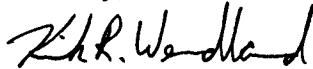
220 East Bay Street, Suite 1400 Jacksonville, Florida 32202 904-630-1858 Fax 904-630-2919 www.coj.net/jedc

Opportunity #2

JEDC does require that supporting documentation be submitted whenever clawbacks are associated. However, we agree with your recommendation that all future Agreements should include a provision which would require that support be submitted to document the number of new jobs created. We do feel that consideration must be made for the potential sensitivity on the part of Developers by requiring them to provide private information which will become available to other parties through public records requests.

We wish to thank you for your recommendations and look forward to continuing our positive working relationship.

Sincerely,

A handwritten signature in black ink, appearing to read "Kirk R. Wendland". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

Kirk R. Wendland
JEDC Executive Director