Performance Audit:
Tax Allocation Districts

May 2012

City Auditor's Office

City of Atlanta

File #11.06

CITY OF ATLANTA
City Auditor's Office
Leslie Ward, City Auditor
404.330.6452

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Performance Audit:

Tax Allocation Districts

Why We Did This Audit

We undertook this audit because the city's use of tax allocation districts to finance redevelopment has grown to encompass 20% of the city's land area and 15% of total assessed property value.

What We Recommended

To improve oversight and accountability of use of public funds generated by the tax allocation districts, the chief operating officer should:

- Propose for City Council approval modifications to the city's service agreement with Invest Atlanta to require it to develop and report annual evaluations of each tax allocation district to assess progress towards completing specific projects and achieving goals established in the redevelopment plan.
- Develop a policy to review annually surplus increment once the redevelopment plan is substantially completed and establish criteria for using surplus increment.
- Before seeking reallocation of increment to new projects, require Invest Atlanta to prepare for City Council consideration an amendment to the existing redevelopment plan.
- Work with Invest Atlanta to re-evaluate its redevelopment strategies in the corridor districts as appropriate, considering current economic conditions in those districts.

The chief financial officer should:

- Propose for City Council approval revisions to the city's service agreement with Invest Atlanta to:
    - include preparation of financial reports at least annually showing how public funds were used to support tax allocation district redevelopment plans
    - require Invest Atlanta and its affiliates to provide detailed budgets at least annually showing proposed uses of tax allocation district funds by fund

For more information regarding this report, please contact Stephanie Jackson at 404.330.6678 or sjackson@atlantaga.gov

What We Found

Neither the city nor its redevelopment agent, Invest Atlanta, systematically tracks progress toward meeting redevelopment plan goals. The redevelopment plan for each tax allocation district is adopted by ordinance following public hearing. The redevelopment plan establishes the district's geographic boundaries; explains why the area requires public subsidy; outlines the scope of the economic development projects and project costs; estimates the frozen tax base and tax increment amounts; and identifies plans to issue bonds. Without systematic tracking of progress compared to the redevelopment plan, the city lacks a mechanism to tell when a redevelopment plan is substantially complete and no more public subsidy is needed.

Planned redevelopment projects in Atlantic Station, Eastside, Westside, and Princeton Lakes are substantially complete and the city has collected more increment than needed to pay annual debt service. Intergovernmental agreements specific to individual tax allocation districts and individual bond provisions define excess increment differently but generally provide for paying down debt or returning the excess to the taxing jurisdictions. The city has no policy for handling this accumulated surplus increment. In the absence of a policy, the city could spend more than is necessary on soft costs, continue to subsidize development when public support is no longer needed, or let resources sit idle.

Trends in assessed values citywide and in tax allocation districts illustrate that public investment has spurred substantial growth in property value within the districts but also show that districts have captured inflationary growth, thus reducing the city's fiscal capacity to provide services within the districts and citywide. No projects have begun in Hollowell/M.L. King and Stadium Neighborhoods. Invest Atlanta's policy on minimum project size in the corridor districts may be a barrier to small developers.

Redevelopment plans for eight of the city's ten tax allocation districts listed high poverty and unemployment among the reasons for establishing the district. While Invest Atlanta does not track whether the number of jobs created met redevelopment plan goals, 2010 census data shows that socio-economic conditions in tracts containing tax allocation districts improved relative to the rest of the city since 2000. Despite progress, these areas still lagged the city as a whole in measures of poverty and unemployment, and vacancy rates are higher.

While Invest Atlanta has processes in place to control developer costs, it does not subject its own operating costs and those of its affiliate Atlanta BeltLine, Inc., to the same scrutiny and oversight.

Management Responses to Audit Recommendations

Summary of Management Responses		
Recommendation #1:	The chief operating officer should propose for City Council approval modifications to the city's service agreement with Invest Atlanta to require it to develop and report annual evaluations of each tax allocation district to assess progress towards completing specific projects and achieving goals established in the redevelopment plan.	
Response & Proposed Action:	We generally agree with the audit recommendation and will develop an implementation plan and timeframe.	**Agree**
Timeframe:	To be determined.	
Recommendation #2:	The chief operating officer should develop a policy to review annually surplus increment once the redevelopment plan is substantially completed and establish criteria for using surplus increment to pay down debt, return excess increment to participating jurisdictions, or reallocate surplus increment to a debt service reserve or for a specific development project.	
Response & Proposed Action:	We generally agree with the audit recommendation and will develop an implementation plan and timeframe.	**Agree**
Timeframe:	To be determined.	
Recommendation #3:	Before seeking reallocation of increment to new projects outside the intended scope of the redevelopment plan, the chief operating officer should require Invest Atlanta to prepare for City Council consideration an amendment to the existing redevelopment plan that includes at a minimum: • establishment of the "but-for" clause for the projects within the expanded scope • proposed specific uses of funds • anticipated benefits to be produced by the private sector entity receiving assistance • description of sanctions, such as a claw back provision, for failure to meet goals	
Response & Proposed Action:	We generally agree with the audit recommendation and will develop an implementation plan and timeframe.	**Agree**
Timeframe:	To be determined.	
Recommendation #4:	The chief operating officer should work with Invest Atlanta to re-evaluate its redevelopment strategies in the corridor districts as appropriate, considering current economic conditions in those districts.	
Response & Proposed Action:	We generally agree with the audit recommendation and will develop an implementation plan and timeframe.	**Agree**
Timeframe:	To be determined.	
Recommendation #5:	The chief financial officer should propose for City Council approval revisions to the city's service agreement with Invest Atlanta to: • include preparation of financial reports at least annually showing how public funds were used to support tax allocation district redevelopment plans. • require Invest Atlanta and any of its affiliates to provide detailed budgets at least annually showing proposed uses of tax allocation district funds by fund.	
Response & Proposed Action:	We generally agree with the audit recommendation and will develop an implementation plan and timeframe.	**Agree**
Timeframe:	To be determined.	

CITY OF ATLANTA

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Ex-Officio: Mayor Kasim Reed

May 29, 2012

Honorable Mayor and Members of the City Council:

We undertook this audit of the tax allocation districts because of growth in the city's use of the program to finance redevelopment. Tax allocation districts encompass 20% of the city's land area and 15% of real property assessed value. Data on completed projects are now available to assess how well the program is meeting its intended goals.

The city has issued $636 million in bonds to finance projects in Princeton Lakes, Westside, Eastside, BeltLine and Atlantic Station tax allocation districts since 2001. Most of the bond-funded projects have been completed, and the bond funds have been either spent or committed to ongoing or future projects. Invest Atlanta, however, has no criteria for determining when a redevelopment plan is complete and has no policy for handling surplus increment once the redevelopment plan goals have been met. Invest Atlanta's reporting highlights accomplishments within the districts but does not assess progress toward meeting redevelopment plan goals. Bonds have not been issued and few projects, if any, have been completed in the corridor districts, which include the Stadium Neighborhoods, Hollowell/M.L. King, Campbellton Road and Metropolitan Parkway districts.

Our recommendations to the city's chief operating officer and chief financial officer focus on improving accountability and oversight of the funds generated by the tax allocation districts, as well as re-evaluating development strategies in the corridor districts. Their responses, indicating their agreement, are included in Appendix D. Comments from Invest Atlanta are shown in Appendix E. We responded to some of those comments in Appendix F.

The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. We appreciate the courtesy and cooperation of city staff throughout the audit. The team for this project was Christopher Armstead, Rhonda Sadler, Sterling Thomas, Melissa Davis, and Stephanie Jackson.

Leslie Ward
City Auditor

Fred Williams
Audit Committee Chair

Tax Allocation Districts

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List of Exhibits

Introduction

We conducted this performance audit of the city's tax allocation districts pursuant to Chapter 6 of the Atlanta City Charter, which establishes the City of Atlanta Audit Committee and the City Auditor's Office and outlines their primary duties. The Audit Committee reviewed our audit scope in October 2011.

A performance audit is an objective analysis of sufficient, appropriate evidence to assess the performance of an organization, program, activity, or function. Performance audits provide assurance or conclusions to help management and those charged with governance improve program performance and operations, reduce costs, facilitate decision-making and contribute to public accountability. Performance audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal controls; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.[1]

We undertook this audit because the city's use of tax allocation districts to finance redevelopment has grown to encompass 20% of the city's land area and 15% of total assessed property value. Data on completed projects are now available to assess how well the program is meeting its intended goals.

Background

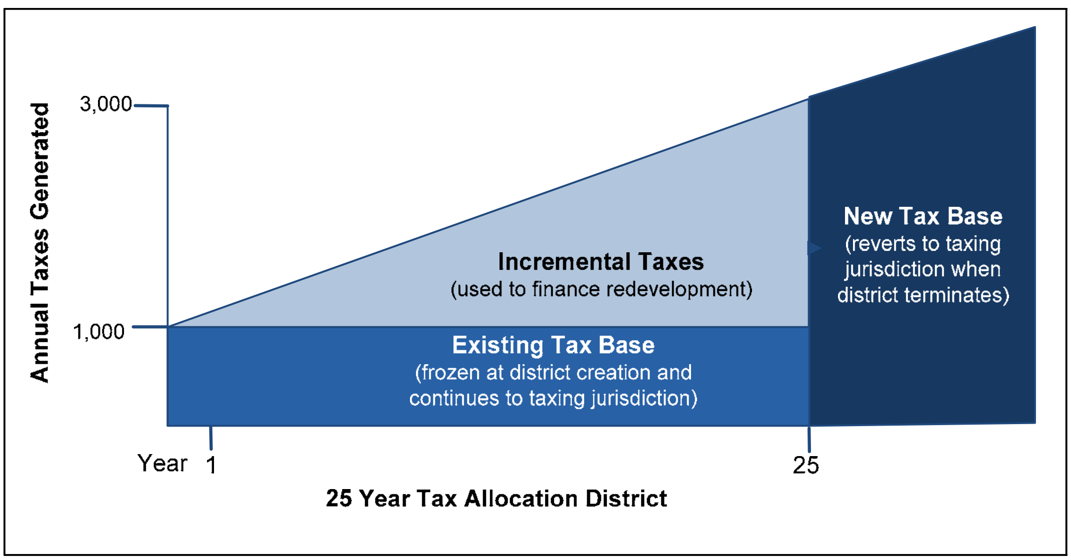
A tax allocation district is a geographic area that the city legislatively designates as having potential for development but with conditions that make it unattractive for development without public subsidy. The city provides financial incentives to developers to make improvements in the district, and pays for the incentives from property taxes collected on the increased property value within the district. This funding mechanism is also called tax increment financing. The *increment* is calculated based on growth in assessed property value within the district after it is established. The city sets aside the increment in a special revenue fund used to pay for development. The increment can fund improvements on a pay-as-you-go basis or the anticipated increment can back bonds to pay

[1] Comptroller General of the United States, *Government Auditing Standards,* Washington, DC: U.S. Government Accountability Office, 2007, p. 17-18.

for improvements, with the increment providing the revenue stream to retire the debt. The *base* is the amount of property tax collected on the assessed value of the district when it was established. The city continues to collect base revenue for its general operations throughout the duration of the tax allocation district. Overlapping taxing jurisdictions that also benefit from the development — Fulton County and Atlanta Public Schools — can pledge their increments to help finance the development.

Exhibit 1 illustrates how a tax allocation district generates revenue. In this theoretical example, the base generates $1,000 in tax revenue per year over the 25 years that the district is in effect and is available to fund general government operations. The amount of taxes collected each year that exceeds $1,000 finances the redevelopment. After 25 years, the district expires and all tax revenue reverts to the participating taxing jurisdictions.

Exhibit 1 How a Tax Allocation District Generates Revenue



Source: Adapted from the *Tax Increment Finance Best Practices Reference Guide*, 2007, p. 2

State Law Authorizes Use of Tax Allocation Districts for Redevelopment

Georgia's Redevelopment Powers Law authorizes local governments to create tax allocation districts to encourage development in areas that are "blighted" or "socially and economically depressed." [2] The law

[2] O.C.G.A. § 36-44-1 through §36-44-23.

identifies *blight* as one or more of the following conditions that hinder redevelopment:

- buildings and other structures that "are detrimental to the public health, safety, morals, and welfare" because they are older, vacant, or dangerous
- the predominance of a defective or inadequate street layout or transportation facilities
- high poverty (greater than 10% of the population in the area, based on census data) and unemployment (10% higher than the state average)
- environmental contamination
- airport or transportation related noise

The law provides cities with flexibility to work with the private sector to reduce impediments to redevelopment and improve the economic and social conditions within the districts.

State law broadly defines redevelopment. The city has broad authority to use tax increment revenue to finance redevelopment within the district. *Redevelopment*, as defined in state law, includes any activity, project or service necessary to develop or revitalize an area designated for redevelopment by a redevelopment plan. Examples include: building or repairing public or private housing, commercial facilities, greenspace, telecommunications facilities, transportation components, historical sites, public works or facilities, restoring or maintaining public art and arts facilities, or improving or increasing property value.[3] The city can pay contractors and consultants for construction costs, professional services, and administrative costs. The city can pay for imputed administrative costs, including reasonable charges for time spent by public employees in connection with implementing redevelopment plans. The city can also make payments in lieu of taxes to a participating political subdivision to compensate for diverted tax revenues as long as these payments are less than the subdivision's increment for the year. State law prohibits increment derived in one district from being spent on another district.[4]

City Council designated Invest Atlanta as its redevelopment agent. State law permits the city to delegate its authority to manage tax allocation districts to a redevelopment agency.[5] The city established the Atlanta Development Authority, which the mayor recently renamed

[3] O.C.G.A. § 36-44-3(5).
[4] O.C.G.A. §36-44-11(c).
[5] O.C.G.A. § 36-44-4.

Invest Atlanta, to serve as the city's economic development agency. Invest Atlanta is a public corporation responsible for managing several economic development programs on behalf of the city including bond financing, loan programs to stimulate job creation, tax allocation district financing, new market tax credits, and affordable workforce housing.

Invest Atlanta received two-thirds of its fiscal year 2011 revenue from charges for services, including income from development properties held, service fees, and loan fees. Its fiscal year 2011 operating budget was approximately $8 million. Invest Atlanta, with 51 full-time positions budgeted, has six divisions. In addition to dedicated finance personnel, its tax allocation districts division includes eleven employees who assist in administering the redevelopment program. According to Invest Atlanta staff, in most instances, salary and benefit costs are recovered from the districts in proportion to the amount of time spent by staff on those districts.

A nine-member board of directors governs Invest Atlanta. The mayor chairs the board and appoints one representative from the Atlanta Planning Advisory Board, two members with experience in business and finance, and one representative nominated by the Fulton County Board of Commissioners. City Council appoints two members with experience in business and real estate and one member nominated by the Atlanta Public Schools Board of Education. The chair of the City Council's Community Development and Human Resources Committee serves as the board's vice chair.

Invest Atlanta created Atlanta BeltLine, Inc., a nonprofit corporation, in 2006 to serve as implementation agent of the corporation to manage the BeltLine tax allocation district. Atlanta BeltLine, Inc. is responsible for implementing the projects in the redevelopment plan, acquiring property, and carrying out other redevelopment activities delegated by Invest Atlanta, in accordance with the nonprofit's articles of incorporation. The BeltLine tax increment pays redevelopment costs incurred by both Invest Atlanta and the Atlanta BeltLine, Inc.

State Law Requires a Redevelopment Plan to Guide District Activities

State law requires the City Council to approve a redevelopment plan in order to create a tax allocation district. The plan must explain how the proposed district qualifies for public subsidy (known as the "but for" test) and lay out the district's current tax value, describe the proposed projects and estimated costs, and identify plans for issuing bonds. State law prescribes no limits to how long a tax allocation district may be in effect, but limits individual bond obligations to a 30-year maturity.

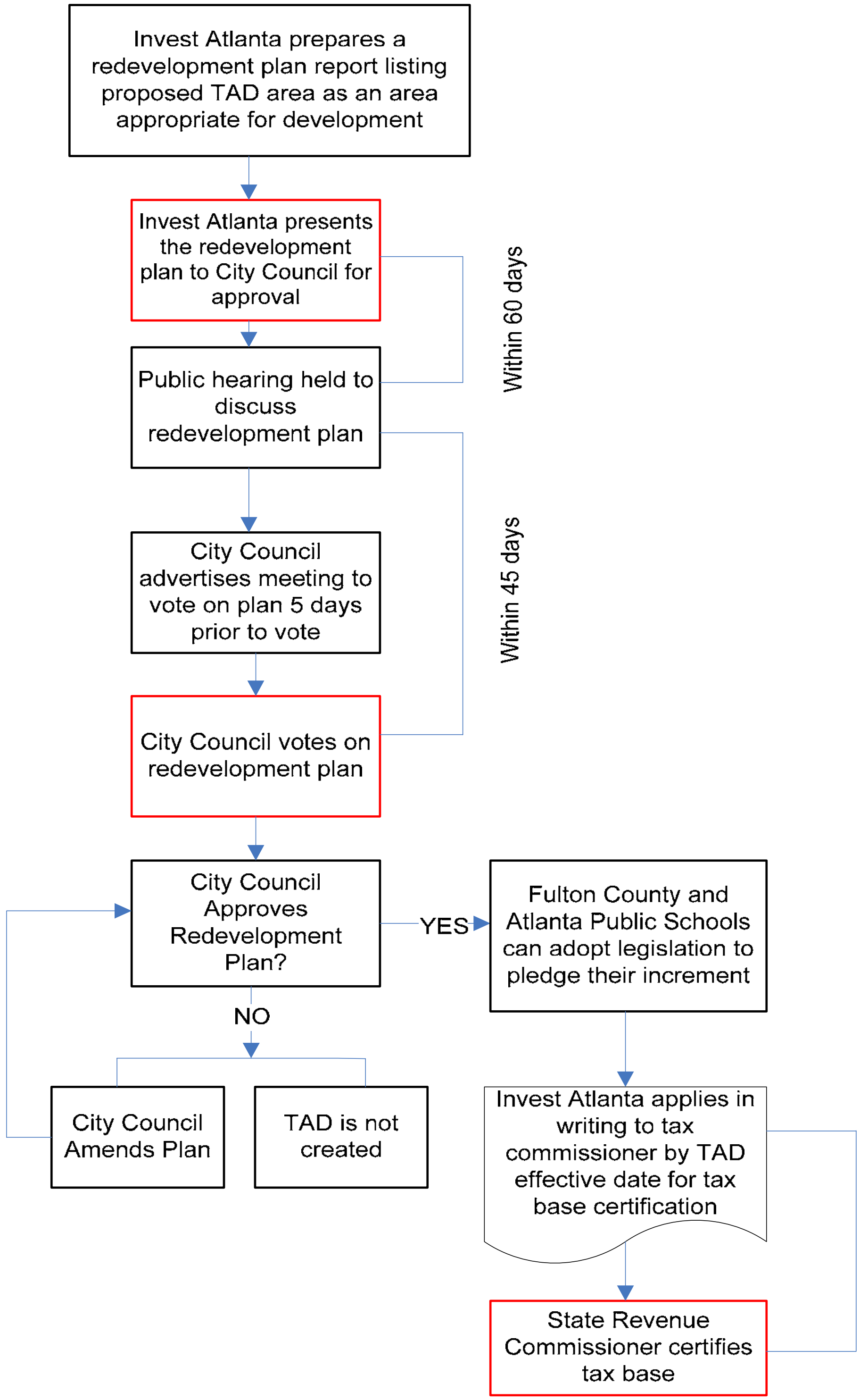
The redevelopment plan establishes the reasons for the tax allocation district. In order to create a district, state law requires the redevelopment agency to create a redevelopment plan that:

- maps the boundaries of the proposed district
- describes the current property uses and condition
- satisfies a "but-for" test, which explains the basis for determining that the proposed area has not had growth and likely would not without plan approval
- describes property uses after redevelopment
- proposes projects, estimates costs, and describes financing sources
- describes any proposed contracts or agreements with terms greater than one year
- provides the last known assessed value of the redevelopment area and estimates the assessed value after redevelopment
- lists effective date and termination date of the district
- estimates the tax allocation increment base of the district
- estimates the property taxes that will be included for computing increment
- describes the proposed bond amounts, terms and interest rates
- estimates positive tax allocation increment for the period covered by proposed bonds
- provides a school system impact analysis addressing the financial and operational impact of redevelopment if school taxes are pledged[6]

State law requires the City Council to hold public hearings to discuss the plan and advertise the proposed vote five days prior to approving the redevelopment plan (see Exhibit 2).[7] The City Council can legislatively amend an approved plan, but must first follow the same public hearing process that it did to approve the original. State law also requires redevelopment plan goals to be in line with the city's overall economic development plan and consistent with the city's comprehensive plan.

[6] O.C.G.A. § 36-44-3(9) and O.C.G.A. § 36-44-8.
[7] O.C.G.A. § 36-44-7.

Exhibit 2 How the City Creates Tax Allocation Districts



Source: O.C.G.A. § 36-44-1 through §36-44-23

The redevelopment plan must identify the tax value of property in the proposed district. The Fulton County Board of Assessor's Office determines the total tax value of the parcels within the tax allocation district, which is the estimated base value and must be listed in the redevelopment plan. Invest Atlanta must ensure that the State Revenue Commissioner certifies the base value amount within 60 days of the district's effective date. The certified base value remains frozen until the district is terminated and is the basis for calculating the increment used to fund district improvements.

State law allows City Council to terminate a district at any time after redevelopment costs are paid. State law prescribes no limit to how long a district can exist. A district must be terminated by City Council approval, and can be terminated only after all redevelopment costs and obligations are paid.[8] The law sets a 30-year maximum term for any bonds issued for the districts.[9]

Annual Increment for Each District Reflects Collection Rate and Growth in Assessed Value

The Fulton County Tax Commissioner's Office collects and distributes tax revenue for multiple entities, including the City of Atlanta, Fulton County, and the Atlanta School Board. 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.

To determine the increment due to each tax allocation district each year, the Fulton County Board of Assessors certifies the annual assessed value of the parcels within each district. The Fulton County Tax Commissioner's Office then calculates the growth value in the district by taking the difference between the certified annual assessed value and the base value (the amount certified as the taxable assessed value at the time the district was created).

Increment Calculation for Each Tax Allocation District

$$Current\ Annual\ Assessed\ Value - Base\ Assessed\ Value = Growth\ Value$$

$$\frac{Growth\ Value}{Current\ Assessed\ Value} = Growth\ \%$$

$$Growth\ \%\ x\ Collections = Increment$$

Source: Invest Atlanta

[8] O.C.G.A. § 36-44-12.
[9] O.C.G.A. § 36-44-14.

The Office divides this growth value by the certified annual assessed value to calculate the district's growth percentage. The increment for each district is the amount of property taxes collected in the district multiplied by the growth percentage. The calculation is consistent with state law requirements.[10]

The City's Ten Tax Allocation Districts Include 15% of Citywide Assessed Value and 20% of Land Area

In fiscal year 2011, the city's tax allocation districts combined made up 15% of the city's assessed real property value and 20% of the city's land area. Growth in the ten districts totaled $2 billion over their base assessed values. State law prohibits the city from creating additional districts as long as the assessed value within existing districts remains at or above 10% of the city's total taxable assessed value. To comply with state law, the city cannot create additional districts.

Four districts, BeltLine, Westside, Eastside, and Atlantic Station, account for about 80% of the total assessed value of tax allocation districts and 13% of total assessed taxable value in the city. The BeltLine alone represents over $1 billion in assessed value. The six smaller districts make up the remaining 20% of the districts' assessed value and 2.5% of the city's total (see Exhibit 3).

The City Council has established when districts will terminate. Most districts have 25-year terms. Princeton Lakes was established for 30 years or until all redevelopment costs are paid. The Eastside district will expire when redevelopment costs are paid. Westside, originally created in 1992 with an expiration date of 2023 (31 years), was amended in 1998; the expiration date was extended to 2038, for a total of 46 years (see Exhibit 3).

Tax allocation districts cover nearly 27 square miles in the city. Beltline is the largest tax allocation district comprising over 10 square miles. Atlantic Station is the smallest geographic district, covering less than one-third of a square mile – about 115 square blocks (see Exhibit 3). The districts are mostly located in the central and southern areas of the city, with BeltLine dispersed around the central part of the city (see Exhibit 4). A list of each district, including a description of the purpose of each and the primary project areas listed in the redevelopment plans follows Exhibit 4.

[10] O.C.G.A. § 36-44-3(14).

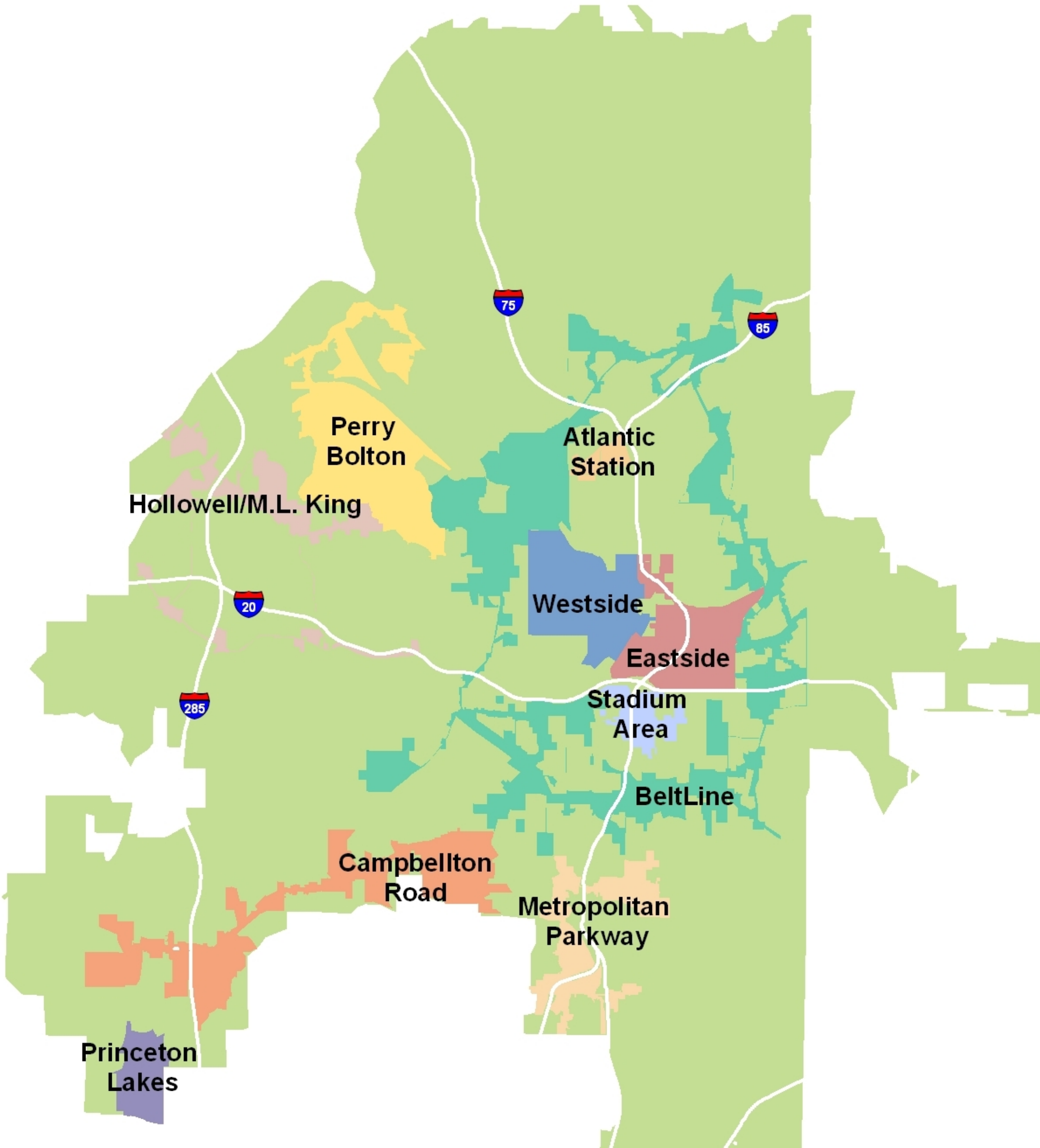
Exhibit 3 Geographic Area, Term, and Assessed Value of Tax Allocation Districts

District	Square Miles	District Creation Date	District Termination Date	Current Certified Base Value (in millions)	Assessed Taxable Value 2011 (in millions)	Percent of Citywide Taxable Assessed Value
Westside[11]	2.2	1992 modified in 1998	2038	$271	$681	3.1
Atlantic Station	0.3	1999	2024	$7	$428	1.9
Perry/Bolton	3.8	2002	2027	$66	$152	0.7
Princeton Lakes	0.8	2002	2032 or until redevelopment costs are paid	$1	$105	0.5
Eastside	2.0	2003	when redevelopment costs are paid	$300	$596	2.7
BeltLine	10.1	2005	2030	$543	$1,120	5.1
Campbellton Road	3.6	2006	2031	$116	$148	0.7
Hollowell/M.L. King	1.8	2006	2031	$37	$63	0.3
Metropolitan Parkway	1.6	2006	2031	$42	$57	0.3
Stadium Neighborhoods	0.6	2006	2031	$27	$26	0.1
District Total	**26.8**			**$1,409**	**$3,375**	**15.3**
Citywide Total (including Districts)	**133.9**				**$22,050**	

Sources: Assessed values are from the 2011 Fulton County Tax Digest, square mileage is from the City of Atlanta Department of Planning and Community Development's Geographic Information Systems data, base values are from the certified Fulton County Tax Digests, and creation and expiration dates are from legislation creating tax allocation districts: Westside - 98-R-0777, 92-R-1575; Atlantic Station - 99-R-1344; Perry/Bolton - 02-R-2094; Princeton Lakes - 02-R-1775; Eastside - 03-O-1840; BeltLine - 05-O-1733; Campbellton Road - 06-O-2292; Hollowell/M.L. King - 06-O-2287; Metropolitan Parkway – 06-O-2290; Stadium Neighborhoods – 06-O-2291.

[11] The Westside tax allocation district was created in 1992 in Resolution No. 92-R-0777 as Techwood Park Urban Redevelopment Area. In 1998 the district's boundaries were expanded and it was renamed the Westside Redevelopment area in Resolution No. 98-R-0777. The current base value was re-established in 2005.

Exhibit 4 Map of Tax Allocation Districts



Source: Invest Atlanta's website

- **Westside -** The district was created to redevelop the area surrounding Centennial Olympic Park and the Vine City and English Avenue residential areas to address blighted conditions, including vacant buildings, parcels, and parking lots, and high crime and unemployment. Projects include residential, commercial, office space and mixed-use developments and subsequent job creation. Plans also include transportation and streetscape improvements and greenspace.
- **Atlantic Station -** Public funding was needed to clean up the site of a former steel mill, designated as a brownfield area. In addition to the environmental remediation, projects include transportation, parking and road improvements, along with residential and mixed-use development consisting of retail, commercial and office space, and subsequent job creation.
- **Perry/Bolton -** The district was created primarily to redevelop the Perry Homes public housing development and address the high unemployment and poverty in the area. Planned projects include new residential units that include affordable housing, retail and commercial development, and road and streetscape improvements.
- **Princeton Lakes -** The area was underdeveloped due to inadequate infrastructure, environmental issues, flood plain designation and because it is located within an airport noise abatement zone. Projects include residential units, retail space, and commercial, office, and hotel space, and subsequent job creation. Projects also include roadway and utility improvements, sidewalks, and trails.
- **Eastside -** The district was created to address high unemployment and poverty, abandoned properties, and flat property values in the area. Planned projects include multiple residential and mixed-use developments, including office and hotel space, with subsequent job creation. Projects also include streetscaping, parking and other transportation improvements.
- **BeltLine** - The district was created to develop underused industrial property along 22 miles of existing rail lines. The city plans to create public amenities - parks, trails, and streetscapes - that will attract development and create a transit infrastructure to link the 50 neighborhoods along the district's boundaries. Planned projects also include workforce housing and job creation.
- **Campbellton Road -** The district was created to address demographic and economic factors such as a declining population, low median income, low housing values, and a high proportion of

rental housing in the Fort McPherson, Delowe, Harbin, Greenbriar Mall, and Ben Hill neighborhoods. Planned projects include public infrastructure and transportation improvements, new residential units, retail, office, and research park space and subsequent job creation.

- **Hollowell/M.L. King -** The Bankhead community was established as a tax allocation district to address dilapidated, out of date retail buildings and apartments, lack of retail market appeal, low commercial rental rates, inefficient traffic flow and a high number of tax-exempt properties. Planned projects include streetscape and road improvements, new housing units, retail, office and industrial use space, and subsequent job creation.
- **Metropolitan Parkway** - The district was created to address dilapidated structures, obsolete and unattractive commercial centers, limited employment opportunities, congested traffic flow, a high percentage of tax-exempt properties, and underutilized developable land. Planned projects include road improvements, new housing units, retail and office space, and subsequent job creation.
- **Stadium Neighborhoods –** The southside district was established to address deteriorated and vacant structures, low income and property values, older housing and blighted conditions. Planned projects include public parking, streetscape improvements, new housing, retail and mixed-use space, office and hotel space, with subsequent job creation.

The City Issued $636 Million in Bonds and Approved an Additional $35 Million for Six Tax Allocation Districts

The city issued $636 million in bonds for five tax allocation districts between 2001 and 2009 and City Council recently authorized up to $35 million in bonds for another district. Redevelopment costs in the remaining four districts are financed with pay-as-you-go funding. The bonds are secured by pledged tax allocation increment and are not considered general obligations of the city under the state constitution.

The City Council has authorized bond funding to finance projects in six tax allocation districts. The city has issued $636 million in bonds to finance projects in Princeton Lakes, Westside, Eastside, BeltLine and Atlantic Station since 2001 (see Exhibit 5). In fiscal year 2011, City Council approved legislation to issue up to $35 million in bonds to finance projects in the Perry/Bolton district. The city also took out a $29 million bank loan for the BeltLine district in 2007, bringing the total borrowing activity to $666 million. According to the independent financial audits for each district, the city's total outstanding obligation for tax increment-backed bonds, including principal and interest, was $721 million at the end of fiscal year 2011. The total cost of the obligation could vary based on fluctuating interest rates and early repayment of the bonds. Under the state constitution, the increment-backed revenue bonds are not considered general obligation debt.[12]

Exhibit 5 Tax Allocation Bonds Issued

Tax Allocation District	Series	Bond Amount (in thousands)	Issue Date	Maturity Date	Total (in thousands)
Westside	2001	$14,995	2001	2022	$161,320
	2005A	$72,350	2005	2023	
	2005B	$10,215			
	2008	$63,760	2008	2037	
Atlantic Station	2001	$76,505	2001	2024	$328,515
	2006	$166,515	2006	2024	
	2007	$85,495	2007	2024	
Princeton Lakes	2006	$21,000	2006	2031	$21,000
Eastside	2005A	$9,480	2005	2030	$47,480
	2005B	$38,000			
BeltLine	2008A	$26,420	2009	2031	$78,120
	2008B	$33,725			
	2008C	$4,355			
	2009	$13,620			
				Total Bonds Issued	$636,435

Source: Bond purchase agreement for each tax allocation district

Although tax allocation bonds are not backed by the full faith and credit of the city, the capital markets generally view the bonds as moral obligations. Defaulting on the tax-allocation-backed debt could adversely affect the city's market standing and increase its general cost of borrowing.[13]

Four districts use pay-as-you go financing. Projects in the corridor districts (Campbellton Road, Hollowell/M.L. King, Metropolitan Parkway, and Stadium Neighborhoods) are funded on a pay-as-you-go basis. Pay-

[12] Constitution of Georgia, Article IX, Section VI, Paragraph I.

[13] Georgia's Redevelopment Powers Law: A Policy Guide to the Evaluation and use of Tax Allocation Districts, Carolyn Bourdeaux and John Matthews, 2004, p.27.

as-you-go financing requires developers to provide up front financing for projects; the city reimburses developers as completed projects generate increment.

Tax Allocation Districts Have Captured 6% of City's Property Tax Revenue Since Fiscal Year 2009

The total increment collected between fiscal years 2001 and 2011 was about $334 million, which includes revenue pledged by the city and other taxing jurisdictions. The portion of increment pledged by the city was about $83 million, increasing from less than 1% of city property tax revenue in 2001 to at least 6% annually since fiscal year 2009.

Total increment collected from all districts rose from less than $1 million in 2001 to about $73 million in fiscal year 2011 (see Exhibit 6). The city's annual portion of the total increment collected is about 25% for Atlantic Station, Westside, Perry/Bolton, Eastside, and BeltLine, in which both Fulton County and Atlanta Public Schools are also participating, and is about 50% of the total increment collected from the corridor districts and Princeton Lakes, in which Atlanta Public Schools does not participate. Although property value has increased in all districts since their creation, the corridor districts have seen less growth and generated much less increment than the other districts. The corridor districts generated about $1.5 million of the $73 million in increment collected in 2011.

Temporary collection order affected annual increment reporting over the last four fiscal years. The city's Comprehensive Annual Financial Reports for fiscal years 2008, 2009, and 2010 understated annual increment collected from the tax allocation districts in those years, while the Comprehensive Annual Financial Report for fiscal year 2011 overstated the increment collected in that year. Because of a high number of appeals, Fulton County issued tax digests for 2008, 2009, and 2010 under a temporary collection order. The county therefore calculated increment for these years based on the growth percentage calculated for 2007. After the county certified these digests in 2011 and recalculated increment due in the prior years, the 2011 collections include adjustments for prior years. We recalculated the annual figures to reflect annual increment for prior years based on certified assessments, millage rates, and internal documents from Invest Atlanta tracking collections.

Exhibit 6 Tax Allocation Districts Increment Compared With Total City Property Tax Collections ($ in thousands) Fiscal Year 2001-2011

Tax Allocation District	2001	2002	2003	2004	2005	2006[14]	2007	2008	2009	2010	2011	Total
Atlantic Station	535	3,284	3,868	4,677	6,471	87	10,774	14,198	16,481	20,713	17,935	99,023
Westside [15]		5,150	3,489	4,203	4,979	258	8,158	12,083	17,294	18,900	16,099	90,613
Perry/Bolton					1,120	125	2,388	3,522	2,017	4,410	3,345	16,927
Eastside					6,172	0	2,916	7,371	12,435	13,048	12,625	54,567
Princeton Lakes					29	71	506	1,707	1,789	2,092	1,984	8,178
Beltline								10,024	8,918	20,957	19,351	59,250
Campbellton								84	411	954	736	2,185
Stadium Neighborhoods								28	162	130	66	386
Metropolitan Parkway								72	360	440	297	1,169
Hollowell/M.L. King								112	442	580	397	1,531
Total increment from all jurisdictions	535	8,434	7,357	8,880	18,771	541	24,742	49,201	60,309	82,224	72,835	**333,829**
City Portion	86	2,098	1,799	1,990	4,387	130	5,225	9,948	16,003	21,788	19,238	82,690
Total City Property Tax Collections	111,979	182,035	193,244	192,927	179,685	12,035	195,048	227,563	253,204	329,127	321,425	**2,198,272**

Source: Compiled from Atlanta 2001-2011 Comprehensive Annual Financial Reports and 2007-2011 Fulton County Certified Tax Digests. We calculated annual figures for 2008, 2009, 2010 and 2011 based on certified tax assessments and estimated the city's portion based on millage rates.

Studies Identify Benefits and Risks Associated with Tax Allocation Districts

We reviewed relevant studies providing best practices, including risks and benefits, of using public funds to finance redevelopment in underserved areas. Three studies we reviewed identified some of the benefits of tax allocation districts including greater flexibility, shared risk, and a mechanism to increase tax revenue without imposing additional taxes on property owners. Two of the studies identified inherent risks of using tax increment financing, including increased

14 Fiscal year 2006 was a 6-month period to transition from a calendar year fiscal year to a fiscal year that runs from July 1 through June 30.

15 Although the Westside district was created in 1998, it does not appear on the city's Comprehensive Annual Financial Report until 2002.

demand for public services resulting from growth and financing projects that do not generate sufficient revenue to cover debt service costs.

The National Association of Counties prepared an issue brief in January 2000 that identified tax increment financing as “one of the few tools that local governments can use to directly intervene in the economic development of their communities.[16] It identified many benefits of the financing mechanism, including:

- Self-financing instrument that reinvests the benefits of economic development into the county
- Local control of revitalization efforts
- Imposes no new taxes or special assessments
- Requires no federal or state oversight
- Risks are borne by district property owners and overlapping jurisdictions
- Fewer mandates than state and federal economic development grant programs
- Targeted to specific areas
- Voter consent usually not required
- Surplus funds (funds available after debt service payments are made) can be distributed to the overlapping taxing bodies in some jurisdictions
- A county commission or a local school board may have the power to veto its use in some states[17]

The study noted potential criticisms of how tax increment financing is used, including loss of control over the county tax base if a city can create a district without county approval, concern that the expanded tax base generated by redevelopment may fail to generate adequate revenue to cover the costs of increased service needs, possible displacement of low-income residents, and the possibility that revenue growth is inadequate to pay off the redevelopment risks.

Similarly, the *Tax Increment Finance Best Practices Reference Guide* states that the financing mechanism has grown in popularity as federal funding for redevelopment has decreased and restrictions on uses of tax-exempt bonds have increased. The Guide identifies tax increment financing as a creative solution to address redevelopment and eliminate blight and provides 26 case studies to illustrate its successful application,

[16] Tax Increment Financing: An Alternative Economic Development Financing Technique, National Association of Counties, January, 2000.
[17] Tax Increment Financing: An Alternative Economic Development Financing Technique, National Association of Counties, January, 2000, p. 5.

including Atlantic Station and the BeltLine, submitted by Invest Atlanta staff.[18]

A 2004 study conducted by Research Atlanta, Inc., affiliated with Georgia State University, identified potential benefits, costs, and risks of tax allocation districts. [19] The study noted that tax allocation districts offer flexibility in financing improvements and the potential for significant return on investment as projects stimulate growth. The study cautioned that use of the tool carries risk and identified three key ways in which use of tax allocation districts could reduce the net wealth of jurisdictions:

- Jurisdictions could finance projects for which growth in property value fails to cover the costs of the debt issued or other public sector investments.
- Growth could increase demand for public services (e.g. schools and public safety) without generating sufficient new revenues to meet the demand.
- Jurisdictions could subsidize businesses that would have made the necessary improvements or investments without public support or might have made the same investment in another part of the jurisdiction outside the tax allocation district.

While districts would ideally be structured to capture just enough money to pay for redevelopment costs, the study noted that it is common for tax allocation districts to accumulate excess funds. Excess increment can accumulate because initial increment estimates are conservative, district boundaries capture non-blighted areas, normal growth (inflation) in the tax base is captured in increments, and continuing diversion of increments to tax allocation districts after original project improvements have been paid off. The study noted that to the extent that tax allocation districts capture natural or inflationary growth, the jurisdiction could be giving up too much future fiscal capacity that could be used to fund general government services.

To hedge against these risks, the study recommended jurisdictions:

- Target tax allocation districts for projects where private sector investment is unlikely without public sector investment, such as brownfield redevelopment, redevelopment of areas with

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[18] Tax Increment Finance Best Practices Reference Guide, Council of Development Finance Agencies and International Council of Shopping Centers, 2007, pp. 3, 72-73, 77-78.

[19] Georgia's Redevelopment Powers Law: A Policy Guide to the Evaluation and use of Tax Allocation Districts, Carolyn Bourdeaux and John Matthews, 2004, pp. 14-26.

significant levels of urban blight, and reuse of old industrial or military facilities.

- Minimize direct government subsidy in favor of strategies that share risk with the private sector, such as providing gap financing, or reimbursing private sector entities for environmental clean-up.
- Develop annual performance audits or evaluations, as well as financial audits, to determine private sector progress towards agreed upon goals and to show how public funds are being used to support tax allocation district redevelopment plans.
- Clearly specify the benefits to be produced by the private sector entity receiving assistance and include meaningful sanctions for failure to meet goals.
- Bound the time period during which a tax allocation district investment can be made. If private sector investments have not been initiated by the end of this period, the jurisdiction should re-evaluate the project and reclaim its tax allocation district capacity.
- Set clear limits on the duration of the tax allocation district and on the amount of debt that can be issued in a particular district.
- Avoid over-sizing tax allocation districts to direct funds arising from natural growth to economic development purposes. [20]

[20] Georgia's Redevelopment Powers Law: A Policy Guide to the Evaluation and use of Tax Allocation Districts, Carolyn Bourdeaux and John Matthews, 2004, pp. 38-44.

Audit Objectives

This report addresses the following objectives:

- To what extent are the city's tax allocation district redevelopment plan goals being achieved?
- Does Invest Atlanta have adequate controls in place to measure the effectiveness of TAD program objectives?

Audit Scope and Methods

We conducted this audit in accordance with generally accepted government auditing standards. We conducted our audit field work from September 2011 to January 2011. Our analysis focused on Invest Atlanta's tax allocation districts data from January 2001 through June 2011. We reviewed Fulton County Board of Assessors' tax digest data from January 2001 through December 2011.

Our audit methods included:

- interviewing Invest Atlanta management and staff to understand the tax allocation district program
- reviewing Invest Atlanta's policies and procedures for the tax allocation districts
- researching best practices and industry standards for establishing a tax allocation district and using tax increment financing
- interviewing Atlanta Public Schools and Fulton County representatives to understand their rationale for participating in the tax allocation districts and their expectations of future revenues
- reviewing the Redevelopment Powers Law and documenting the statutory requirements for the tax allocation district program
- comparing redevelopment plans to statutory requirements
- compiling desired outcomes based on the redevelopment plans
- comparing reports of work completed within each tax allocation district to redevelopment plans to assess whether activities were consistent with plans and goals

- reviewing Invest Atlanta's 2010 audited financial statements and the City of Atlanta Comprehensive Annual Financial Reports (CAFR) from fiscal year 2001 – 2011 to assess the revenue and expenditure activity for the districts
- comparing 2000 and 2010 Census data to desired district outcomes
- reviewing a sample of payment requisitions and supporting invoices to assess whether payments made from tax allocation district special revenue funds were consistent with state law

Generally accepted government auditing 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Findings and Analysis

Invest Atlanta Does Not Tie Reported Progress To Redevelopment Plan Goals

Although planned redevelopment projects in four of the five currently bond-funded tax allocation districts are largely complete, neither the city nor Invest Atlanta systematically tracks progress toward meeting redevelopment plan goals. Consequently, the city lacks a mechanism to tell when a redevelopment plan is substantially complete and no more public subsidy is needed. The question of whether a district's redevelopment plan is completed matters because the city has collected more increment than needed to pay annual outstanding debt service. Intergovernmental agreements specific to individual tax allocation districts and individual bond provisions define excess increment differently but generally provide for paying down debt or returning the excess to the taxing jurisdictions. The city has no policy for handling surplus increment that has accumulated. In the absence of a policy, the city could spend more than is necessary on soft costs, continue to subsidize development when public support is no longer needed, or let resources sit idle.

We recommend the city revise its service agreement with Invest Atlanta to require it to develop and report annual evaluations of each tax allocation district to assess progress towards completing specific projects and achieving goals established in the redevelopment plan. The city should also develop a policy to review annually surplus increment once the redevelopment plan is substantially complete and to establish criteria for using surplus increment to pay down debt, return surplus increment to participating jurisdictions, or reallocate surplus increment to a debt service reserve or for a specific development project.

Trends in assessed values citywide and in tax allocation districts illustrate that public investment has spurred substantial growth in property value but also show that districts have captured inflationary growth, thus reducing the city's fiscal capacity to provide services within the districts and citywide. Recent reductions in assessed values show that the districts are susceptible to market trends, raising questions about the viability of some proposed projects in the current economic downturn. An expected downturn in commercial property values would reduce debt service coverage ratios but is unlikely to reduce revenue to the extent that the city would be unable to make annual debt service payments.

Redevelopment plans for eight of the city's ten tax allocation districts listed high poverty and unemployment among the reasons for establishing the district. While Invest Atlanta does not track whether the number of jobs created met redevelopment plan goals, 2010 census data shows that socio-economic conditions in tracts containing tax allocation districts improved relative to the rest of the city since 2000.

Little redevelopment occurred in the four corridor districts, with no projects started in the Hollowell/M.L. King and Stadium Neighborhoods districts. Invest Atlanta policy limits public subsidy in the corridor districts to projects greater than $5 million, which could be a barrier to small developers. The increment generated in these small pay-as-you-go districts may not be enough to attract large developers in the current economy. The city should revaluate its redevelopment strategies in the corridor districts.

Most Bond-Funded Projects Are Completed and All Bond Funds Spent or Committed

Planned redevelopment projects in Atlantic Station, Eastside, Westside and Princeton Lakes are substantially complete, with limited deviation from the redevelopment plans. Although completed projects are not always the same projects that were proposed in the redevelopment plans, the projects are consistent with plan concepts. Almost all bond proceeds dedicated to project funding have been spent on completed projects. The remaining bond project funds for the Westside and Eastside district are committed to ongoing projects or programs. Invest Atlanta has no additional approved projects in these districts that have not been funded.

Work on BeltLine and Perry/Bolton projects is underway. Completed activities in the BeltLine district consist primarily of land purchases, and creating workforce housing opportunities by buying and selling housing units or providing down payment assistance for homebuyers. The BeltLine redevelopment plan does not identify specific residential and commercial projects for the district; most activities are still in the planning stages. Within Perry/Bolton, housing units have been built at West Highlands, and Bolton Village, a 29,000 sq. ft. commercial mixed-use complex, has been completed. City Council recently approved a bond issuance of up to $35 million to finance further redevelopment in Perry/Bolton, but as of March, the bonds had not yet been issued.

Little redevelopment has occurred in the four corridor districts. No projects have begun in Hollowell/M.L. King and Stadium Neighborhoods. Invest Atlanta's policy on project minimums in the corridor districts may be a barrier to small developers.

Exhibit 7 summarizes the results of our comparison of completed projects and activities with redevelopment plans. Appendix A provides a complete listing of proposed and completed projects.

Exhibit 7 Projects Completed in the Tax Allocation Districts

Tax Allocation District	Completion Assessment *(All, Most, Some or None)*
Atlantic Station	Most
Eastside	Most
Princeton Lakes	Most
Westside	Most
BeltLine	Some
Campbellton Road	Some
Metropolitan Parkway	Some
Perry/Bolton	Some
Hollowell/M.L. King	None
Stadium Neighborhoods	None

Source: Review of redevelopment plan projects compared to reported activities. See Appendix A for specific projects.

Redevelopment plan projects are mostly complete in Atlantic Station, Princeton Lakes, Eastside, and Westside. Almost all proposed projects have been completed in the Atlantic Station and Princeton Lakes districts. Invest Atlanta has no additional approved projects in Atlantic Station, Eastside, Westside, or Princeton Lakes that have not been funded. In these as well as the BeltLine district, all bond proceeds have been either spent or committed to projects. The BeltLine, however, contemplates several bond issuances throughout the life of the district.

In the Atlantic Station district, contractors built the 17th Street bridge, residential and commercial developments, parking lots, and infrastructure. Fewer hotel rooms and square feet of office space were completed than planned. Only one hotel, the Twelve, was built (101 rooms) and about 1.4 million square feet of office space was reported as completed. The plan proposed 1,000 to 1,200 rooms and 4-6 million square feet of commercial office space. Invest Atlanta has not reported on creation of the more than 21,000 permanent jobs proposed in the plan.

All proposed projects in the Princeton Lakes district were completed except for 1% of the infrastructure improvements for the mixed-use development, according to the district's 2011 annual audit. Contractors completed residential and commercial development as well as infrastructure improvements. The plan stated that the construction would "create a significant number of jobs," but Invest Atlanta has not reported any information on job creation in the district.

Most of the proposed housing and commercial development in the Eastside and Westside districts have been completed. Eastside contractors built five of seven planned mixed-use developments, including Twelve Centennial Park and the Capitol Homes/Capitol Gateway redevelopment, and completed 30 Allen Plaza, one of three proposed office towers. They also completed street improvements, streetscaping and signage at the mixed-use properties. Additional infrastructure work is underway on Memorial Drive. Westside contractors built 1,080 housing units of the planned 1,500-2,500 units planned in the Centennial Park and Vine City areas. They also added parking at the residential developments and the World of Coca-Cola; other proposed street and site improvements and utilities were not reported. Contractors added 600 rooms at four hotels, over 300,000 square feet of retail space, and almost 500,000 square feet of office space in the Westside district. All funded projects have been completed in Westside except for the Center for Civil and Human Rights. Invest Atlanta has not reported the number of jobs created in either of the districts although redevelopment plans for both expected to create more than a thousand permanent jobs in each district.

Work is under way in BeltLine and Perry/Bolton. Completed activities in the BeltLine district consist primarily of land purchases and down payment assistance for homebuyers. BeltLine authorizing legislation requires five-year work plans to govern district redevelopment. The first work plan, (2006-2010), included producing greenspace and trails, laying the groundwork for transit, securing affordable workforce housing, and planning for transportation and pedestrian access. As part of the affordable housing component of the plan, Atlanta BeltLine purchased Triumph Lofts, a 30-unit condominium complex (28 units are affordable), for $3.7 million; the plan proposes 5,600 units of workforce housing. Atlanta Beltline, Inc. has entered into a lease agreement with the Georgia Department of Transportation with an option to purchase 3.5 miles of right of-way as a part of BeltLine's transportation initiatives. The redevelopment plan does not identify specific residential and commercial projects planned for the BeltLine district but outlines the scope of private development that is anticipated over the life of the plan. Atlanta BeltLine, Inc. has also placed $8.8 million in a trust fund for development incentives, down payment assistance, or property acquisition, and has provided down payment assistance to homebuyers to purchase 34 homes within the district.

In Perry/Bolton, at the former Perry Homes site, contractors have completed 700 apartments and over 130 single family homes; over 1,400 units were proposed. Bolton Village, a 29,000 sq. ft. commercial mixed-use complex, has also been completed. Invest Atlanta has not reported any progress on the proposed golf course, public library, recreational center, school, and related roadway and utility improvements. Although these items remain in the redevelopment plan, Invest Atlanta staff told us that these elements have since been eliminated from plans.

No work has begun in two districts. No projects have been started in the Stadium Neighborhoods or Hollowell/M.L. King districts. In the Stadium Neighborhoods district, Invest Atlanta agreed to provide a developer with $3.7 million in public funding to build a mixed-use development with 198 housing units and flex space on the ground floor. Stadium Neighborhoods'redevelopment plan proposed over 3,600 housing units, over 90,000 square feet of retail space, a hotel, and public parking and streetscape improvements. The plan also estimated job creation in the business and service industries. According to Invest Atlanta staff, the developer has not yet secured funding to begin the project.

Invest Atlanta has approved no projects for the Hollowell/M.L. King district. The redevelopment plan proposed 4,165 housing units, 445,000 square feet of retail space, 70,000 square feet of office space, 300,000 square feet of industrial use space, and infrastructure improvements, including sidewalks and bicycle lanes. The development was estimated to create over 1,800 permanent and over 3,000 construction jobs.

Project minimums may hinder corridor districts' redevelopment. In addition to the Stadium Neighborhoods and Hollowell/M.L. King districts, little work has been completed in either of the two remaining corridor districts, Campbellton Road and Metropolitan Parkway. Invest Atlanta policy limits funding in the corridor districts to developers with projects that cost more than $5 million. The Stadium Neighborhoods district has generated about $386,000 in increment since its inception in 2006. Hollowell/M.L. King has generated about $1.5 million in increment.

We recommend the city reevaluate its redevelopment strategies in the corridor districts, perhaps considering reducing the project minimum or leverage goals to attract developers, or directly funding public improvements and using other economic development tools to support micro-development or small business incubators, as appropriate to economic conditions in these districts.

Additional bond funding is currently planned for Perry/Bolton and likely for BeltLine. City Council approved the sale of up to $35 million in bond funding in March 2011 for the Perry/Bolton district with plans to issue the bonds in March 2012. Although there are no immediate plans to do so, Invest Atlanta staff said issuing additional bonds for the BeltLine district is likely and issuing more bonds for the Eastside and Westside districts is a possibility as well. It's not clear what additional bonds for the Eastside and Westside districts would be intended to fund, because the original bond issuances were intended to fund the public portions of all projects identified in the redevelopment plans. Issuing additional bonds will require City Council approval.

We reviewed Invest Atlanta's quarterly reports, list of completed projects, developer disclosures, audit reports, and other applicable sources to identify completed activities and compared them to redevelopment plans. We focused our review on (1) housing and (2) commercial development, (3) transportation improvements, (4) unemployment, and (5) income disparities. These five areas were cited as primary reasons for creating the districts in at least eight of the ten redevelopment plans (see Appendix C).

No Criteria for Deciding When a Tax Allocation District Is Complete

Although planned redevelopment projects in four of the five currently bond-funded tax allocation districts are substantially complete and all bond proceeds spent or committed, Invest Atlanta has no criteria for determining when redevelopment in a district is substantially finished. Neither the city nor Invest Atlanta systematically tracks progress toward meeting redevelopment plan goals.

When is a tax allocation district done? Invest Atlanta program staff was unable to provide us with criteria for deciding when a tax allocation district is done and told us that it depends on evolving circumstances and political will. The managing director of the tax allocation district program responded that, "… with the exception of Princeton Lakes, all of the districts still have significant redevelopment and revitalization opportunities and challenges within their borders. The residents and business owners are looking forward to the next wave of reinvestment."

Invest Atlanta's staff and the 2011 Atlantic Station audit indicated that Atlantic Station is less than halfway complete; however, all approved projects have been completed, all bond funding has been spent, and the "but for" condition established in the redevelopment plan no longer exists. The primary reason cited in Atlantic Station's redevelopment plan for establishing a tax allocation district was to help fund environmental clean-up. The 2001 and 2006 bonds for the district were used for clearing, grading and environmental remediation, and constructing and installing utilities and other infrastructure work. Invest Atlanta staff stated the remaining work anticipated for the district includes an additional six million square feet of development along 17th Street. Although specific projects have not been determined, staff told us the development will be in response to market demand. Although the City Council increased the estimated need in the redevelopment plan in 2005, it added no projects and no specific funding to listed projects. It's not clear that additional public investment in Atlantic Station is necessary to spur development because the barrier to private investment has been eliminated.

Reports highlight accomplishments but do not indicate the extent to which tax allocation districts have met redevelopment plan goals. The various reports we reviewed provided inconsistent levels of detail and no single report captures all activities completed within a district over a given time. More importantly, no report tied accomplishments to the proposed activities in the redevelopment plans, so it is not possible to understand the extent to which redevelopment goals have been achieved or how close a district is to being complete.

- Invest Atlanta's quarterly reports highlight accomplishments in the districts including specific projects funded with tax allocation district funds and the amount of affordable workforce housing created. The quarterly reports, however, do not report on activities in a systematic way for each district and do not compare progress to projects proposed in the redevelopment plans.
- The city's Comprehensive Annual Financial Reports include audited financial information for each district for total revenue and expenses, debt service payments, bond proceeds, and year-end fund balance for each district. Although the reports provide summary information on the financial activities in all districts, they provide no information on specific projects.
- Invest Atlanta's independent financial audits of each bond-funded district report revenue, expenditures, and changes in fund balances. They also provide a description of the work completed in the districts that are supported by bonds.
- The annual bond disclosures provide a detailed description of the work completed in the district, the increment collected, assessed

value of the property, fund balance, and debt service coverage – these are the most detailed reports.

Although the financial audits and bond disclosures provide detailed information about the activities within the districts, these reports are only produced for districts with bond funds to meet requirements of the bond statements and the development agreements. Bondholders need this information to monitor the health of their financial investment and be informed of any issues that arise that could affect the city's ability to pay the bonds. For oversight purposes, however, additional information is needed to ensure that public funds are used for their intended purposes.

We recommend the city revise its service agreement with Invest Atlanta to require it to develop and report annual evaluations of each tax allocation district to assess progress towards completing specific projects and achieving goals established in the redevelopment plan.

Increment Revenue Exceeds Debt Service on Outstanding Bonds; Some Restrictions Apply To Use of Excess

The city has collected more increment than needed to pay annual outstanding debt service. Special revenue funds for the five tax allocation districts for which the city has issued bonds have accumulated fund balances totaling $210 million as of fiscal year 2011. From 2001 through 2011, increment in the five districts exceeded debt service payments by more than $46 million, even after early redemption of more than $85 million in bonds. Debt service coverage ratios in 2011 ranged between 1.89 and 6.76. Financial analysts consider 1.2 to be a reasonable minimum debt service coverage ratio. Conservative initial estimates of increment hedge against risk that revenue will fail to cover debt service costs but result in accumulation of excess increment.

Under state law, excess increment is the amount remaining in the special fund after all redevelopment costs and tax allocation bonds of the district have been paid. The law provides for excess increment to be returned to taxing jurisdictions after redevelopment costs are paid, subject to bond provisions. Intergovernmental agreements and bond provisions impose different limits on use of fund balances but generally provide for paying down debt or returning the excess to the taxing jurisdictions.

Tax allocation districts have accumulated fund balances totaling $226 million at the end of fiscal year 2011. The city's ten tax allocation districts have accumulated fund balances ranging from the $198,000 in

Stadium Neighborhoods to $95 million in Westside (see Exhibit 8). Fund balances in the five districts for which the city has issued bonds totaled $210 million. Fund balances can include amounts reserved for a specific purpose, such as interest income, debt issuance costs, affordable housing revenue, debt service reserves, or economic development and project funds. The makeup of the fund balance is not identified in the city's audited financial statements or in Invest Atlanta's audited financials of the individual tax allocation districts.

Exhibit 8 Tax Allocation District Net Bond Proceeds and Fund Balance

District	Bond Proceeds – Net of Refunding[21] ($ in thousands)	2011 Outstanding Principal and Interest ($ in thousands)	2011 Fund Balance ($ in thousands)
Atlantic Station	$252,010	$329,403	$33,415
Westside	$161,320	$136,426	$95,150
Eastside	$47,480	$72,336	$46,544
Princeton Lakes	$21,000	$29,121	$6,586
BeltLine	$78,120	$153,764	$28,478
Perry/Bolton	-	-	$11,326
Campbellton Road	-	-	$1,800
Stadium Neighborhoods	-	-	$198
Metropolitan Parkway	-	-	$909
Hollowell/M.L. King	-	-	$1,211

Sources: Bond Proceeds and Fund Balance from the City of Atlanta 2001-2011 Comprehensive Annual Financial Reports; Outstanding Debt from the Independent Financial Audits for each tax allocation district

Increment has consistently exceeded the annual debt service requirements over the life of the TAD program in districts with bond proceeds. Since 2001, when the city first issued bonds, the city has collected about $312 million in increment in the bond-funded districts and has paid about $265 million in debt service payments in these same districts including payments for refunding prior issuances in Atlantic Station and early redemption options in Princeton Lakes. Debt service coverage ratios in 2011, calculated using debt service payments as stated in independent financial audits and increment adjusted annually from the city's Comprehensive Annual Financial Reports, ranged from 1.89 to 6.76 (see Exhibit 9). Financial analysts consider 1.2 to be a reasonable minimum debt service coverage ratio[22]. All of the districts exceeded this benchmark by at least 50%, and three of the five districts had debt service coverage ratios more than double this benchmark.

[21] The Atlantic Station bond proceeds amount is a net of the $85 million 2007 bond issuance, used to repay the $76.5 million 2001 bonds. The repayment of the 2001 bonds is also reflected in the Outstanding Debt amount.

[22] The Handbook of Municipal Bonds, Sylvan G. Feldstein and Frank J. Fabozzi, 2008, p. 218

Exhibit 9 Increment Revenue Compared to Debt Service As of June 30, 2011

District	2011 Debt Service ($ in thousands)	2011 Adjusted Increment ($ in thousands)	2011 Debt Ratio
Atlantic Station	$9,487	$17,935	1.89
Westside	$4,723	$16,099	3.41
Eastside	$3,776	$12,625	3.34
Princeton Lakes	$980	$1,984	2.02
BeltLine	$2,863	$19,351	6.76

Source: 2011 Debt Service from the Independent Financial Audits for each individual tax allocation district; Adjusted increment from calculations made by city auditors based on the City of Atlanta 2011 Comprehensive Annual Financial Reports and information from Invest Atlanta

Researchers affiliated with Georgia State University noted that it is common for tax allocation districts to accumulate excess funds, in part because initial increment estimates are conservative. While jurisdictions should be conservative in estimating district revenues that can be used for backing debt, jurisdictions should also have agreements for recapturing excess increments. The study noted, "Annual reversions prevent development agencies from building large accounts of "uncommitted funds" at the expense of funding day-to-day operations of participating local governments and school systems." [23]

State law provides a framework for returning excess increment to taxing jurisdictions, subject to bondholder agreements. State law defines excess increment as the amount remaining in the special fund after all redevelopment costs and tax allocation bonds of the district have been paid. Once all redevelopment costs and district bonds have been paid or provided for, and subject to any bondholder agreements, any remaining increment shall be paid to each county, municipality, consolidated government, or school board whose ad valorem taxes were affected by the district. Each jurisdiction shall receive an amount proportionate to its aggregate contribution of such taxes minus aggregate payments in lieu of taxes. The law is silent on when the determination is made that excess increment has accumulated.

Agreements from contributing jurisdictions define excess increment and its uses differently. Fulton County and Atlanta Public Schools include definitions of excess increment and conditions for its use in their authorizing resolutions and intergovernmental agreements for

[23] Georgia's Redevelopment Powers Law: A Policy Guide to the Evaluation and use of Tax Allocation Districts, Carolyn Bourdeaux and John Matthews, 2004, p. 24.

participation in tax allocation districts. While some elements are common to all or most districts, others appear in the participating jurisdiction agreements for only a few of the districts (see Exhibit 10).

For most districts, both the county and the school district provide that excess increment is that which remains after expenditures for debt service and redevelopment costs. Only for the BeltLine and Perry/Bolton districts, do one or both jurisdictions provide for expenditures other than these before increment is deemed to be "excess." Fulton County's agreements for Atlantic Station and the Beltline, however, authorize use of increment only for bond payments.

Most agreements and resolutions, like state law, do not provide a specific time for determining when excess has accumulated. One or both jurisdictions, however, provide for annual calculation of excess increment for the Eastside, Atlantic Station, and BeltLine districts. Some agreements and resolutions also include provisions for uses of excess increment other than returning it to the taxing jurisdiction. Either Fulton County or Atlanta Public Schools, for example, provide that excess increment can be used for early repayment of bond debt for the Perry/Bolton, Atlantic Station, and BeltLine districts.

The city has no overall definition of excess increment. No city legislation that created a tax allocation district defined "excess increment." The BeltLine legislation states that any funds not anticipated in future bond issuances may revert to the city's general fund upon affirmative action by Council, but did not use the term excess increment. The Princeton Lakes legislation provides that any additional tax increment beyond what was anticipated to be available for the debt service in the 2002 redevelopment plan and the accumulated year-end surplus each year is paid toward the principal of the bond balance.

Exhibit 10 Provisions Covering Excess Increment

District	Excess is defined as the amount left over minus the following:										Excess Paid to:										Frequency	
	Redevelopment Costs		Bond payments		PILOT payments		Quality Basic Education (QBE) make-whole payments		Future Bond Issuances		Back to taxing jurisdiction		Back to city's general fund		Quality Basic Education (QBE) make-whole payments		Early bond retirement		PILOT payment		Annually	
	FC	APS	FC	APS	FC	APS	FC	APS	FC	APS	FC	APS	FC	APS	FC	APS	FC	APS	FC	APS	FC	APS
Stadium Neighborhoods	•		•								•											
Campbellton	•		•								•											
Hollowell/ M.L. King	•		•								•											
Metropolitan Parkway	•		•								•											
Princeton Lakes	•		•								•											
Eastside	•		•	•							•	•				•				•		•
Perry/Bolton	•		•	•				•			•					•		•		•		
Westside	•	•	•	•							•	•										
Atlantic Station		•	•	•								•					•				•	
Beltline		•	•	•	•	•	•	•	•	•	•	•	•					•		•	•	•

Key: FC – Fulton County APS – Atlanta Public Schools Shading: APS does not participate in the district

Sources: City of Atlanta legislation creating tax allocation districts, intergovernmental agreements, and legislation identifying Atlanta Public Schools and Fulton County's participation in the districts.

Agreements for BeltLine provide for payments in lieu of taxes to Fulton County and Atlanta Public Schools. The intergovernmental agreement between the city and Fulton County for the BeltLine provides for $27 million in payments in lieu of taxes to be paid from tax allocation increment for the Atlanta-Fulton County Public Library System's capital improvement program. The first payment of $1.35 million was made in 2011 and the payments will continue through 2030. The intergovernmental agreement between the city and Atlanta Public Schools for the BeltLine provides for payments in lieu of taxes totaling $162.4 million over 17 years paid starting in 2013.

City and Invest Atlanta Lack Processes for Handling Surplus Increment

The city has no policy for handling surplus increment that has accumulated. The majority of the agreements and resolutions do not state a time frame for handling excess. Invest Atlanta staff said that excess increment should be reallocated to the districts to continue to fund redevelopment until the district is substantially complete, but it has no mechanism for determining when a district is substantially complete. In the absence of a policy, the city could spend more than is necessary on administrative costs, continue to subsidize development when public support is no longer needed, or let resources sit idle.

Neither the city nor Invest Atlanta has a policy regarding excess increment. Invest Atlanta staff acknowledged that "excess increment" is not a universally defined legal term and that it has no working definition of excess increment and no policy. The managing director of the tax allocation district program responded that, "Unless the redevelopment goals have been substantially met, it seems appropriate that any "excess revenues" are used to continue to spur growth and redevelopment within the district." The director told us that Invest Atlanta has hired a consultant to help staff develop a strategic plan for using the funds. She said that staff is responsible for making recommendations to the city about the ongoing redevelopment strategy within each district, advising when the work is substantially done, and advising when it's desirable to pursue an early debt payment option.

Because the city has no criteria for deciding when a tax allocation district's redevelopment is substantially completed and has no policy regarding surplus increment, the city risks subsidizing projects that don't require public investment, paying more administrative costs than are necessary to fulfill the original redevelopment plan, or letting resources sit idle.

Although the special revenue fund for Atlantic Station had a balance of $33.4 million at the end of fiscal year 2011, the Atlantic Station audited financial statements noted that the city deferred an optional principal payment of $8.2 million on 2006 bonds. Based on the amortization schedule in Invest Atlanta's 2011 independent financial audit of Atlantic Station, the deferral increased estimated total debt service costs over the life of the issue by $19 million.

We recommend the city develop a policy to annually review surplus increment once the redevelopment plan is substantially completed and establish criteria for using surplus increment to pay down debt, create or add to a debt service reserve, fund specific redevelopment project costs, or return it to participating jurisdictions. Before seeking reallocation of increment to new projects outside the intended scope of the redevelopment plan, Invest Atlanta should prepare for City Council consideration an amendment to the existing redevelopment plan that includes at minimum:

- establishment of the "but-for" clause for the projects within the expanded scope
- proposed specific uses of funds
- anticipated benefits to be produced by the private sector entity receiving assistance
- description of sanctions, such as a claw-back provision, for failure to meet goals

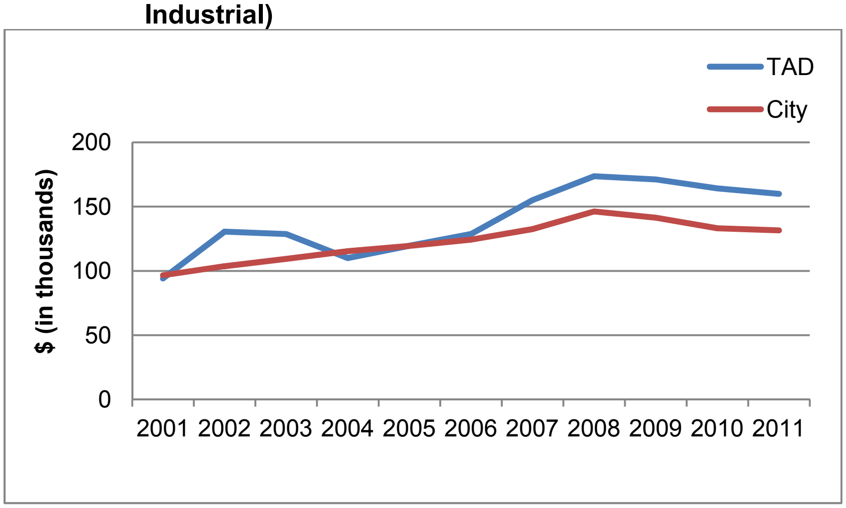
Public Investment Spurred Growth but Districts Remain Susceptible to Market Trends

Trends in assessed values citywide and in tax allocation districts illustrate that public investment has spurred substantial growth in property value. The average assessed value per parcel — including residential, commercial and industrial properties — increased by about 70% in tax allocation districts compared with a 36% increase in the rest of the city between 2001 and 2011. Most of the growth in the number of parcels was captured by tax allocation districts.

Trends also show that tax allocation districts are susceptible to market forces both up and down. Districts captured inflationary growth when overall property values were increasing, which reduced the city's fiscal capacity to provide services or build reserves. Recent reductions in assessed values raise questions about the viability of some proposed projects in the current economic downturn. An expected downturn in commercial property values would reduce debt service coverage ratios but is unlikely to reduce revenue to the extent that the city would be unable to make required annual debt service payments.

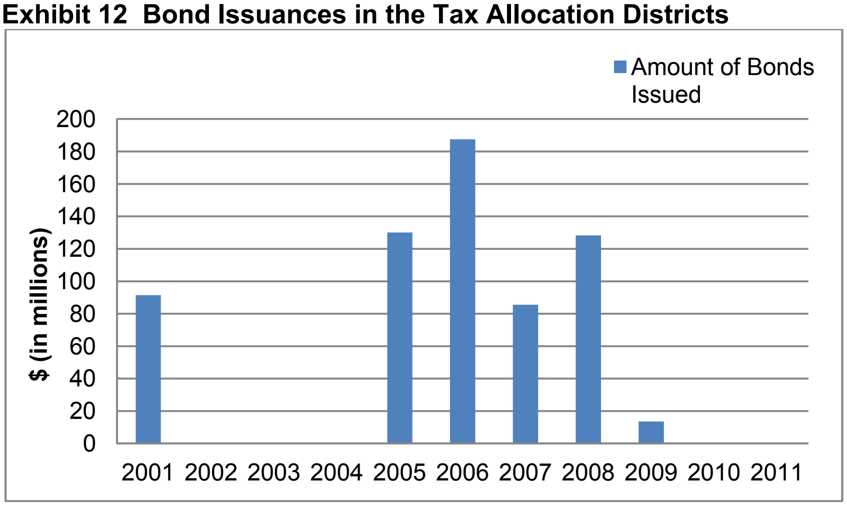
Public investment spurred substantial growth in property values within tax allocation districts. Average assessed value per parcel increased in tax allocation districts from $94,000 in 2001 to $160,000 in 2011. In the rest of the city, average assessed value per parcel increased from about $97,000 in 2001 to $132,000 in 2011 (see Exhibit 11). Sharp increases in the value within tax allocation districts corresponded with bond issuances and subsequent development (see Exhibit 12). We looked at changes in assessed value per parcel rather than changes in total assessed value to control for growth in the number of tax allocation districts over the period.

Exhibit 11 Assessed Value per Parcel (Commercial, Residential, and Industrial)



Source: Fulton County Tax Digests 2001-2011

Exhibit 12 Bond Issuances in the Tax Allocation Districts

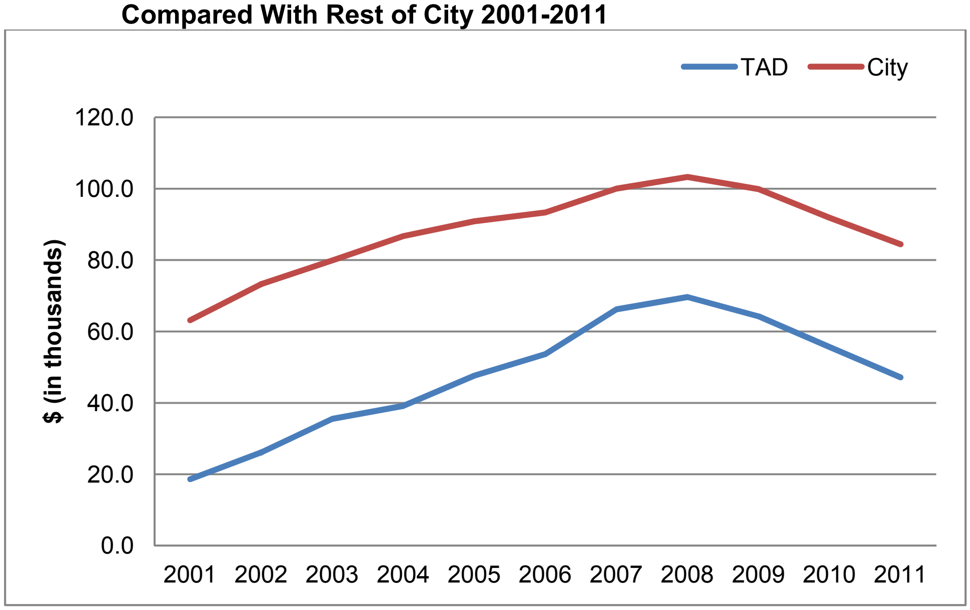


Source: Atlanta Tax Allocation Bond Official Statements

Most growth in the number of parcels citywide was captured in tax allocation districts. The city added 26,000 parcels between 2001 and 2011. Over the same period, through the addition of new districts and growth within districts, the number of parcels in tax allocation districts increased by nearly 18,000. The remaining 30% of parcel growth is captured in the remaining 80% of the city's area.

The trend in residential property values within tax allocation districts largely mirrored the rest of the city. The average assessed value per residential parcel increased at a sharper rate within tax allocation districts than in the rest of the city between 2001 and 2008 and decreased at a sharper rate between 2008 and 2011, but the patterns over time are similar (see Exhibit 13). Residential property values throughout the city have declined significantly since 2008. Residential property values in all tax allocation districts fell more than 30% since 2008, nearly twice the 16% percent decline in the rest of the city. Each district experienced a decline in residential property values since 2008, ranging from 18% in BeltLine to 67% in Hollowell/MLK.

Exhibit 13 Residential Assessed Value per Parcel – Tax Allocation Districts Compared With Rest of City 2001-2011



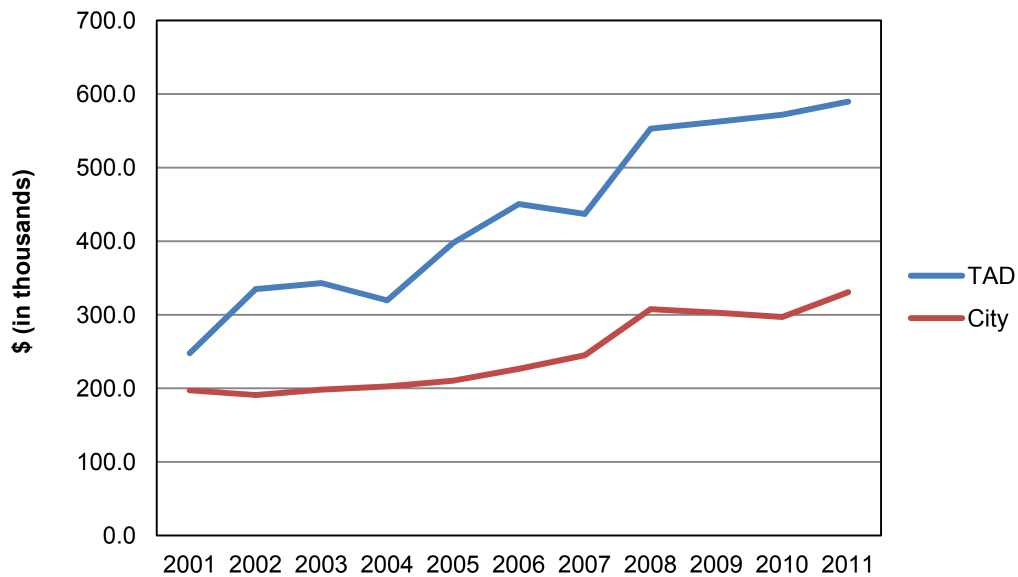
Source: Fulton County Tax Digest 2001-2011

Average assessed values of commercial properties also followed similar trajectories within tax allocations compared with the rest of the city (see Exhibit 14). The average within tax allocation districts was more volatile than in the rest of the city. Periods with sharp increases within tax allocation districts — between 2001 and 2002, between 2004 and

2006, and between 2007 and 2008 — corresponded with public investment in development within the districts.

- In 2001, the city issued $77 million in bonds for Atlantic Station development and $15 million for Westside.
- In 2005, the city issued $83 million in bonds for Westside and $47 million for Eastside.
- In 2006, the city issued $21 million in bonds for Princeton Lakes and $166 million for Atlantic Station.
- In 2007, the city issued $85 million for Atlantic Station to refund the aggregate outstanding principal of the Series 2001 bonds for the district.
- In 2008, the city issued $64 million for Westside and $65 million for BeltLine
- In 2009, the city issued $14 million for BeltLine.

Exhibit 14 Commercial Assessed Value per Parcel – Tax Allocation Districts Compared With Rest of City 2001-2011



Source: Fulton County Tax Digest 2001-2011

Market conditions and economic trends affect assessed property values within and outside of tax allocation districts. These trends in property value illustrate that tax allocation districts are susceptible to both positive and negative market forces, indicating that districts captured inflationary growth when overall property values were increasing. Researchers affiliated with Georgia State identified this capture as a risk factor for reducing future fiscal capacity to provide service, even as demand for services increases due to the new development. The report states, “To the extent that a [district] captures normal property inflation or to the extent that any growth in the [district] creates a demand for additional local government services, a district can create “unfunded” burdens for day-to-day government operations.”[24] The city has seen demand for additional public safety services. For example, while the city funded the new Atlantic Station fire station with increment, staffing the station is paid from the general fund. The Fire Department is assessing the need for additional fire stations including in the Princeton Lakes area. The Police Department also staffs a mini-precinct in Atlantic Station.

Recent reductions in assessed values raise questions about the viability of some proposed projects in the current economic downturn. Along with steep drops in residential property value, commercial property value fell in four districts last year: Atlantic Station, Perry/Bolton, Stadium Neighborhoods, and Westside. In the Stadium Neighborhoods and Westside districts, commercial property values declined each of the last three years. Overall commercial property values in the tax allocation districts increased by 2% in 2011, with almost all of the increase — $52 million of $54 million — in the BeltLine district.

City officials are forecasting further drops in commercial property values, which would affect tax allocation districts. Nearly 70% of the total property value in all tax allocation districts comes from commercial property. Outside these districts, the city has only 45% of its value in commercial property (see Exhibit 15). Redevelopment plans for all tax allocation districts except Princeton Lakes and Atlantic Station proposed housing developments that have not been built; all districts except Princeton Lakes have proposed commercial space that has not been developed. The impending bond issuance for the Perry/Bolton district is intended to build residential, retail, and office space; however, additional investment in commercial space and housing could present additional risk in current economic circumstances.

Exhibit 15 Taxable Property by Type 2011

Property Type	Tax Allocation Districts	City
Residential	22.3%	52.1%
Commercial	69.4%	45.1%
Other	8.3%	2.8%

Source: 2011 Fulton County Tax Digest

[24] Georgia’s Redevelopment Powers Law: A Policy Guide to the Evaluation and use of Tax Allocation Districts, Carolyn Bourdeaux and John Matthews, 2004, p. 23.

A further downturn in commercial property values is unlikely to reduce increment revenue to the extent that the city would be unable to make required annual debt service payments. Total property values in all bond-funded districts have more than doubled since the districts were established, even after the declines of the past three years. Property values would need to drop steeply to reduce increment revenue to less than the amount needed for debt service coverage, and the district funds have accrued balances that in some instances can be used to pay debt service.

Further decline will most affect the corridor districts, which were established closer to the 2008 peak in property values and have attracted little to no redevelopment to spur growth. The Stadium Neighborhoods district, in which no projects have begun, now has a total property value lower than its certified base value, which means it will receive no additional increment until property values again increase in the district.

Tax exempt properties within districts also affect assessed values. Some tax allocation districts contain a high percentage of exempt property. Overall, 44% of the property value in the districts is exempt compared with 8% in the remainder of the city. Four districts (Stadium Neighborhoods, Eastside, Hollowell-MLK, and Westside) contain more exempt property value than taxable property value. Citywide, tax exempt properties comprised $4 billion in assessed value in 2011 and taxable properties comprised $22 billion, for a ratio of 1 to 5.5. In other words, for every $1.00 in tax exempt property value, the city has another $5.50 in taxable property value. This ratio is 1 to 1.29 in the tax allocation districts; for every $1.00 in tax exempt property value, the districts have another $1.29 in taxable property value. More than 60% of the city's exempt property value, or more than $2.6 million, is in the districts. In the Stadium Neighborhoods district, 82% of all property value is exempt. The ratio of exempt to taxable property value in the Stadium Neighborhoods ratio is 1 to 0.21, meaning that for every $1.00 in exempt property value, the district has only $0.21 in taxable value. Tax exempt properties provide an opportunity for growth in the districts if the use of the property changes; however, to the extent that they remain exempt, they limit revenue growth potential.

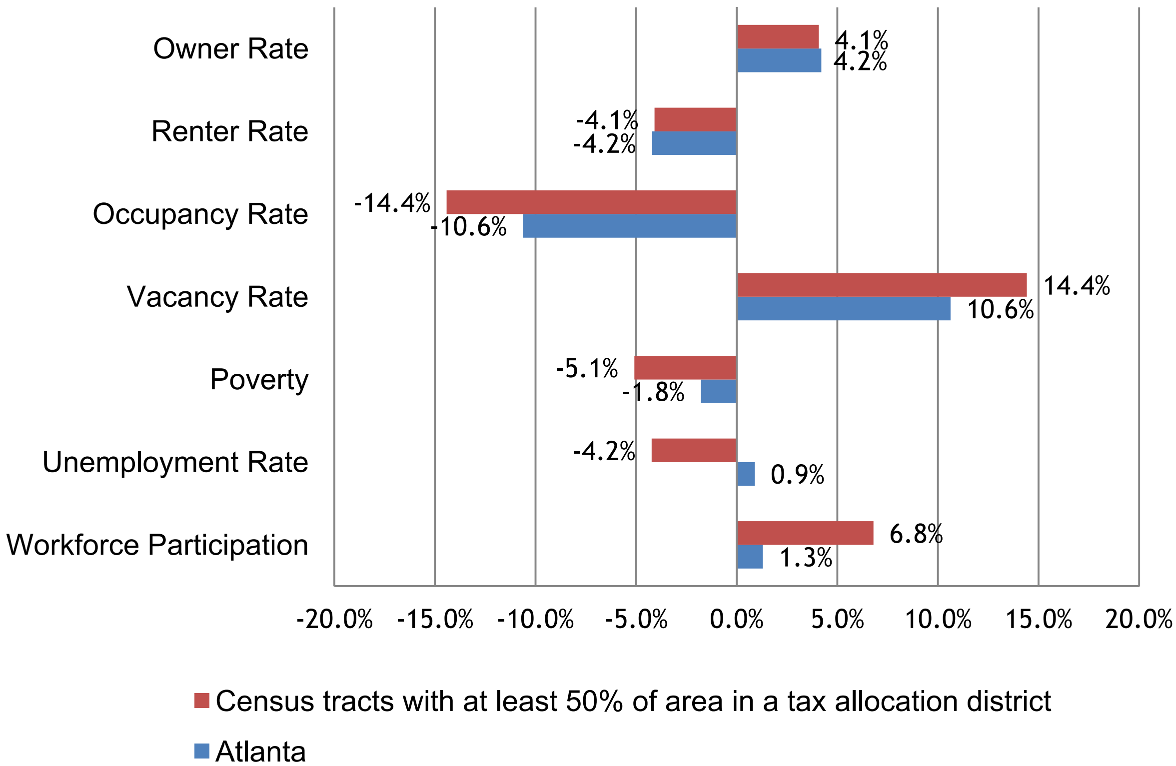
Socio-Economic Conditions Improved in Areas with Tax Allocation Districts but Continue to Lag the City

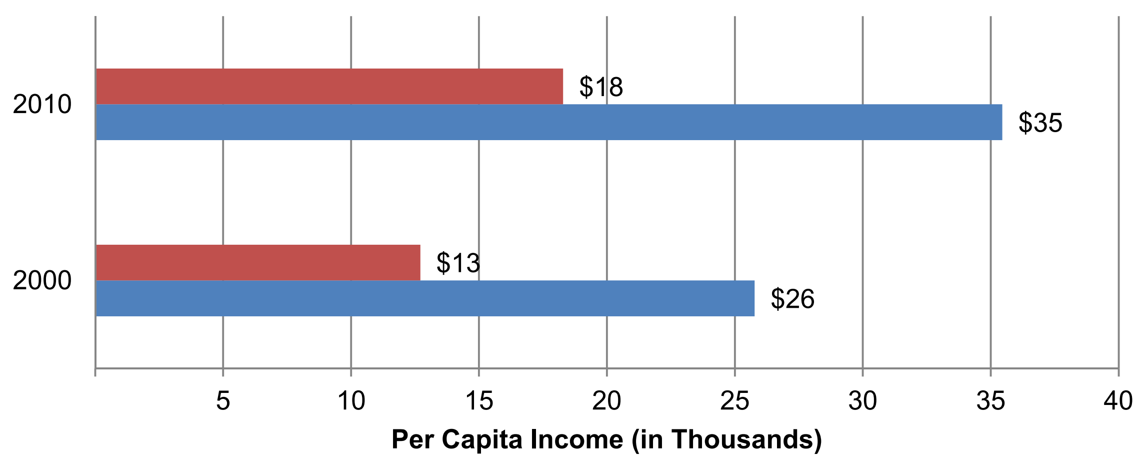
While Invest Atlanta does not track whether the number of jobs created met redevelopment plan goals, 2010 census data shows that socio-economic conditions in tracts containing tax allocation districts improved relative to the rest of the city since 2000. Despite progress, these areas still lagged the city as a whole in measures of poverty and unemployment, and vacancy rates are higher.

Census data shows that the socio-economic conditions in areas with tax allocation districts improved since 2000. Workforce participation increased, unemployment decreased and poverty decreased in areas with tax allocation districts compared with the city as a whole. Data for census tracts in which tax allocation districts account for more than 50% of the total tract area show that socio-economic conditions improved from 2000 to 2010. Overall, 74% of the geographic area in the tracts we analyzed is in a tax allocation district. They include from two-thirds to all of the area in the Westside, Eastside, Perry/Bolton and Stadium Neighborhoods districts and smaller portions of the Campbellton Road, BeltLine, Hollowell/M.L.King, and Metropolitan Parkway districts. Appendix B lists the individual tracts in our analysis. Exhibit 16 illustrates the change in percentage points between 2000 and 2010 for various socio-economic conditions in these tracts and citywide. Housing vacancy rates increased more in areas with tax allocation districts than in the city as a whole and changes in the proportion of owners and renters were about the same.

Despite relative gains in workforce participation, unemployment rate, and poverty rate, these areas still lag the city as a whole (see Exhibit 17). Per capita income in these tracts remained near 50% of citywide per capita income and unemployment 5.5 percentage points higher. High poverty and unemployment and a high number of vacant structures meet the state's definition of blight. Only the BeltLine redevelopment plan is silent regarding socio-economic impediments to development.

Exhibit 16 Comparison of Changes from 2000-2010 in Socio-Economic Conditions for Atlanta and Census Tracts With at Least 50% of Area in a Tax Allocation District





Source: 2000 and 2010 Census Data

Exhibit 17 Comparison of 2010 Socio-Economic Conditions Between the City and Tax Allocation Districts

Comparison of 2010 Socio-Economic Conditions		
	Atlanta	**Census tracts with at least 50% of area in a tax allocation district**
Workforce Participation	65.3%	60.8%
Unemployment Rate	9.9%	15.4%
Poverty	22.6%	32.2%
Vacancy Rate	20.7%	27.6%
Occupancy Rate	79.3%	72.4%
Renter Occupied	52.1%	74.2%
Owner Rate	47.9%	25.8%

Source: 2000 and 2010 Census Data

Invest Atlanta does not track or report on the number of permanent jobs created in tax allocation districts, although redevelopment plans for nine of the city's ten tax allocation districts anticipated job creation. Plans for all districts except Atlantic Station and BeltLine reported income disparities (high poverty) among the reasons for establishing the district; five districts' plans cited high unemployment (see Appendix C). Workforce participation increased in Westside, but stayed the same (presumably because unemployment stayed the same) in Eastside. The percentage of renter-occupied housing units decreased in Eastside, but remained the same in Westside. Both Eastside and Westside saw increases greater than 10 percentage points in vacancy rates. We cannot conclude from census data changes over time that the substantial investment in tax allocation districts contributed to these socio-economic changes. The districts were created at different times, and the tract covering the Stadium Neighborhoods district, for example, experienced a decrease in poverty rate and increase in median income without any tax allocation-funded redevelopment.

Administrative Operating Costs Should be More Clearly Defined and Monitored

While Invest Atlanta has processes in place to control developer costs, it does not subject its own operating costs and those of its affiliate Atlanta BeltLine, Inc., to the same scrutiny and oversight. Invest Atlanta's service agreement with Atlanta BeltLine, Inc. is too vague to control costs. In fiscal year 2011, the city reimbursed Atlanta Beltline $12.8 million for redevelopment costs that included staff payroll, benefits, and bonuses; credit card charges for travel, meals, and entertainment; a monthly retainer for a lobbyist; land acquisition; construction; and fees and rent paid to Invest Atlanta. In fiscal year 2011, the city also reimbursed Invest Atlanta $1 million from tax allocation district revenues for staff time; 90% of the spending on the four corridor tax allocation districts was for Invest Atlanta staff time. Neither the budget adopted by Invest Atlanta's board nor the city's adopted budget shows how Invest Atlanta plans to use the increment to cover program administration costs; therefore the use of the increment is not subject to budgetary control.

Although state law clearly contemplates use of tax allocation increment for administrative costs, it's not clear that all Atlanta BeltLine operating costs submitted for reimbursement are reasonable or prudent. The law identifies eight categories of costs in its definition of "redevelopment costs." Invest Atlanta staff reviews requests for reimbursement for congruence with state law but does not identify the category into which each line item falls.

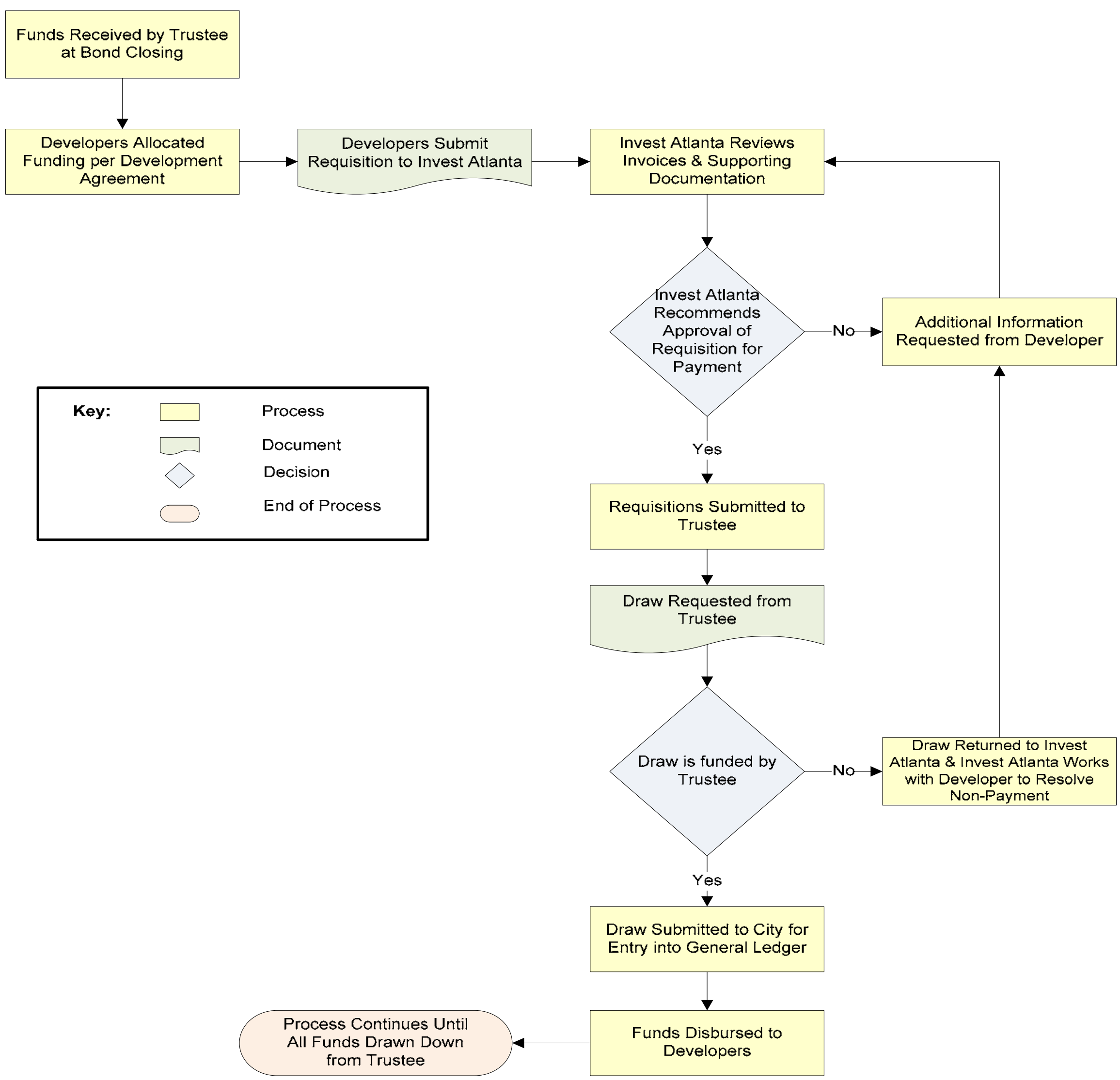
The city's external financial auditor recommended the city strengthen its monitoring of Invest Atlanta-administered projects, including the propriety of administrative costs, related to capital projects and general administrative costs to ensure that expenditures for capital projects for which title will pass to the city are properly recorded in the city's government-wide financial statements.

The city should revise its service agreement with Invest Atlanta to require financial reports at least annually showing how public funds were used to support tax allocation district redevelopment plans. Financial reporting should be consistent with generally accepted accounting principles and contain information sufficient to appropriately classify capital expenses. The city should also revise its service agreement with Invest Atlanta to require it and its affiliates to provide detailed budgets at least annually showing proposed uses of tax allocation district funds by district.

Invest Atlanta Controls Developers' Costs but Lacks Controls Over Project Management Costs

Invest Atlanta has processes in place to control developer costs. Development agreements require developers to conform to approved plans, specifications, budgets, and project schedules and to cap costs consistent with bond or other planned funding. Developers submit requisitions for payment monthly. Invest Atlanta reviews developers' requisitions to ensure that costs are consistent with development agreements. Invest Atlanta's procedures explicitly exclude BeltLine, and its service agreement with Atlanta BeltLine is too vague to control costs.

Exhibit 18 Developer Requisition Process



Source: Invest Atlanta

Agreements with developers cap costs and identify how tax allocation funds will be used for projects. The city and Invest Atlanta entered into development agreements for projects that specified the developers' project responsibilities and obligations and the procedures for disbursing bond proceeds or tax increment. Development agreements cap costs and set the structure for redevelopment reimbursements. Invest Atlanta reviews payment requisitions for accuracy and consistency with the developer agreements before submitting requisitions to the bond trustee or city for payment (see Exhibit 18). We reviewed six reimbursement requests for developers' construction costs and supporting documents totaling $3.3 million for projects in the Atlantic Station, Princeton Lakes, Eastside, and Westside districts. The requests were consistent with developer agreements and supported by project disbursement summaries, invoices, certificates of occupancy, and American Institute of Architect certificates of substantial completion or inspector's documentation of monthly construction progress.

We also reviewed two requisitions for payment of professional services for the Perry/Bolton district totaling about $117,000. Invest Atlanta submitted invoices to the city to support these payments, which were primarily for consultant staff time and expense related to preparing bond documents. We noted only a $200 calculation error that resulted in overpayment.

The service agreement with Atlanta BeltLine is too vague to control costs. Unlike Invest Atlanta's agreements with developers for specific projects, its 2008 amended service agreement with Atlanta BeltLine provides no specific scope of services, project schedule, or payment schedule for work completed. The agreement identifies Atlanta BeltLine, Inc., as the implementation agent for the BeltLine tax allocation district with responsibilities for performing services in accordance with the redevelopment plan, the five-year work plan, and any work plan adopted by the city, subject to approved budgets. Its programmatic scope of services is to perform delegated activities in support of the district including:

- **Program Management.** Coordinate, facilitate and/or align with program and funding partners to successfully complete project implementation activities and assure funding for the Redevelopment Plan, the Five-Year Work Plan or any Work Plan. Track projects, identify and resolve issues, communicate overall implementation progress.
- **Project Planning and Design.** Coordinate and/or manage the planning, design and construction of BeltLine parks, trails and transit in tandem with stakeholders and partners, as appropriate.

- **Community Engagement.** Develop and implement the BeltLine Citizen Engagement Framework; manage communications with the BeltLine advisory boards and provide support, hold public meetings as pertains to planning and implementation of the Redevelopment Plan, and provide updates to the City Council as specified in Resolution 06-R-157.
- **Public Infrastructure Construction and Management.** Oversee and/or manage the construction of the various types of public infrastructure within the geographic boundaries of the BeltLine district, including site selection and acquisition decisions related to suitability for construction, identifying opportunities for value engineering; and coordinating and overseeing construction work.
- **Real Estate Acquisition, Management and Disposition.** Identify and manage the acquisition of all BeltLine tax allocation district real property interests. Manage and administer real property interests acquired for the benefit of the BeltLine district. Cooperatively define policies, procedures and internal controls related to Invest Atlanta property acquisitions and disposition of BeltLine assets.
- **Financial Management and Operations Administration.** Track, assess and report on the comprehensive status of the BeltLine financial plans, including the funding activity and impact of partner and stakeholder subprojects. Prepare and analyze financial forecasts and evaluate project-based financial pro formas where needed. Define and adhere to internal controls, legal and regulatory compliance, and ensure business continuity of administrative and operating systems. Work with partners to identify and structure potential funding resources, develop acquisition strategies, and pursue funding alternatives. In cooperation with Invest Atlanta, develop internal accounting controls, policies and processes, and provide all internal financial reports to boards of directors, advisory boards and committees, the city, City Council, and other partners, funders and agencies. Assist the Chief Financial Officer of Invest Atlanta in assuring the provision of Invest Atlanta Services and Contracted Services supporting the BeltLine district.
- **Public Information and Communications.** Act as public information officer for the Redevelopment Plan and manage media relations for the BeltLine district. Initiate, educate and/or support public policies favorable to the funding and implementation of activities for BeltLine district.

- **Cooperation and coordination on Invest Atlanta Services.** Cooperate and coordinate with Invest Atlanta on certain programmatic activities of the BeltLine district, such as;
    - Activities related to the BeltLine Affordable Housing Trust Fund;
    - Community benefits and economic development incentives, to be determined by Invest Atlanta and Atlanta Beltline, Inc. in advance of the provision of any such services;
    - Recommend for approval to the boards of directors of Atlanta Beltline, Inc. and Invest Atlanta project priorities and budgets, changes to the Redevelopment Plan, new or revised five-year work plans, or other proposals supporting major decisions for the BeltLine district;
    - Financial and tax accounting, compliance and reporting, investor reporting, jurisdictional reporting and financial oversight for the BeltLine district;
    - Participate in BeltLine district financings, together with Invest Atlanta and the City; and
    - Participate in the development of policies and procedures for the BeltLine district and uphold same to promote the effective delivery of programs and protect the financial integrity of and internal control processes for funds received from the BeltLine district.

Unlike developer agreements, the Atlanta BeltLine service agreement does not cap costs. While the agreement requires Atlanta BeltLine, Inc. to submit an annual budget for Invest Atlanta approval, it lists no cap on costs. The agreement states that the budget will include estimated revenues from tax increment, interest income, or other sources; and estimated expenditures required by any outstanding bond indentures, estimated payments for redevelopment activities or services provided by Invest Atlanta, estimated payments for redevelopment activities or services provided by Atlanta BeltLine Inc.; and any other items of revenue or expenditure necessary to present a complete set of financial expectations. The agreement states that all BeltLine redevelopment costs of Invest Atlanta and Atlanta BeltLine Inc. will be paid from financial resources of the BeltLine tax allocation district.

Atlanta BeltLine's approved budget for fiscal year 2011 anticipated approximately $13 million in revenue and budgeted $11.2 million in expenses. Salaries and benefits accounted for $2.4 million (21%) of budgeted expenses, and program expenses accounted for $7.7 million

(69%) of budgeted expenses. The budgeted program expenses included line-items for planning and design, transit, real estate, community engagement, communications, legal, finance, and Chief Operating Officer and operations.

Invest Atlanta's tax allocation district accounting manager told us that she reviews BeltLine payment requests for consistency with state law, but neither she nor Atlanta BeltLine, Inc. categorize costs in a way that match the state's definition of redevelopment costs.

Definition and Categories of Redevelopment Costs

"Redevelopment costs" means any expenditures made or estimated to be made or monetary obligations incurred or estimated to be incurred to achieve the redevelopment of a redevelopment area or any portion thereof designated by a redevelopment plan or any expenditures made to carry out or exercise any powers granted by this chapter. Without limiting the generality of the foregoing, redevelopment costs may include any one or more of the following:

- **Capital costs**, including the costs incurred or estimated to be incurred for the construction of public works or improvements, new buildings, structures, and fixtures, including facilities owned or operated by school districts and systems; the renovation, rehabilitation, reconstruction, remodeling, repair, demolition, alteration, or expansion of existing buildings, structures, and fixtures, including facilities owned or operated by school districts and systems; the acquisition of equipment; and the clearing and grading of land;
- **Financing costs,** including, but not limited to, all necessary and incidental expenses related to the issuance of obligations and which may include payment of interest on any obligations issued under this chapter occurring during the estimated period of construction of any project with respect to which any capital costs within the meaning of subparagraph (A) of this paragraph are financed in whole or in part by such obligations and for a period not to exceed 42 months after completion of any such construction and including reasonable reserves related thereto and all principal and interest paid to holders of evidences of indebtedness issued to pay for other redevelopment costs and any premium paid over the principal amount thereof because of the redemption of such obligations prior to maturity;
- **Professional service costs**, including those costs incurred for architectural, planning, engineering, financial, marketing, and legal advice and services;
- **Imputed administrative costs**, including reasonable charges for the time spent by public employees in connection with the implementation of a redevelopment plan;
- **Relocation costs** as authorized by a redevelopment plan for persons or businesses displaced by the implementation of a redevelopment plan, including but not limited to those relocation payments made following condemnation under Chapter 4 of Title 22, "The Georgia Relocation Assistance and Land Acquisition Policy Act";
- **Organizational costs**, including the costs of conducting environmental impact and other studies, and the costs of informing the public with respect to the creation and implementation of redevelopment plans;
- **Payments to a political subdivision or board of education in lieu of taxes** to compensate for any loss of tax revenues or for any capital costs incurred because of redevelopment activity; provided, however, that any such payments to a political subdivision or board of education shall not exceed in any year the amount of the contribution to the tax allocation increment in that year by such political subdivision or board of education; and
- **Real property assembly costs.**

Source: O.C.G.A. § **36-44-3(8)**

It is not clear how Atlanta BeltLine, Inc.'s operating costs fit within the definition and categories of redevelopment cost under state law. We reviewed Atlanta BeltLine's reimbursement request for March 2011 for $1.3 million. The largest portion of the reimbursement was $587,390 in principal and interest paid to MARTA on a promissory note entered into in 2008 to reimburse MARTA for a portion of an environmental impact study. The reimbursement also covered about $367,000 in construction, land acquisition, and related fees. While the bulk of costs appeared consistent with state law, the reimbursement included:

- $232,749 for staff salaries and benefits, which included pension contributions on previously granted bonuses totaling $26,000 to two employees. Benefits include a 15% contribution to employees' pension accounts, which is considerably more generous than the city's 6% contribution to employees' defined contribution plan accounts.
- $59,243 in payments to Invest Atlanta for shared services and allocated staff time
- $25,000 for two monthly retainer fees for a lobbyist
- $9,835 for credit card charges, travel and miscellaneous expenses, including an executive retreat and staff dinner

State law allows tax allocation increment to pay for imputed administrative costs, including reasonable charges for the time spent by public employees in connection with the implementation of a redevelopment plan; it is not clear how all of these expenses fit within the provision.

It's unclear how public funds are supporting the BeltLine redevelopment plan. The city recorded $12.8 million in redevelopment costs for the BeltLine in fiscal year 2011, out of a total of about $23.6 million in expenditures (see Exhibit 19). The city's external financial auditors requested a detailed report of tax allocation district transactions to assess whether redevelopment expenses should be capitalized on the city's financial statements. Generally accepted accounting principles distinguish between capital expenses — funds used to acquire or upgrade physical assets such as property, buildings or equipment that will provide future benefits — and operating costs that are needed to run the operation in the current year.

Nearly all of the transactions classified as redevelopment expenses were reimbursements to Atlanta BeltLine, Inc. It is not possible to determine from the city's financial records what portion of redevelopment expense should be recorded as capital expense on the city's financial statements, because reimbursements to Atlanta BeltLine, Inc. included both capital and operating expenses.

The city's external financial auditor recommended the city strengthen its monitoring of Invest Atlanta-administered projects, including the propriety of soft costs related to capital projects and general administrative costs, to ensure that expenditures for capital projects for which title will pass to the city are properly recorded in the city's government-wide financial statements.

Exhibit 19 BeltLine Expenditures by Account Fiscal Year 2011

City Expense Account Description	Expenditures
Redevelopment Expenditures	12,840,218
Payments To Other Governments[25]	3,392,292
Capitalized Interest	3,117,240
Debt Service Limited Obligation Bonds	2,862,772
Consulting / Professional Services	929,536
Debt Service Administration Affordable Mortgage Loan	451,680
Trustee Fee	3,000
Bank Charges	2,071
Limited Obligation Bonds Principal	0
Buildings – CIP	0
Facilities Other Than Buildings	0
Issuance Cost	0
Total	$23,598,809

Source: FY 2011 Oracle data provided by Finance staff

Invest Atlanta submits reimbursement requests to the city for payment on behalf of Atlanta BeltLine, Inc. Invest Atlanta's staff told us that they rely on Atlanta BeltLine, Inc.'s internal control system to ensure propriety of expenses. We did not audit Atlanta BeltLine Inc.'s internal controls.

Invest Atlanta's Use of Increment Revenue Is Not Subject to Budgetary Control

While Invest Atlanta prepares an annual operating budget, the budget does not explicitly identify its use of increment revenue by district. The budget is the means by which governments allocate limited resources to

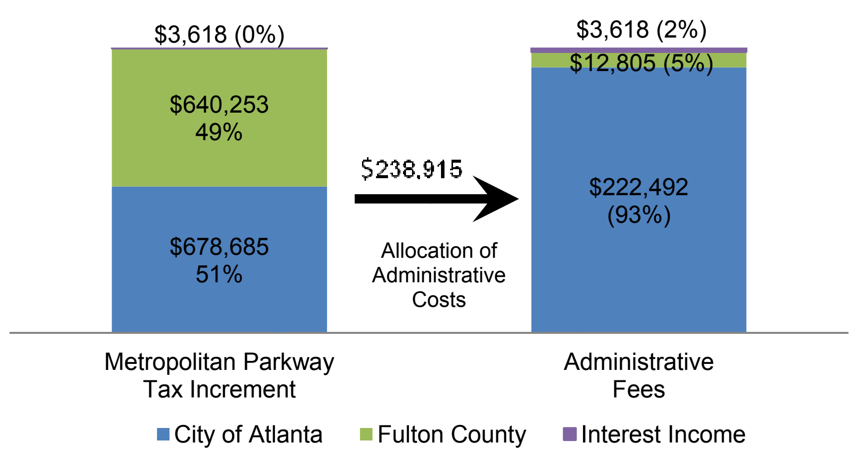
[25] Transactions classified as payments to other governments included $3,251,036 in payment to Atlanta Public Schools and $141,256 in payments to Invest Atlanta for program costs.

programs. Lack of a detailed operating budget weakens cost control, obscures administrative costs, and risks noncompliance with restrictions on uses of funds.

Invest Atlanta anticipated 24% of its fiscal year 2011 revenue from redevelopment revenue, but its budget did not show uses of funds. Invest Atlanta's adopted fiscal year 2011 budget anticipated $8 million in revenue with $1.9 million from redevelopment revenue but did not show the specific amount reimbursed from tax allocation districts nor did it show specific uses of the funds. Invest Atlanta intends to recover administrative costs related to tax allocation districts, but neither the city's adopted operating budget nor the budget adopted by Invest Atlanta's board provides an estimate of these costs. Nor does Invest Atlanta's operating budget identify estimated revenue by tax allocation district. State law requires increment to be used in the district it was generated. Further, bond trust indentures for Princeton Lakes and Eastside prevent using increment to reimburse administrative costs, although interest earnings are permissible in Eastside. Invest Atlanta staff stated they use funds from other sources to cover these costs.

Intergovernmental agreements with Fulton County for corridor districts limit use of its portion of the increment on administrative costs to 2% and limit use of county increment on BeltLine administrative costs to 2% of bond proceeds. It is not clear from Invest Atlanta's budget how it complies with these restrictions, but they appear to have the effect of shifting administrative costs to the other jurisdictions' share of increment (see Exhibit 20).

Exhibit 20 Allocation of Administrative Costs — Metropolitan Parkway



Source: Spreadsheet received from Invest Atlanta in January 2012 in response to our request for information about how the agency tracks administrative costs.

In the example shown in Exhibit 20, Metropolitan Parkway generated about $1.3 million in tax increment and interest revenue through September 2011, 51% from the city and 49% from Fulton County; interest income was less than 1% of revenue. Over this period, Invest Atlanta charged the fund $238,915 for administrative program costs. Invest Atlanta apportioned 5% of the Fulton County increment — $12,805 — to cover these costs, with the remainder attributed to city increment and interest income. The city bore 93% of the administrative costs.

Assessing total resources directed to redevelopment may not be feasible if administrative and other costs are not budgeted. Absence of a detailed budget also makes it difficult to calculate excess increment, the amount remaining in the special fund after all redevelopment costs and tax allocation bonds of the district have been paid, as defined in state law. The city cannot know whether all redevelopment costs have been paid if all redevelopment costs are neither identified nor subject to budgetary control.

Ninety percent of corridor district expenses were for administrative costs. In fiscal year 2011, the city reimbursed Invest Atlanta $1,013,199 from tax allocation district revenues for staff time, which was classified in the city's financial system as payments to other governments. More than $400,000 of the total was reimbursed from the four corridor tax allocation districts; 90% of the spending in the corridor districts in fiscal year 2011 was for Invest Atlanta staff time (see Exhibit 21). Because these payments are classified as payments to other governments, it is not possible to determine administrative costs of the tax allocation districts from the city's financial statements.

Exhibit 21 Corridor District Expenditures by Account Fiscal Year 2011

City Expense Account Description	Campbellton Road	Hollowell/ M.L. King	Metropolitan Parkway	Stadium Neighborhoods
Payments To Other Governments	135,809	143,632	102,321	51,857
Consulting / Professional Services	11,133	5,833	9,933	11,900
Bank Charges	1,632	1,622	1,622	1,628
Total	$148,575	$151,087	$113,877	$65,385

Source: FY 2011 Oracle data provided by Finance staff

We recommend the city revise its service agreement with Invest Atlanta to require it to prepare financial reports at least annually showing how public funds were used to support tax allocation district redevelopment plans . The city should revise its service agreement with Invest Atlanta to require it and its affiliates to provide detailed budgets at least annually showing proposed uses of tax allocation district funds by fund.

Financial reporting should be consistent with generally accepted accounting principles and contain information sufficient to appropriately classify capital expenses.

Recommendations

To improve oversight and accountability of public funds generated by the tax allocation districts, the city's chief operating officer should:

1. Propose for City Council approval modifications to the city's service agreement with Invest Atlanta to require it to develop and report annual evaluations of each tax allocation district to assess progress towards completing specific projects and achieving goals established in the redevelopment plan.

2. Develop a policy to review annually surplus increment once the redevelopment plan is substantially completed and establish criteria for using surplus increment to pay down debt, return surplus increment to participating jurisdictions, or reallocate surplus increment to a debt service reserve or for a specific development project.

3. Before seeking reallocation of increment to new projects outside the intended scope of the redevelopment plan, require Invest Atlanta to prepare for City Council consideration an amendment to the existing redevelopment plan that includes at minimum:
   - establishment of the "but-for" clause for the projects within the expanded scope
   - proposed specific uses of funds
   - anticipated benefits to be produced by the private sector entity receiving assistance
   - description of sanctions, such as a claw back provision, for failure to meet goals

4. Work with Invest Atlanta to re-evaluate its redevelopment strategies in the corridor districts as appropriate, considering current economic conditions in those districts.

In addition, the city's chief financial officer should:

5. Propose for City Council approval revisions to the city's service agreement with Invest Atlanta to:

- include preparation of financial reports at least annually showing how public funds were used to support tax allocation district redevelopment plans.
- require Invest Atlanta and any of its affiliates to provide detailed budgets at least annually showing proposed uses of tax allocation district funds by fund.

Appendices

Appendix A Redevelopment Plan Activities Compared to Completed Projects

District	Transportation		Housing		Commercial		Unemployment (Job Creation)		Overall Completion Assessment as of December 2011	Bond Project Fund Balance (as of 6-30-11)
Atlantic Station	Planned	Completed	Planned	Completed	Planned	Completed	Estimated	Reported		
	17th St. Bridge	17th St. Bridge completed in 2004	2,000 – 3,000 residential units	3,579 residential units	4-6 million sq. ft. of commercial office space	Reported 1,393,013 sq. ft. of office space	21,173 new permanent jobs	Number of permanent jobs not reported Invest Atlanta's 3rd Quarter 2004 Report: Project development (to date) has generated over 3,000 construction jobs	**Most** Most planned work was completed. The 2010 audit reports that the work is less than half complete. Invest Atlanta states that additional development is planned along 17th Street and on the northern portion of the site. The Redevelopment plan was amended in 2005, which increased the estimated infrastructure costs from a TAD total contribution of \$170,000,000 to \$500,000,000 without changing scope of work.	\$0
	parking facilities	Parking deck completed	20% affordable	23% affordable	1,000 to 1,200 hotel rooms	101 hotel rooms (the Twelve)				
	road improvements	Over \$200 million in infrastructure has been completed, including new sanitary system, separated storm water bypass system, roadways, utilities, sidewalks, streetscapes, and a lake.			1 -2 million sq. ft. of retail space	1,345,600 sq. ft. of retail space				
Completion:	**Transportation Completed**		**Housing Completed**		**Most Commercial Completed**		**No Jobs Reported**		Most	

District	Transportation		Housing		Commercial		Unemployment (Job Creation)		Overall Completion Assessment as of December 2011	Bond Project Fund Balance (as of 6-30-11)
Stadium Neighborhoods	**Planned**	**Completed**	**Planned**	**Completed**	**Planned**	**Completed**	**Estimated**	**Reported**		
	Public parking decks with up to 10,000 spaces	Nothing reported	Create approximately 3,630 new housing units.	None completed	Create 40,000 sq. ft. of adaptive reuse of retail space and 50,000 sq. ft. of stand alone/mixed use retail space	None completed. Approved Fulton Square Phase One, a 257,000 sq. ft. mixed-use development. 198 (56 affordable) one & two-bedroom apartments and 57,000 sq. ft. of "flex space" on the ground floor.	Creation of new jobs in the business and service industries with the substantial new office, retail, and hotel development.	None reported – development not completed	**None** No work has been completed yet	No bonds issued
	Streetscape improvements	Nothing reported			100,000 sq. ft. of office space	Nothing reported				
					75,000 sq. ft. of hotel space	Nothing reported				
Completion:	**No Transportation**		**No Housing**		**No Commercial**		**No Jobs Reported**		**None**	

District	Transportation		Housing		Commercial		Unemployment (Job Creation)		Overall Completion Assessment as of December 2011	Bond Project Fund Balance (as of 6-30-11)
Princeton Lakes	**Planned**	**Completed**	**Planned**	**Completed**	**Planned**	**Completed**	**Estimated**	**Reported**		
	Roadway improvements, utilities, sidewalks & trails and bridges	Water & sewer improvements, intersection & traffic signals, multilane parkway, bridge, streetscape and landscape improvements completed.	1,019 housing units (184 townhomes/835 single family homes)	Total of 1,620 housing units built.	A 512,700 sq. ft. shopping center (retail space)	Reports a total of 557,653 sq. ft. of commercial space built.	New construction that will "create a significant number of jobs"	Not reported	**Most** Invest Atlanta's 3rd Quarter 2011 report states that the project is now nearly complete and is generating new tax revenues; doesn't specifically state what is not completed.	$0
					An 8,000 sq. ft. Day Care Center	9,225 sq. ft. of daycare space available, but not leased as of 2009				
					15,000 sq. ft. of bank space	Bank of America, BB&T and Wells Fargo				
					14,000 sq. ft. of fast food restaurant space	shopping centers contain retail shops, grocery store, restaurants – sq. ft. not reported				
					50,000 sq. ft. of restaurant space					
					225 hotel rooms	160 hotel rooms				
Completion:	**Transportation Completed**		**Housing Completed**		**Most Commercial Completed**		**No Jobs Reported**		**Most**	

District	Transportation		Housing		Commercial		Unemployment (Job Creation)		Overall Completion Assessment as of December 2011	Bond Project Fund Balance (as of 6-30-11)
Hollowell /M.L. King	Planned	Completed	Planned	Completed	Planned	Completed	Estimated	Reported		
	Sidewalks and bicycle lanes, trails, streetscape and road improvements	Nothing reported	4,165 housing units.	Nothing reported	445,000 sq. ft. of retail space	Nothing reported	Creation of 1,843 permanent jobs and creation of 3,498 construction jobs	Work has not begun	**None** No work has begun in the TAD	No bonds issued
					Create a total of 70,000 sq. ft of office space	Nothing reported				
					Create a total of 300,00 sq. ft. of industrial use space	Nothing reported				
Completion:	No Transportation		No Housing		No Commercial		No Jobs Reported		None	

District	Transportation		Housing		Commercial		Unemployment (Job Creation)		Overall Completion Assessment as of December 2011	Bond Project Fund Balance (as of 6-30-11)
Campbellton Road	**Planned**	**Completed**	**Planned**	**Completed**	**Planned**	**Completed**	**Estimated**	**Reported**		
	public infrastructure and transportation improvements	Nothing reported	Build a total of 5,050 housing units	Nothing reported	985,000 total sq. ft. of retail space	Corinthian Colleges, Inc., (Everest College), has renovated a 63,000 square foot vacant commercial building located adjacent to Greenbrier Mall in the former Cub Foods building.	Creation of jobs in the professional, business, and service industries with the substantial new office, research and development and retail development.	Nothing reported Everest College is estimated to create 95 jobs, but ADA has not reported any final figures on the job creation.	**Some** Corinthian College has been built.	No bonds issued
					1,660,000 total sq. ft. of office space	Nothing reported				
					900,000 sq. ft. of research park space	Nothing reported				
Completion:	**No Transportation**		**No Housing**		**Some Commercial Completed**		**No Jobs Reported**		**Some**	

District	Transportation		Housing		Commercial		Unemployment (Job Creation)		Overall Completion Assessment as of December 2011	Bond Project Fund Balance (as of 6-30-11)
Eastside	**Planned**	**Completed**	**Planned**	**Completed**	**Planned**	**Completed**	**Estimated**	**Reported**		
	Transportation improvements and parking; streetscaping & signage, street improvements and reconstruction	Some work completed on residential and mixed use properties. Remaining work on Memorial Drive infrastructure improvements.	Oakland Park	Completed	**Seven mixed-use developments:** TWELVE Centennial Park	Completed	The SunTrust Plaza, RCG, and Taylor Simpson projects were estimated to create between 1,800 and 2,000 construction jobs & 1,800-2,700 permanent jobs.	Nothing reported – these projects were not finished.	**Most**	$1,143,443
			GSU Student Housing	Completed	RCG	Not Completed				
			First Congregational Housing Development	Not Completed	Capital Homes Redevelopment	Completed				
			Capitol Gateway	Completed	Redevelopment	Completed				
			Tribute Lofts (not in plan)	Completed	The Reynolds	Completed				
					DeFoors Mixed-Use Project	Not Completed				
					Renaissance Walk –Sweet Auburn Village	Completed				
					Office Towers: Sun Trust Plaza	Not Completed				
					Taylor Simpson Office Tower	Not Completed				
					30 Allen Plaza-Barry Office Tower	Completed				
Completion:	**Most Transportation Completed**		**Most Housing Completed**		**Most Commercial Completed**		**No Jobs Reported**		**Most**	

District	Transportation		Housing		Commercial		Unemployment (Job Creation)		Overall Completion Assessment as of December 2011	Bond Project Fund Balance (as of 6-30-11)
Westside	**Planned**	**Completed**	**Planned**	**Completed**	**Planned**	**Completed**	**Estimated**	**Reported**		
	Parking, street and site improvements and utilities	Parking was built at Centennial Park, Gateway Apartments, World of Coke, 55 Allen Plaza, Park Pavilion, Historic Westside, and Village Castleberry Point; other transportation elements not reported	Between 1,000-1500 new housing units near Centennial Olympic Park	974 Total Housing Units: 45 Allen Plaza Castleberry Point, Historic Westside Village, Gateway Apartments, Centennial House Museum Tower, 123 Luckie	Office space in Centennial Olympic Park	Northyards 55 Allen Plaza Technology Enterprise Park Neighborhood Fund: Neighborhood Union Health Center Hagar Civilization Missionary Training PH II Quest Resource & Workforce Dev. Center International Brotherhood of Police Officers	Between 1,500 and 2,000 workers in Northyards Business Park (Centennial Park)	Not reported	**Most** Fewer housing units than planned All commercial completed except the Center for Civil and Human Rights	$31,035,800 (note: most committed to Center for Civil and Human Rights)
			Between 500 - 1,000 units in Vine City/English Avenue	106 Total Units: Elm Street Townhomes, English Avenue Condo Estates, Vine City Terraces, Villas at the Dome, Phase II	mixed use space in Centennial Olympic Park	Housing and Retail Developments: 123 Luckie Street Centennial House Museum Tower Gateway Apartments 45 Allen Plaza Castleberry Point				
					Hotel space	The Glenn The Ellis Park Pavillion				
					Commercial development	Marietta Place World of Coke Historic Westside Village				
Completion:	**Some Transportation Completed**		**Most Housing Completed**		**Most Commercial Completed**		**No Jobs Reported**		**Most**	

District	Transportation		Housing		Commercial		Unemployment (Job Creation)		Overall Completion Assessment as of December 2011	Bond Project Fund Balance (as of 6-30-11)
Metropolitan Parkway	**Planned**	**Completed**	**Planned**	**Completed**	**Planned**	**Completed**	**Estimated**	**Reported**		
	Transportation related improvements, such as sidewalks, drainage, intersection, streetscape and road improvements, gateway features	Nothing reported	About 1,300 housing units in Lakewood Park, Metropolitan Village, and Crossroads Center	Nothing reported	675,000 sq. ft. of retail space at Crossroads Center, Metropolitan Village, Cleveland Gateway, and Lakewood Park	Nothing reported	The Private Development will create approximately 2,650 permanent full-time jobs, and approximately 2,380 construction jobs.	Nothing reported	**Some** Only Screen Gems has been completed; transportation, housing components not completed	No bonds issued
					100,00 sq. ft. of office space at Crossroads Center, Metropolitan Village, and Cleveland Gateway	Screen Gems film studio in Lakewood Park completed – 211,500 sq. ft. of office space				
Completion:	**No Transportation Completed**		**No Housing Completed**		**Some Commercial Completed**		**No Jobs Reported**		**Some**	

District	Transportation		Housing		Commercial		Unemployment (Job Creation)		Overall Completion Assessment as of December 2011	Bond Project Fund Balance (as of 2-23-12)
BeltLine	**Planned**	**Completed**	**Planned**	**Completed**	**Planned**	**Completed**	**Estimated**	**Reported**		
	Transportation related improvements, including a transit system; street and sidewalk improvements	Land purchase: ABI and Georgia DOT have purchased 3.5 miles of right of way.	5,600 workforce housing units	BeltLine purchased the Triumph Lofts, the 30-unit condo complex on Memorial Drive on the edge of Reynoldstown for $3.7 million.	commercial development in about 12 major Activity Centers along the BeltLine (still in planning stages)	Nothing reported	More than 30,000 permanent jobs and 48,000 year-long construction jobs	Nothing reported	**Some** Transportation, housing, and commercial incomplete	$1,831
				Down payment assistance has been provided to purchase 34 homes; $8.8 million has been placed in a trust fund to be used for development incentives, down payment assistance, or property acquisition.						
Completion:	**Some Transportation Completed**		**Some Housing Completed**		**No Commercial Completed**		**N/A**		**Some**	

District	Transportation		Housing		Commercial		Unemployment (Job Creation)		Overall Completion Assessment	Bond Project Fund Balance (as of 6-30-11)
Perry/ Bolton	**Planned**	**Completed**	**Planned**	**Completed**	**Planned**	**Completed**	**Estimated**	**Reported**		
	Engineering, design, site preparation and permitting, roadway improvements, bridges, utilities, traffic signals, biking and walking trails, landscaping and other common area	Nothing reported	more than 1,200 new homes at the former Perry Homes site	700 apartments and over 130 single family homes completed at West Highlands; 1,486 planned according to ADA's project list	At the former Perry Homes Site: an 18-hole public golf course	Not reported	None	N/A	**Some** Transportation not reported, housing and commercial incomplete	No bonds issued
					quality retail and service businesses	Bolton Village, 29,000 sq. ft. commercial mixed use complex completed				
					a new public library, YMCA recreational center and school	Not reported				
Completion:	**No Transportation Completed**		**Some Housing Completed**		**Some Commercial Completed**		**N/A**		**Some**	

Appendix B Census Tracts Included in Analysis

Tract	Percent of Tract in a District	Percent of Tax Allocation District Within Tract									
		Beltline	Atlantic Station	Eastside	Westside	Hollowell/King	Stadium Neighborhoods	Metropolitan Parkway	Campbellton Road	Princeton Lakes	Perry/Bolton
002600	99.9	0.0	0.0	0.0	17.1	0.0	0.0	0.0	0.0	0.0	0.0
002500	99.8	0.0	0.0	0.0	15.6	0.0	0.0	0.0	0.0	0.0	0.0
011800	99.3	1.1	0.0	0.0	28.3	0.0	0.0	0.0	0.0	0.0	0.0
003500	93.0	0.0	0.0	15.8	8.4	0.0	0.0	0.0	0.0	0.0	0.0
002900	92.1	0.0	0.0	12.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
011900	90.5	0.0	0.0	21.3	5.0	0.0	0.0	0.0	0.0	0.0	0.0
002800	89.4	0.0	0.0	12.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
007603	88.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	30.0	0.0	0.0
002100	85.6	0.0	0.0	0.0	12.4	0.0	0.0	0.0	0.0	0.0	0.0
002300	75.9	1.7	0.0	0.0	7.5	0.0	0.0	0.0	0.0	0.0	0.0
001900	72.1	0.0	0.0	11.6	2.1	0.0	0.0	0.0	0.0	0.0	0.0
003200	72.1	1.5	0.0	7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
004800	71.3	0.0	0.0	4.5	0.0	0.0	3.4	0.0	0.0	0.0	0.0
000700	70.6	4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
008700	70.5	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	44.6
008500	61.3	1.9	0.0	0.0	0.0	1.7	0.0	0.0	0.0	0.0	18.1
005000	56.4	2.1	0.0	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
006400	54.7	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
008601	53.5	0.0	0.0	0.0	0.0	17.9	0.0	0.0	0.0	0.0	16.0
005502	53.0	3.0	0.0	0.0	0.0	0.0	0.0	3.1	0.0	0.0	0.0
003600	52.8	0.0	0.0	0.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0
009402	51.8	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
012000	50.6	0.6	0.0	1.6	0.0	0.0	64.8	0.0	0.0	0.0	0.0
Total:		**26.5%**	**0.0%**	**92.3%**	**100.0%**	**19.5%**	**68.2%**	**3.1%**	**30.0%**	**0.0%**	**78.6%**

Tract Number	Geographic Area Within Tract (acres)	Geographic Area Outside of District (acres)
002600	235.8	0.3
002500	215.0	0.4
011800	458.9	3.1
003500	317.2	22.2
002900	162.7	12.8
011900	342.3	32.5
002800	165.3	17.5
007603	686.1	81.9
002100	170.8	24.6
002300	210.5	50.7
001900	177.5	49.5
003200	189.5	52.9
004800	69.3	19.9
000700	304.6	89.5
008700	1351.6	399.0
008500	574.7	222.3
005000	189.4	82.6
006400	169.7	76.9
008601	596.3	277.2
005502	223.0	104.7
003600	51.4	24.3
009402	173.9	83.9
012000	288.0	142.2
Total:	7323.7	1870.9

25.5% of geographic area included in our analysis is not within a Tax Allocation District

Source: Atlanta Department of Planning and Community Development

Appendix C Areas to Address in Redevelopment Plans

Element	Atlantic Station	BeltLine	Campbellton Road	Eastside	Hollowell/ M.L. King	Metropolitan Pkwy	Perry/ Bolton	Princeton Lakes	Stadium Neighborhoods	Westside	Total Number of Plans with Elements
Environment	X	X			X		X			X	5
Topography							X	X			2
Transportation	X	X	X	X	X		X	X	X	X	9
Public Utility Infrastructure	X		X				X	X			4
Commercial Development	X		X	X	X	X	X	X	X	X	9
Population			X				X	X	X		4
Income			X	X	X	X	X	X	X	X	8
Education			X						X	X	3
Housing	X	X	X	X	X	X	X	X	X	X	10
Affordable Housing	X	X	X	X			X				5
Unemployment	X		X	X	X	X	X	X	X	X	9
Obsolete Properties		X			X	X	X		X	X	6
Health and Safety			X	X	X	X	X		X	X	7
Household Structure			X				X		X	X	4
Greenspace/Parks	X	X	X	X			X	X			6

Note: Unemployment category includes both high unemployment and/or job creation, listed in redevelopment plans as follows:

- **High unemployment: (1) Eastside (2) Hollowell/M.L. King (3) Perry/Bolton (4)Princeton Lakes and (5) Westside**
- **Job Creation: (1)Atlantic Station (2) BeltLine (3) Campbellton Road (4) Eastside (5) Hollowell/M/L. King (6) Metropolitan Parkway (7)Princeton Lakes (8)Stadium Neighborhoods and (9) Westside**

Source: Auditor assessment of areas to be addressed in districts, as noted in the redevelopment plans

Element	Explanation of Areas to be Addressed in Redevelopment Plan
Environment	land remediation, brownfields, landfill, environmental degradation
Topography	steep land; within a 100-year flood plain (remediation of negative characteristics)
Transportation	access issues, providing alternative transportation solutions; building bridges, roads, sidewalks, parking, MARTA, light rails
Public Utility Infrastructure	sanitary storm sewers, water supply issues, putting utilities underground, stormwater control, erosion, solid waste management, drainage improvements
Commercial Development	creation of commercial development, such as office, retail, industrial, restaurant, entertainment, grocery store
Population	creating new residents (declining population or disproportionate growth), resident relocation (closing of housing projects)
Income	lower median income, household & per capita income
Education	percent (%) of residents with high school/college degrees
Housing	creation of residential units, address vacant properties, historic preservation, renting percentage, housing age, housing of lower values
Affordable Housing	creation of affordable housing
Unemployment	job creation, high unemployment rates and net job loss
Obsolete Properties	number and percent of predominantly vacant, deteriorated or obsolete structures, vacant and substandard structures
Health and Safety	crime increases, high levels of crime based on APD statistics
Household Structure	single parent households and female headed households
Greenspace/Parks	lack of park space and trails, creation of parks

Top Elements Stated in Redevelopment Plans	
Element	Number of Redevelopment Plans
Housing	10
Commercial Development	9
Transportation	9
Unemployment	9
Income	8
Health and Safety	7
Greenspace/Parks	6
Obsolete Properties	6
Affordable Housing	5
Environment	5
Household Structure	4
Population	4
Public Utility Infrastructure	4
Education	3
Topography	2

Appendix D Management Comments and Response to Audit Recommendations

Report # 11.06	Report Title: Tax Allocation Districts	Date: 5/23/12

Recommendation Responses – Chief Operating Officer

Rec. #1	The chief operating officer should propose for City Council approval modifications to the city's service agreement with Invest Atlanta to require it to develop and report annual evaluations of each tax allocation district to assess progress towards completing specific projects and achieving goals established in the redevelopment plan.	Agree
Proposed Action:	We generally agree with the audit recommendation and will develop an implementation plan and timeframe.	
Implementation Timeframe:	To be determined.	
Responsible Person:	To be determined	
Rec. #2	The chief operating officer should develop a policy to review annually surplus increment once the redevelopment plan is substantially completed and establish criteria for using surplus increment to pay down debt, return surplus increment to participating jurisdictions, or reallocate surplus increment to a debt service reserve or for a specific development project.	Agree
Proposed Action:	We generally agree with the audit recommendation and will develop an implementation plan and timeframe.	
Implementation Timeframe:	To be determined.	
Responsible Person:	To be determined.	
Rec. #3	Before seeking reallocation of increment to new projects outside the intended scope of the redevelopment plan, the chief operating officer should require Invest Atlanta to prepare for City Council consideration an amendment to the existing redevelopment plan that includes at a minimum: • establishment of the "but-for" clause for the projects within the expanded scope • proposed specific uses of funds • anticipated benefits to be produced by the private sector entity receiving assistance • description of sanctions, such as a claw back provision, for failure to meet goals	Agree
Proposed Action:	We generally agree with the audit recommendation and will develop an implementation plan and timeframe.	
Implementation Timeframe:	To be determined.	
Responsible Person:	To be determined.	

Rec. #4	The chief operating officer should work with Invest Atlanta to re-evaluate its redevelopment strategies in the corridor districts as appropriate, considering current economic conditions in those districts.	Agree
Proposed Action:	We generally agree with the audit recommendation and will develop an implementation plan and timeframe.	
Implementation Timeframe:	To be determined.	
Responsible Person:	To be determined.	

Report # 11.06	**Report Title: Tax Allocation Districts**	**Date: 5/23/12**
Recommendation Responses – Chief Financial Officer		
Rec. #5	The chief financial officer should propose for City Council approval revisions to the city's service agreement with Invest Atlanta to: • include preparation of financial reports at least annually showing how public funds were used to support tax allocation district redevelopment plans. • require Invest Atlanta and any of its affiliates to provide detailed budgets at least annually showing proposed uses of tax allocation district funds by fund.	Agree
Proposed Action:	We generally agree with the audit recommendation and will develop an implementation plan and timeframe.	
Implementation Timeframe:	To be determined.	
Responsible Person:	To be determined.	

Appendix E Invest Atlanta's Comments

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Downtown Development Authority

INVESTATLANTA
Atlanta's Development Authority

May 1, 2012

To: **Leslie Ward, City Auditor**

From: **Brian P. McGowan, President & CEO**
Ernestine W. Garey, Executive Vice President & COO
Cheryl T. Strickland, Managing Director-Redevelopment

cc: **Brian Leary, President & CEO, Atlanta BeltLine Inc.**
Lisa Gordon, Chief Operating Officer, Atlanta BeltLine Inc.

Re: **Management Comments and Response to Audit Recommendations**

This Memorandum sets forth management comments and the response of Invest Atlanta (the "Response") to the revised draft Performance Audit, Tax Allocation Districts of the Auditor's Office of the City of Atlanta (the "City") delivered to Invest Atlanta on April 24, 2012 (the "Audit Report"). The Response includes our assessment of both the audit findings and recommendations presented in the Audit Report, takes into account the experience of other cities with tax-increment financing ("TIF") programs, Invest Atlanta's understanding of national best practices for TIF and our assessment of the status and organizational capacity of the City's Tax Allocation District ("TAD") program. The Response also provides certain corrections or clarifications to key data presented in the revised draft Audit Report.

Comments to Audit Findings:

Below is a re-statement of the two findings, and set forth for each one a series of bulleted comments on the finding. Please be aware that to conserve space, we have not restated or summarized report commentary associated with each finding.

Finding 1: Invest Atlanta Does Not Tie Reported Progress to Redevelopment Plan Goals.

- TAD Program Evaluation and Strategic Plan: In Summer 2011, the Redevelopment Department of Invest Atlanta proactively commenced the initiative to evaluate the City's TAD program for which it is administratively responsible. The purpose of the TAD strategic plan is to align TAD activity with Invest Atlanta's new focus on job growth and Atlanta's global competitiveness. HR&A Advisors has been engaged to evaluate activities within each of the ten TADs over the past five years and to partner with staff in identifying opportunities and recommending priorities for the current mayoral administration to ensure the most effective use of the City's TADs. This work is slated to be complete in May, 2012.

- Invest Atlanta and ABI routinely generate and provide the following reports to the City and other stakeholders:

The following list covers all 10 TADs:

Report Name	Audience	Distribution	Frequency
Financial Statements (Balance Sheet and Income Statement)	City, Stakeholders, Trustees & Investors	Website & EMMA	Quarterly
2% Calculation per Fulton County IGA	Internal	N/A	Quarterly
Quarterly Developer Reports	Internal & Others As Needed	As Requested	Quarterly
Audit & Agreed Upon Procedures	City, Stakeholders & Investors	Website & EMMA	Annual
TAD Quarterly Report	City, Stakeholders	Website & Distribution List	Quarterly
APS Tax Increment Collections for 2009 & Earlier	APS	APS	Quarterly
Annual Tax Increment Collection Tracking	Internal	As Requested	Monthly
Eastside TAD Annual Development Activity & Disclosure Report	Investors	Website & EMMA	Annual
Princeton Lakes TAD Annual Development Activity & Disclosure Report	Investors	Website & EMMA	Annual
BeltLine TAD Redevelopment Agent Report	Investors	Website & EMMA	Annual
Atlantic Station TAD Redevelopment Agent Report	Investors	Website & EMMA	Annual

The following list is specific to the BeltLine TAD:

1. Quarterly status updates to City Council's Community Development/Human Resources Committee on the Atlanta BeltLine project, including construction progress.
2. In September 2011, a review of the initial Five Year Plan and project status was provided to ABI board of directors and external stakeholders.
3. Capital Program: Atlanta BeltLine projects are included in the City's Capital Plan

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prepared by the Department of Planning and Community Development

4. Redevelopment costs incurred: Each month, redevelopment costs proposed for reimbursement from the BeltLine TAD are reviewed in detail by Invest Atlanta before submission to the City's Finance Department for payment.

Regarding Finding 1, Invest Atlanta and ABI are prepared to discuss and adjust reporting formats and schedules consistent with direction from the City's COO and CFO.

Finding 2: Administrative Operating Costs Should Be More Clearly Defined and Monitored.

- Invest Atlanta was created by the City as a public body corporate and politic and operates as an instrumentality of the State of Georgia (the "State"). Although activated by the City, Invest Atlanta is its own legal entity governed by the Development Authorities Law of the State (O.C.G.A Section 36-62-1 et seq.) (the "Act"). Invest Atlanta is governed by its own 9-member public-private sector board of directors that is comprised of the City's Mayor (the "Mayor") and a member of City's Council ("City Council"), members appointed by the Mayor and City Council, as well as representatives from Fulton County and Atlanta Public Schools.

  As the City's development authority, Invest Atlanta exercises its powers to promote trade, commerce and industry, generate employment opportunities and advance the well-being of the City and its citizens. By virtue of its public status and economic development purposes conferred by the Act, Invest Atlanta is eligible to perform activities pursuant to other State laws, such as Redevelopment Powers Law of the State (the "Redevelopment Powers Law"), which law establishes the legal framework for TADs and clearly defines eligible redevelopment costs appropriate for expenditure of tax increment generated in TADs. The City has designated Invest Atlanta as its redevelopment agency for all of its TADs. Invest Atlanta has created and contracted with ABI to perform certain of its redevelopment activities in the BeltLine TAD. While Invest Atlanta and ABI are prepared to adjust reporting formats and schedules consistent with direction from the City's CFO, there currently exists significant monitoring and comprehensive review by the governing boards of both Invest Atlanta and ABI.

- ABI is Invest Atlanta's implementation agent for the BeltLine TAD. ABI is a Georgia non-profit corporation with a dedicated staff and its own board of directors. This governance structure differs significantly from the other nine TADs due to the scale and longer development horizon associated with the Atlanta BeltLine project. In creating ABI, an organization was established to implement the Atlanta BeltLine project using funding from the BeltLine TAD, which was intended to be a primary funding mechanism. This is reflected in a services agreement. ABI has a budget which is approved by the ABI Board of Directors. ABI accounts for its operations using Generally Accepted Accounting Principles (GAAP) and its financial statements are audited annually by an independent certified public accounting firm. There is no requirement by State law to reconcile costs to the categories identified in the State law and these categories are very broad. The adherence to GAAP provides a greater level of detail for classification of costs and is audited. Expenses incurred and related documentation are reviewed and approved by several members of Atlanta BeltLine and Invest Atlanta staff. Invest Atlanta recently added two additional CPAs to its staff to provide increased review capability. This hiring brings the total number of CPAs on staff at Invest Atlanta to four (4). Expense-related documentations and disbursement requests are also reviewed with the City's Finance Department and proper classification of costs is included in all of these reviews.

- On a quarterly basis, Invest Atlanta calculates the use of tax increment for imputed Administrative Costs in compliance with the Intergovernmental Agreements that are in effect with Fulton County. To ensure that our calculations were in accordance with the Intergovernmental Agreements we requested a legal memorandum that was prepared by bond counsel and dated May 31, 2011 (the "Legal Memorandum"). According to the legal memorandum, imputed administrative costs are a permissible use of funds. Tax allocation increments can be used for any uses deemed necessary or appropriate pursuant to the provisions of the Redevelopment Plan and the Redevelopment Powers Law.

  In the example of the Metropolitan Parkway TAD, 2% of the Fulton County Tax Increment is the $12,805 and it is calculated correctly according to that TAD's Intergovernmental Agreement and the Legal Memorandum.

  For the BeltLine TAD, as confirmed in the Legal Memorandum, only administrative costs paid from bond proceeds are subject to a 2% limitation. Administrative costs for the BeltLine TAD are paid from non-bond proceeds and are not subject to this restriction.

  Each of the annual TAD budgets which is prepared by Invest Atlanta specifically identifies administrative costs. These administrative costs are reflected in the category "Payments to Other Governments", per instructions by the City.

Regarding Finding 2, although substantial controls and oversight already exists, we understand there is always room for improvement. Invest Atlanta and ABI will undertake a review internal controls in detail with the City's CFO and make appropriate adjustments.

Response to Audit Recommendations:

In summary, while we agree with some of the Auditor's Office's diagnosis of the challenges facing TIF programs and Atlanta's TADs, we observe that many of the offered prescriptions run counter to national best practices. Further, we believe that implementation of many of the recommendations would impose financial and administrative burdens on Invest Atlanta that would adversely affect its ability to support economic development.

Below we quote the recommendations, and then follow each quote with a series of bulleted comments on the recommendation.

1. ***Develop a policy to review annually excess increment in conjunction with annual evaluations of redevelopment plan progress and establish criteria for using excess increment to pay down debt, return excess increment to participating jurisdictions, or reallocate excess increment to a debt service reserve or for a specific development project.***

   - **Returning Excess Increment to Original Taxing Authority:** In one peer city examined, Kansas City, there is a requirement that excess increment be returned to the respective taxing districts. However, Kansas City is unusual in that the city's 99 TIF

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areas have project-specific, rather than district-wide, redevelopment plans, and therefore there is a logic to returning excess increment beyond that which is required to support the project. One could imagine imposing such a requirement on Atlanta TADs like Princeton Lakes and Atlantic Station. Although we have not undertaken an exhaustive search of the nation's TIF regimes, we are unaware of a city in which such a requirement has been imposed on district-based redevelopment efforts, i.e. as in Eastside and Westside TADs.

- **Losing Access to Valuable Redevelopment Funds During a Time of Recession, Record Low Interest Rates and Limited Financing:** Due to the limited number of feasible new construction projects as well as challenges in the municipal finance markets, it may be difficult for the City to issue new TAD bonds in the near term to support economic development. The fact that some of the City's TADs currently have substantial excess increment funds available to support economic development is a major competitive advantage for Atlanta in comparison to peer/competitor cities that should not be wasted. Likewise, there will likely never be another period in our lifetimes at which economic development aims can be so cost-effectively advanced as now. Again, were this recommendation to be adopted, it should be limited to single-project TADs with few opportunities for additional investment, such as Princeton Lakes.

- **Allocating Excess Funds to Specific Projects on an Annual Basis:** Due to the multi-year nature of many projects, distributing all TAD funds at the end of each year would be a poor way to support redevelopment projects. We cite an example from California, which has longer, deeper experience with TIFs than virtually any other state; in its 2011 budget report, CRA/LA provided the following explanation regarding the need for multi-year thinking (as well as related measures to ensure funds are not unnecessarily idle):

  > *"Because the timing of redevelopment projects can be generally unpredictable, funding set aside in one year for a conceptual project, and approved in detail the next, may not actually be needed until the following year or even later. Also, in project areas with limited resources and/or competing redevelopment opportunities, a small amount of funding may be set aside each year to accumulate an amount large enough for investment in later years. For these reasons, most of the multi-year budget "carries-over" from year to year. Each year in the budget process, projects and their funds are re- examined to ensure no funds sit idle while other opportunities go wanting. This cash-flow analysis is repeated continually throughout the year and reported quarterly to the CRA/LA Board."*

2. ***Propose for City Council approval revisions to the city's service agreement with Invest Atlanta to:***
   - include preparation of financial reports at least annually showing how public funds were used to support tax allocation district redevelopment plans.
   - require Invest Atlanta and any of its subsidiaries to provide detailed budgets at least annually showing proposed uses of tax allocation district funds by fund.

- **Annual Financial Reporting:** Cities examined by HR&A Advisors have a range of annual reporting requirements. In Denver, the Urban Renewal Authority publishes an annual financial report, but it is not district-specific, nor does it contain a publicly disclosed budget. Generally speaking, larger cities are subject to greater reporting obligations, providing summaries of district-specific revenues/expenses and activities (Kansas City, Dallas). However, these cities also have significantly greater access to TAD funds to pay for administrative costs than Georgia cities do, given usage restrictions in the Redevelopment Powers Act, as well as significantly larger staffs and internal resources. CRA/LA, for example, has a staff of 230 employees, including a five-person Asset Management department to monitor the performance of its project portfolio.

- **Projections of Fund Usage:** We believe Chicago, Illinois represents the state of the art with respect to permitting wide flexibility to advance economic development goals. Chicago TIF districts project fund balances two years into the future, assuming current obligations, likely revenue growth and potential projects; however, these projections are for informational purposes only and do not bind the City to support or not support particular projects in the upcoming years. Any new requirement to estimate future fund usage should ensure that the TAD program retains sufficient flexibility to respond to opportunities as they arise.

3. ***Work with Invest Atlanta to re-evaluate its redevelopment strategies in the corridor districts as appropriate, considering current economic conditions in those districts.***

- **Wider Range of Challenges:** Redrafting redevelopment plans for the City's Commercial Corridor TADs (Campbellton Road, Stadium Area, Hollowell/M.L. King and Metropolitan Parkway) will not solve the problems faced by these districts. These districts require more active involvement of Invest Atlanta, the City and other stakeholders, as well as the financial and staff resources required to support this higher level of involvement. These districts were the last to be created and were introduced as the economy was weakening; more than anything, these districts would benefit from a significantly stronger local economy and capital markets environment, as well as the committed partnership of Atlanta Public Schools. The districts would also further benefit from a loosening of restrictions within the Redevelopment Powers Law that limit financing options in the City's corridor districts. The TAD Strategy initiative currently underway was commenced in part to address the need to revaluate the redevelopment strategies underway in the Commercial Corridor TADs.

4. ***Before seeking reallocation of increment to new projects, require Invest Atlanta to prepare for City Council consideration an amendment to the existing redevelopment plan that includes at minimum:***
   - ***re-establishment of the "but-for" clause***
   - ***proposed specific uses of funds***
   - ***anticipated benefits to be produced by the private sector entity receiving assistance***
   - ***description of sanctions, such as a claw back provision, for failure to meet goals***

- **Barriers to Fund Deployment:** While the implicit goals of the above recommendations are laudable, any such provisions must be carefully crafted in order not to create undue and unnecessary barriers to fund deployment, such as a lengthy redevelopment plan redrafting process. Other TIF programs tend to associate these kinds of requirements with the creation of a TIF district, rather than the funding of a specific project. Amending a redevelopment plan each time a new project is to receive funding would slow down the process considerably and make the TAD program a less attractive redevelopment tool for developers and community organizations.

- **Negative Impact of Open-Ended Claw-Back Provisions:** An ambiguous and open-ended claw-back provision could have a negative impact on the attractiveness of the TAD tool, as it would introduce a level of risk that could lead banks to discount the value of TAD funds when providing financing to new projects. A limited claw-back provision, requiring developers to complete projects/infrastructure for which they have received TAD funding, is more appropriate and is a standard provision in development agreements associated with Atlanta's TADs.

5. *Propose for City Council approval modifications to the city's service agreement with Invest Atlanta to require it to develop and report annual evaluations of each tax allocation district to assess progress towards completing specific projects and achieving goals established in the redevelopment plan.*

- **Necessity of a Longer Timeframe:** Assessing progress toward meeting TAD goals on an annual basis would not be particularly useful, as most redevelopment projects require several years before benefits are seen. Other TIF districts with goal assessment requirements tend to take a longer view. Kansas City, for example, requires a public hearing once every five years to determine whether redevelopment projects are "making satisfactory progress under the proposed time schedule." Chicago requires a status report no later than 10 years after the creation of a district detailing progress toward meeting the district's goals and objectives.

Other Key Corrections and Clarifications to April 24, 2012 draft Audit Report

1. Page 7: Invest Atlanta created ABI to serve as implementation agent for the BeltLine TAD, not redevelopment agent. Invest Atlanta continues to serve as redevelopment agent for the TAD.

2. Page 17-18: The reported totals of TAD bonds issued and total indebtedness is overstated by $76 million in that it includes both refunded and refunding bonds for Atlantic Station. Bonds outstanding cannot include debt that has already been repaid.

3. Page 59-Exhibit 20: Invest Atlanta's adopted budget for Fiscal 2011 included $1.9 million in Revenues from the Redevelopment Department. Of this $1.9 million, only $906,000 was budgeted as being reimbursed from the TADs. The balance is made up of service fees associated with our New Market Tax Credits affiliated entities and administrative fees associated with real estate projects/developers.

Appendix F City Auditor's Response to Invest Atlanta's Comments

Government Auditing Standards require us to explain in the audit report our reasons for disagreeing with comments from the audited entity if they conflict with the audit's findings and recommendations or when planned corrective actions do not adequately address the recommendations. The chief operating officer and chief financial officer agree with our recommendations and plan to develop specific implementation plans in the near future; we're optimistic that their proposed actions will adequately address the recommendations. Comments on pages 85-91 from Invest Atlanta express some concerns and provide additional perspective which, for the most part, poses no direct conflict with our findings and recommendations. A few of the comments, however, require additional explanation and response, provided here.

- Invest Atlanta apparently chose the "best practice" cities discussed throughout their response for their flexible use of tax increment in their redevelopment programs. We question whether that criterion is sufficient to warrant the "best practice" label. We researched independent analyses of risks, benefits, and recommended practices, and cited these studies in the report. We also used them to arrive at our recommendations, which are consistent with current Georgia law. State laws governing these programs vary in many respects; a thorough comparison of the differences and how they constrain or permit local flexibility is beyond the scope of the audit. Increased flexibility can bring increased risk; at least two cities cited by Invest Atlanta have realized that risk. In Kansas City, for example, the increment from TIF (tax increment finance) projects is insufficient to pay debt service on TIF-backed bonds; the city's general fund has contributed $11 million to $13 million annually since fiscal year 2010. The contributions would be higher were it not for the use of $5 million to $6 million a year from excess bond proceeds. (Eliot Brown, "Urban Center Is Budget Hole," *Wall Street Journal*, April 23, 2012, A3.) Chicago's TIF program, established to spur redevelopment and growth in blighted areas, has been used to provide assistance to large, profitable corporations and developers in affluent parts of the city, including the downtown Chicago Loop. The program, which has generated about $500 million in increment annually, even in recent years of severe city budget shortfalls, also has subsidized nonprofit organizations that pay no property taxes. A commission appointed by Mayor Rahm Emanuel recommended reforms. (Ellen Fortino and Margaret Smith, "Corporate Giants Received TIF Money, Records Show," *New York Times*, February 26, 2011; Dan Mihalopoulos, "TIF Report Cheers Reformers, but Only as a Start," *New York Times*, September 2, 2011.)

- Invest Atlanta's description of its controls and financial reporting, as well as those of Atlanta Beltline Inc. (pages 85-88), don't take into account the observations made in the 2011 Report on Internal Control by the City's external financial auditor for that year. The report expressed concern about the accuracy of classification of tax allocation district expenditures recorded in the City's financial statements. These expenditures are based on reports and reimbursement requests from Invest Atlanta. Atlanta's auditor concluded that the expenditure reports did not sufficiently distinguish capital expenditures from other redevelopment costs that cannot be capitalized. Our recommendations on improving City oversight of tax allocation district funds are consistent with those of the City's external financial auditor.

- Invest Atlanta's discussion on page 89 of annual return of surplus increment to participating jurisdictions seems to misread our recommendation (now #2). We recommend an annual review of surplus increment, with return of the surplus as one of several options. We've revised the recommendation, as well as the related one on adding new projects (now #3), to clarify that the annual review applies only when a redevelopment plan is substantially complete, and the requirements for adding new projects at that time applies only when they fall outside of the intended scope of the existing plan.

- The annual progress reports we recommend are not incompatible with longer-term goals and multi-year projects, as Invest Atlanta's comments on page 91 seem to suggest. We believe annual reporting fosters accountability and transparency in the use of public funds. Atlanta Beltline Inc. already does some reporting as frequently as quarterly. The key point of the recommendation is to anchor the reports to the redevelopment plan, so there is a baseline for assessing progress over time. None of the current tax allocation district reporting does that.

Corrections:

- p. 7 is corrected to "implementation agent."
- The $ amount of bonds issued (Exhibit 5, page 23) is not overstated. We did issue $636 million in bonds, and this table is simply a history of bond issuance activity. We have corrected "total indebtedness" to "total borrowing activity" on page 19. We show net bond proceeds in Exhibit 8 (page 39), with the refunding deducted.
- p. 59 is corrected to refer to redevelopment revenue; we could not confirm the amount of specific tax allocation district revenue included in that revenue.