



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

**UNION CITY TOWN CENTER TAX ALLOCATION
DISTRICT AUDIT REPORT**

October 8, 2013

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Introduction

The Office of Internal Audit conducted an audit to examine the Tax Allocation District (TAD) of Union City, Georgia. A 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 of 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 in physically or economically distressed areas with development and new businesses that create jobs, attract customers, and generate sales tax; thereby generating additional private investments.

Background

The Georgia Redevelopment Powers Law, O.C.G.A § 36-44, 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 referendums on Redevelopment Powers are 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. However, the area is not required to be blighted. 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 the 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 cities, are consenting jurisdictions that have the option to participate in the TAD.

The Union City Town Center Redevelopment Plan and Tax Allocation District were created in response to Union City's vision of redeveloping primary points within the city into live, work and play communities that include new residences, offices, industrial space, retail shops, parks and green spaces. The proposed Union City Town Center Redevelopment Area is located along I-85 and several heavily traveled roads leading into the city. The redevelopment projects proposed include the following three areas (see Appendix 1):

- Oak Village
- Royal 85 South/Royal South Parkway
- Shannon Town Center/Union Station Atlanta

The redevelopment areas listed above were projected for construction in several phases within each target area over the next several years. As proposed, those projects and their values were subject to change as market conditions change. The Union City TAD was created effective December 31, 2007 with the City's adoption of Resolution No. 2007-6 on March 20, 2007, Fulton County Georgia Resolution No. 08-0848. The Georgia DOR certified the current value of the tax digest in Union City's redevelopment area at \$52,964,800. The Redevelopment Powers

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Law provides that the TAD will be in existence until it expires and all redevelopment costs, including debt service, are paid in full.

When a TAD is created the Georgia DOR certifies the base value for the district. 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. Any growth in property values resulting in increases in property taxes above the base is collected in a special fund and used for redevelopment costs inside the TAD. Only property taxes generated by the incremental increase in the values of these properties are available for use by the TAD. The base revenues certified by the DOR continue to go to the taxing authorities. The Fulton County Tax Commissioner's Office divides this growth value by the certified annual assessed value to calculate the district's growth percentage. The increment for the TAD is the amount of property taxes collected in the TAD multiplied by the growth percentage. The calculation is consistent with state law requirements per O.C.G.A § 36-44-3(14).

The following chart demonstrates the TAD increment calculation:

TAD Increment Calculation	
Current Annual Assessed Value – Base Assessed Value = Growth Value	
Growth Value	Current Assessed Value = Growth %
Growth % x Collections	= Increment

On October 15, 2008, Fulton County's Board of Commissioners approved Resolution No. 08-0848, which consented to the inclusion of certain Fulton County ad valorem real property taxes in the computation of the tax allocation increment for the Union City TAD. According to Resolution No. 08-0848, also known as the Consent Resolution, Fulton County's participation in Union City's TAD would begin on January 1, 2009 and end on December 31, 2033.

As property in the TAD is redeveloped, Union City receives new property tax revenues as a result of the increased property values. These new revenues are used to make improvements in the TAD without raising taxes or dipping into the City's current tax revenues by depositing into a special fund to pay for redevelopment costs or financing bonds issued to fund capital improvements. Union City's investment in the TAD is repaid through improved properties that become permanent sources of increased property tax revenues. To date, Union City and Fulton County Government are the only participating jurisdictions in the Union City TAD.

As of the audit date, Fulton County has paid \$108,607 into the Union City TAD fund. The City deposits its TAD funds into a general bank account held by United Community Bank. According to Union City's management, the general account is a "pooled cash" account. All monies held in that account are separated by fund number; thus, the TAD fund is designated, isolated and easily identifiable.

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

The audit period covered by this review is Union City's fiscal year from August 31, 2009 through August 31, 2012.

Methodology

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. During our audit of Union City's TAD, we interviewed key personnel from Union City and Fulton County to understand the TAD program; researched best practices and industry standards for establishing a TAD and using TIF; reviewed the Redevelopment Powers Law and documented the statutory requirements for the TAD program; and compared redevelopment plans to statutory requirements. In addition, we inspected the City's records, performed audit testing and examined the following items:

- Annual TAD financial reports from 2009 through 2012
- Certification by the Commissioner of Revenue of the State of Georgia for the base year – 2007
- 2007 through 2012 schedules which report:
 - Market value
 - Taxable or assessed value
 - Total property taxes collected for the 147 parcels
- Millage rates from 2008 through 2012 for Union City, Fulton County Government and Fulton County School District
- Redevelopment Plan for the Town Center TAD
- Bank account statements and reconciliations for the special fund designated for the deposit of tax increments, tax assessment bond proceeds and transfers and for the payment of infrastructure, redevelopment and bond debt service costs
- TAD revenue, cost schedules and related reports
- The Redevelopment Plan milestones and their progress to date

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. 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 – Noncompliance with the Consent Resolution

Best business practices recommend that the terms and conditions of all legally binding contracts and/or agreements should be observed. At the time of the audit, Union City was noncompliant with the terms of the Consent Resolution. Specifically, Union City had not remitted any of the obligatory annual, comprehensive and cumulative reports to the County.

Paragraph 2 of the Consent Resolution states:

“The City will provide to Fulton County’s County Manager annual financial reports regarding the amounts and use of the tax increments for the Union City Town Center TAD within 180 days of the end of the City’s fiscal year, commencing with the City’s 2009 fiscal year.”

Paragraph 8(a) of the Consent Resolution also states:

“...Union City will provide Fulton County a comprehensive and cumulative report on the status of all expenditures from the Union City Town Center TAD Special Fund, the issuance of TAD financing and the development undertaken within the Union City Town Center TAD commencing in January 2011 and then in January every three (3) years thereafter, until the TAD has been dissolved.”

The result of not having the required reports hinders the County’s oversight and accountability of TAD funds.

Recommendation

We recommend that Union City fully comply with the terms of the Resolution and remit the annual, comprehensive and cumulative reports as required.

Finding 2 – Incomparable TAD Parcel Values

Fulton County Tax Commissioner’s Office collects and distributes tax revenue for multiple entities, including Union City. The office calculates the amount of property tax owed for each parcel as 40% of its market value, minus applicable exemptions, multiplied by each jurisdiction’s millage rate. All jurisdictions within Fulton County should use the County’s parcel valuation at the time of the certified digest. We compared Union City’s TAD assessed parcel values for 2009 thru 2012 to Fulton County’s Tax Commissioner’s records. The comparison revealed that Union City’s total TAD assessed parcel value is \$203,132,530, which is \$13,171,930 less than the County’s records that report an assessed value of \$216,304,460. We have not received documentation from Union City to explain the variance. The City is currently reconciling its values to the County’s; thus, this value and variance are subject to change. Not using the County’s TAD parcel values at the time of the certified digest increases the City’s risk of reporting inaccurate parcel value records.

Recommendation

We recommend that Union City consult with the County's Tax Commissioner Office to obtain an accurate valuation of the City's TAD parcels. If adjustments should be made to the TAD parcel values, we recommend that they be made and supported by the appropriate documentation and analysis.

Finding 3 – Insufficient Internal Controls for Union City TAD Revenue

Union City's TAD revenue should reconcile with the Fulton County Tax Commissioner records. We were unable to reconcile the City's TAD revenue balance as reported in its general ledger to the County Tax Commissioner's records of \$108,607. The City provided documentation of TAD revenue totaling \$126,901, an overstatement of \$18,294. We were able to determine that the source of the overstatement was documented in the County's bank statement as a County check in that amount. However, the check number and amount could not be found in the County's AMS system. Thus, the County requested a copy of the check from the City. At the time of the issuance of this audit report, we had not obtained a copy of the check for \$18,294 from the County. Insufficient internal controls for TAD fund receipts and reporting increases the risk of improper revenue recognition and reporting.

Recommendation

We recommend that Union City develop and follow procedures that would improve internal controls over recording revenue receipts and financial reporting.

Finding 4 – Unattained Redevelopment Plan Milestones

Union City's Redevelopment Plan states specific milestones to be accomplished during the TAD period. At the time of our audit, the Redevelopment Plan did not reflect any TAD funds being expensed or any milestones being met. The City's deficient socio-economic growth may be attributed to the downturn in the economy, the closing Union Station Atlanta (formerly known as Shannon Mall) and not setting attainable goals. A summary of the City's Redevelopment Plan and its status is listed in the following table:

PROJECT / DESCRIPTION	DEVELOPMENT PLAN	STATUS AS OF August 1, 2013
Oak Village Mostly abandoned cluster of parcels.	To create a new mixed-use development called Union Square which would consist of 183 townhome units, more than 40,000 square feet of retail space & amenities that include an amphitheater, plazas, trails, pathways, & a scenic overlook adjacent to a lake.	This property was rezoned to Town Center Mixed Use in 2006 & 2007. No formal site or building plans have been submitted & the property is listed for sale.

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PROJECT / DESCRIPTION	DEVELOPMENT PLAN	STATUS AS OF August 1, 2013
Royal 85 South/Royal South Parkway Parallel to I-85, 146 acres of undeveloped land.	To develop a predominantly industrial & office mix, seasoned with more than 85,000 square feet of retail & restaurant space multi-family residential units & amenities that include more than 30 acres of green space.	4 industrial warehouses have been constructed which currently comprises 7 businesses. The green space has been deeded to the City and is currently in remediation due to a large amount of tires being dumped on the property.
Shannon Town Center/Union Station Atlanta Centered on Union Station Atlanta, formerly known as Shannon Mall, 143,000 square feet of existing space, and a portion of the SR-138 corridor.	More than 30,000 square feet of new retail space will be developed. The mall's exterior and interior (143,000 square feet) will be redeveloped to change its overall orientation to the exterior environment giving it more public plazas and walkways.	Due to non-payment of electricity bills, the mall closed in November 2010. Macy's also closed in early 2011 with Sears remaining the only store open until it closed in late 2011. The City has been approached by several parties interested in purchasing the mall; however, no definitive plans have been submitted to the City for approval or consideration.

Recommendation

Due to the County's upcoming budget woes, continuing to contribute to the idle Union City TAD fund does not serve the best interest of the County's residents. However, during our audit, Union City has reassessed its development strategies, adopted a new Livable Centers Initiative (LCI) and received new interests in business development in Union Station Atlanta. Thus, we have two viable recommendation options. We recommend the County monitor the progress of any new business development within the TAD through December 31, 2014. If the monitoring reveals no new business development, we recommend the County enact a Resolution in 2015, to opt out of allocating any of their future tax increments to the Union City TAD in accordance with Paragraph 8(b) of the Consent Resolution. The Resolution states:

“...Fulton County shall have the option not to pledge the County’s tax increments to future TAD bonds or future redevelopment costs by enacting a Resolution exercising such option within ninety (90) days of the County’s receipt of each three-year report...”

Conclusion

During our audit scope period of 2009 to 2012, Union City experienced an approximate 20% growth in population (see Appendix 2) and a 9% reduction in TAD parcel values due to declining real estate values (see Appendix 3). As of August 31, 2012, no TAD funds have been

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expensed and neither have any redevelopment milestones been met. It is also important to note that during our audit, Union City's Director of Community Development resigned and the position currently remains vacant.

Our audit identified four findings: noncompliance with the Consent Resolution; incomparable TAD parcel values; failure to reconcile TAD fund balances; and unattained redevelopment plan milestones. In order to safeguard and better utilize taxpayer dollars, we highly recommend Union City implement the necessary procedures to improve revenue reporting. In addition, the County should consider opting out of the Union City TAD.

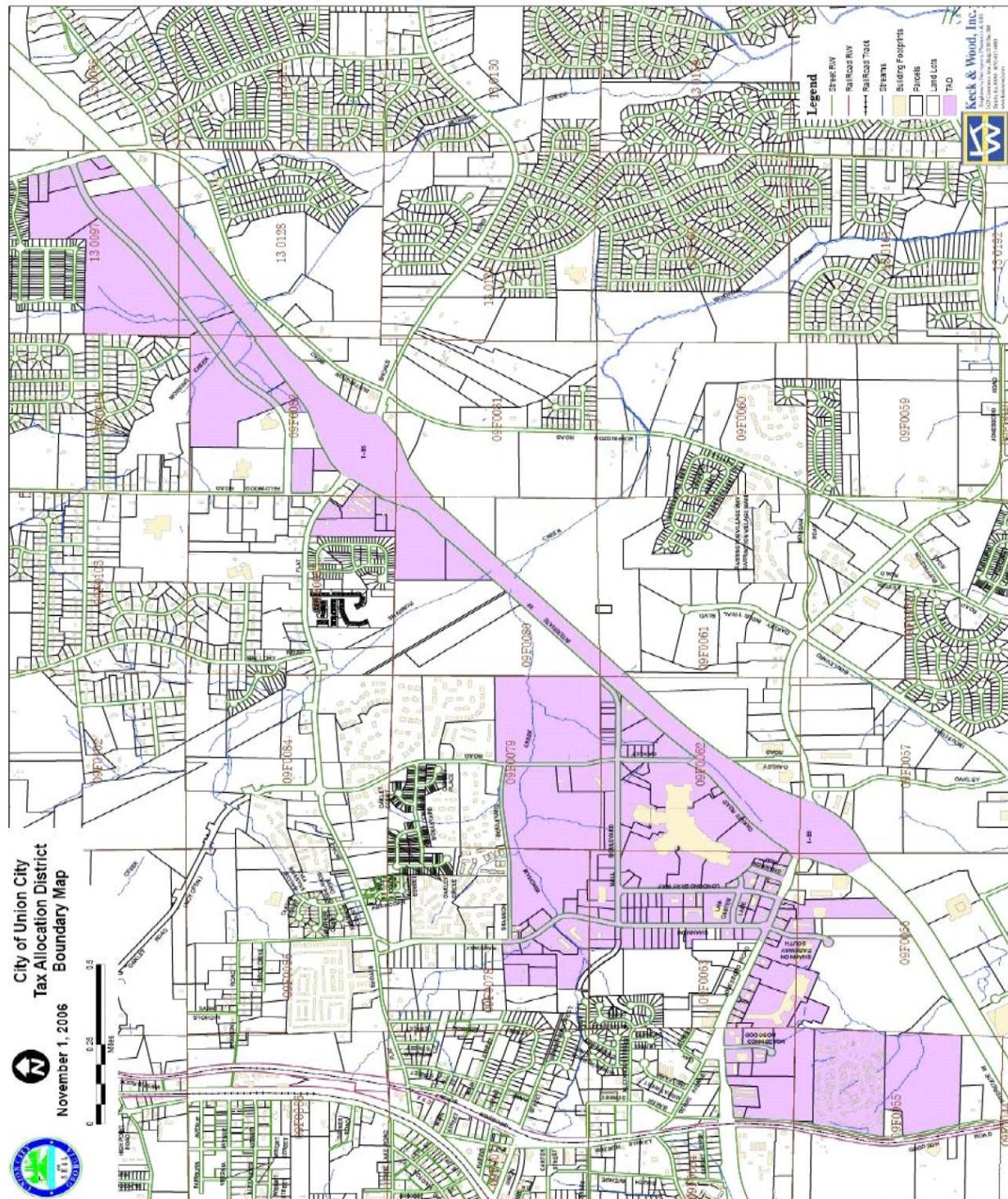
Please provide a written response to this audit within 30 days. You may email your response to the County Manager and Brigitte Bailey, Administrative Coordinator III in the Office of Internal Audit at Brigitte.Bailey@fultoncountyga.gov. We would like to thank management and staff for their timely cooperation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

APPENDIX

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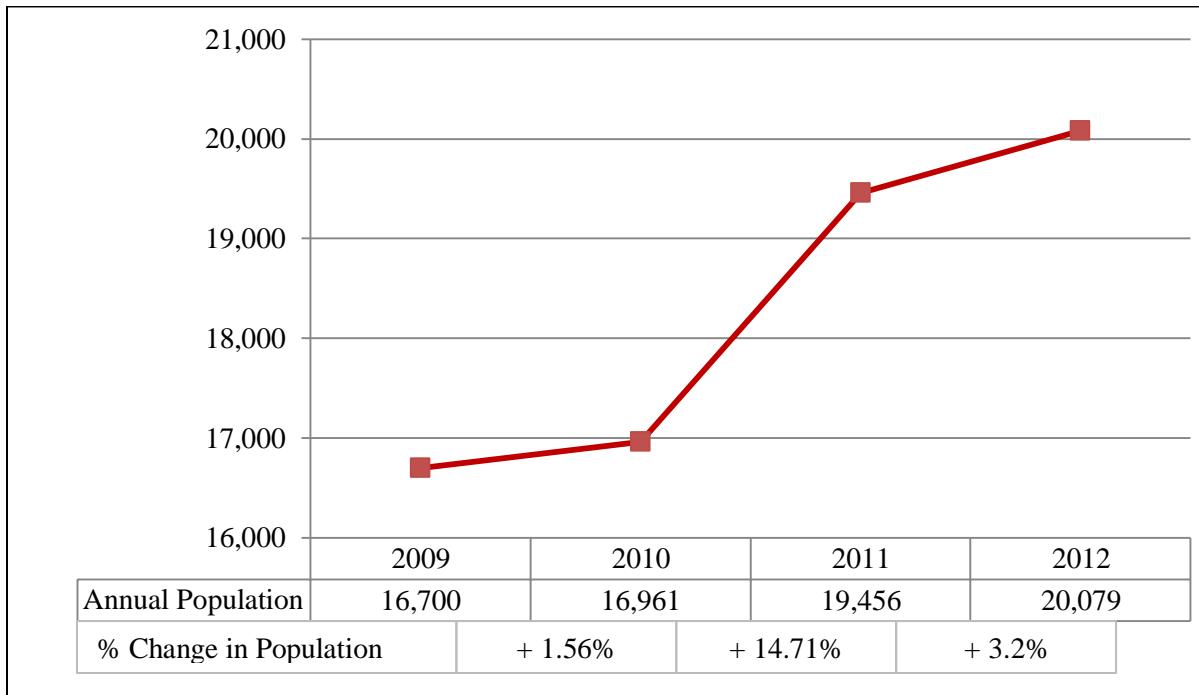
Appendix 1 Redevelopment Plan Boundary Map

[McKenna, Long & Aldridge LLP, Union City Town Center Redevelopment Plan & Tax Allocations District, 2007](#)



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Appendix 2 Union City's Population by Fiscal Year per Union City CAFR



Appendix 3 Fulton County's Valuation of Union City's TAD Parcel Value

TAD parcel value at the time of certified digest as reported in Fulton County's property tax records

