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June 15, 2020

To: Board of Finance
Board of Representatives

From: Sandra L. Dennies, Interim Director of Administration

Re: Report on the Results of the Procedures Performed Related to the Tax Increment
Financing Payments and Lease Agreements

Following the departure of the former Director of Administration and the announcement of his employment by BLT, there were a number of concerns expressed that suggested an audit should be conducted to identify if the City had been in any way disadvantaged in its interface with Harbor Point.

PKF O'Connor Davies was hired to conduct such an audit. Having received all documents from the Tax Office, the Controller, the financial system and the bank, there were no transactions identified that disadvantaged the City. The auditor did find, however, that no TIF payment was made in relation to the amount of tax collected from District properties for July 1, 2017. The documented tax collection of \$4,324,439 was simply taken in as revenue by the City. A TIF payment was not made as a result of the change in the timing of the payments to Harbor Point from 9 months to three months. That payment is the subject of discussion with Harbor Point at this time.

The audit also did not evaluate the market value of the lease payments for One Elmcroft or Southfield Avenue for use by the Board of Education. The Assessor's Office evaluated the rental fees for those

properties and I have attached their report to this submission. The pricing for those rentals was found to be in keeping with the market in Stamford at the time they were executed.

Please review the reports and if you have any question, please let me know.

City of Stamford, Connecticut

Report on the Results of the
Procedures Performed Related to the
Tax Increment Financing Payments
and Lease Agreements

June 11, 2020



Scope of Services

Scope of Services

The agreed scope of services was as follows:

- Review the City's payments made to Harbor Point under the Harbor Point tax increment financing ("TIF") agreement and identify the amount, if any, payable under the agreement.
- Review the two lease agreements for rental properties from BLT to determine if the leases reflect any disadvantage to the City and that they reflect market rate fees for such rental.
- Review the relevant internal controls and related policies and procedures for entering into lease agreements and for approval for other types of agreements.*
- Perform other procedures as we consider necessary based upon the results of the procedures noted above.
- Issue a written report that will include the results of the procedures performed including any internal control or policy and procedures that were not properly followed or were circumvented.

*Due to the COVID-19 restrictions, we were unable to review the relevant internal controls and policies and procedures for entering into lease agreements and for approval for other types of agreements.

Tax Increment Financing Recalculation

Tax Increment Financing (TIF) Payments Recalculation

Objective

To perform a review of payments the City made to Harbor Point Infrastructure Improvement District (“Harbor Point”) based upon the debt service requirement stipulated in the Harbor Point TIF agreement in order to verify the amount paid was properly calculated and to identify any amounts payable under the agreement, if any.

Background

A former employee of the City left the City’s employment and accepted a position with a company, BLT, who was the developer of Harbor Point. The employee had significant involvement in the negotiations of the Interlocal Agreement amendments. After the public became aware of this fact, questions were raised regarding the Interlocal agreement. Based upon the questions that were raised by the public, we were engaged to review the agreements and subsequent amendments and the calculation of TIF payments made.

The second amendment to the Interlocal agreement dated March 14, 2018 changed the payment date for the tax amounts collected to be the immediately previous installment vs the installment due for the previous installment (i.e. the March 2018 payment was to be based upon January 2018 installment collections vs the July 2017 installment collections).

In addition to the TIF agreement, Harbor Point had implement a special assessment agreement program dated January 2010. Harbor Point contracted with the City to collect the assessments and remit them monthly.

Scope

We reviewed the calculations of the City’s semi-annual payments made to Harbor Point under the Interlocal Agreement for the period March 15, 2012 through March 15, 2020.

Procedures

The procedures that we performed to recalculate the payments were as follows:

- a. We reviewed the Interlocal Agreement, the First Amendment and the Second Amendment to the agreement. The focus of our review of the agreement and the amendments was to obtain an understanding of the payment calculation.
- b. We obtained supporting documentation for the components of the calculation.
- c. We performed a recalculation of the payment due to Harbor Point under the agreements, as amended, and compared the calculation to the amount paid.
- d. The amount paid by the City was agreed to the amount wired to Harbor Point and was agreed to the bank statement.
- e. We agreed the amount paid to the City’s general ledger.

Tax Increment Financing (TIF) Payments Recalculation

The calculation components per the agreement and amendments and the procedures we performed on each component are detailed in the following chart:

City of Stamford - Harbor Point	
Calculation of Tax Incremental Financing (TIF) Payment Due	
Taxes due	Agreed to report prepared by Tax Collector and received directly from Tax Collector
Taxes collected	Agreed to report prepared by Tax Collector and received directly from Tax Collector
Less 50% of base tax year revenues	Per Interlocal Agreement
Estimated incremental revenues	Recalculated
Available TIF revenues per agreement - 50% available to Harbor Point	Agreed to Interlocal Agreement
Debt service requirement	Recalculated based upon agreeing amounts to debt service schedules
Lesser of TIF revenues or debt service requirement	Per Interlocal agreement
Amount paid	Agreed to bank statement and general ledger

City of Stamford - Harbor Point		
Calculation of Debt Service Requirement		
<u>Series 2010A Bonds</u>		
Principal payment		Debt service schedule prepared by Stone and Youngberg
Interest payment		Debt service schedule prepared by Stone and Youngberg
Less: Series 2010B Recovery Zone Bonds Subsidy Received		Debt service schedule prepared by Stone and Youngberg
Series 2010B Recovery Zone Bonds		Debt service schedule prepared by Citi
Release of 2010B Debt Service Reserve Fund		Agreed to bank statement
<u>2017 Refunding bonds</u>		
Principal and Interest		Debt service schedule prepared by Citi
Investment earnings		Per consultant report - TIF calculation
Less: Administrative expenses		Per consultant report - TIF calculation
Net amount due		Calculation

Results of Procedures Performed

Based upon the procedures performed, we noted the following:

1. The TIF payments due were properly calculated and agreed to the amount paid by the City, except for the tax installment due July 1, 2017.
2. As noted above, beginning with the March 2018 payment, the timing of the tax collections paid on that date was accelerated to be the collections for the most recent installment vs the installment collected nine months prior. As a result of changing the time period from when the taxes were collected for each payment date, the March 2018 payment was calculated using the January 1, 2018 installment instead of the July 1, 2017 installment collection.

Results of Procedures Performed

To verify that the payment had not been made by the City, we requested and reviewed a vendor history report that detailed the payments made to Harbor Point. Based upon that review, we noted the following:

- No payment was identified for 50% of the amount collected for the July 1, 2017 installment of \$4,324,439
 - There were other payments made to Harbor Point that were determined to be for the assessment collections that were made by the City on behalf of Harbor Point
 - There were three payments made by the City made directly to US Bank on behalf of Harbor Point
 - Due to the change in the timing of the payment, but not the debt service requirement, it is unclear as to the proper calculation for the July 1, 2017 collections (lesser of 50% of collection or the debt service requirement)
3. For certain payments, we noted that the amount of taxes paid was less than 50% of the amount of taxes billed. The TIF calculation per the agreement was properly calculated based upon the amount of taxes paid.
 4. We noted for the September 2013 TIF payment calculation, there was an error in the calculation of \$6,831 that was corrected in the March 15, 2014 payment.

Review of Lease Agreements

Review of Lease Agreements

Objective

To review the two lease agreements for rental properties from BLT to determine if the leases reflect any disadvantage to the City and that they reflect market rate fees for such rental.

Background

A former employee of the City left the City's employment and accepted a position with a company, BLT, who also is the lessor for two properties leased by the City. The employee had significant involvement in the negotiations of the two lease agreements. After the public became aware of this fact, questions were raised regarding the lease terms and lease payment amounts. Based upon the questions that were raised, we were engaged to review the two lease agreements.

At our recommendation, the City engaged a real estate consultant to evaluate the current and subsequent years' lease payments as compared to the current market.

Scope

We reviewed the following lease agreements for the significant lease terms:

- Property Address: Two Harbor Landing, 68 Southfield Avenue, Stamford, CT
Landlord: Waterfront Office Building LP
Property Manager: BLT Management, LLC
- Property Address: 126 Elmcroft Road, Stamford, CT
Landlord: One Elmcroft Stamford, LLC
Property Manager: BLT Management, LLC

Procedures

We reviewed each of the lease agreement terms including the following:

- Permitted use
- Additional rent (electrical factor, cleaning)
- Service provided by landlord
- Improvements by tenant (tenant allowance)
- Default
- Termination
- Holdover by tenant
- Option to extend

Review of Lease Agreements

Results of Procedures Performed

Based upon our review of the lease terms, we did not note any terms that we would consider to be above standard commercial property lease terms.

As noted above, we did not evaluate the market value of the lease payments. The City hired a real estate consultant to provide an evaluation of the current payment and the options.

Please refer to the real estate consultant report for evaluation of the lease rate.

Restrictions:

This report is intended solely for use of the Stamford Board of Representatives, Board of Finance and the management of the City of Stamford, Connecticut and should not be used for any other purpose.

The validity of this report is predicated on the extent to which full, honest, and complete disclosure was made to all parties.

Assumptions:

In performing our procedures, we made the following assumptions:

1. The agreements and other supporting documentation provided to us to perform our procedures described above were complete.
2. The supporting documentation provided were copies of the original documentation that was used to process the transaction at the time it occurred.
3. All documentation related to the scope of the review were provided.

PKF O'Connor Davies, LLP

Wethersfield, Connecticut
June 11, 2020

Lease Justification: 68 Southfield and 1 Elmcroft

Issue: Determine whether the rental fees quoted for **68 Southfield** and **1 Elmcroft** leases are reasonable for the time periods indicated.

Opinions (both properties):

- \$30.00 appears to be reasonable, given the average market rent in each property's respective submarket. These rents average about \$36-\$39.
- For Westover (assuming extension is offered): If viable leasing options are available elsewhere, the building's high vacancy could provide leverage for Westover to negotiate a much lower rent (\$20-\$25).

Following are some market fundamentals and additional information on each property to support these opinions.

Please note that the market data, aside from the CBRE Q4 2020 chart, are updated daily.

Market Analysis from CBRE: Following are excerpts from CBRE's Q4 2019 analysis. Stamford's non-CBD submarket is highlighted. The data applies to both Subject properties. Q1 2020 is not available yet, but we can probably assume it will be markedly different. I will forward it to you once I receive it.

CBRE Q4 2019 Summary

Submarket	Market Rentable Area (sq)	Total Available (sq)	Avail. Rate (%)	Vacancy Rate (%)	Net Absorption (sq)	Leasing Activity (sq)	Avg. Asking Rent (\$/sq/Yr)
Greenwich CBD	2,134,730	354,155	16.6%	13.5%	(53,984)	18,472	\$92.24
Greenwich N/CBD	2,194,075	392,425	17.9%	16.8%	22,017	25,055	\$44.81
Stamford CBD	10,287,471	2,431,969	23.6%	21.8%	411,704	248,256	\$46.73
Stamford N/CBD	6,381,443	1,920,091	30.1%	27.6%	(280)	22,701	\$29.51
Central	9,728,274	2,545,165	26.2%	18.2%	(33,420)	78,536	\$32.81
Eastern	6,263,488	1,197,317	19.1%	17.1%	42,400	77,015	\$17.48
Northern	4,043,800	843,055	20.8%	21.3%	20,193	20,193	\$18.80
Total	41,033,281	9,684,177	23.6%	20.4%	408,630	490,228	\$34.50

Property Information from Costar

68 Southfield (Subject Property #1):

- Current Rent: \$20.00. Extension Option 9/1/20-8/31/21 @ \$30.00. (50% increase).
- Subject Property is Class B Office.
- Subject asking rent is \$40.00. This number typically comes from the broker representing the landlord.
- 35% of available space.
- Submarket Rent: \$36.20 (down 2.0% year-over-year)
- Submarket Leasing activity down 53.7%

Note: The most recent in-place rent found was \$25.00 in 2013. \$30.00 (the renewal option) would represent ~2.65% average annual rent growth. This increase is standard in a “normal” market and would justify the \$30 number, assuming building has been well-maintained.

1 Elmcroft (Subject Property #2):

- Current Rent: \$30.00.
- Subject Property is Class A Office.
- 88% vacant, but 100% available.
- Subject asking rent not available.
- Submarket Rent: \$38.80 (down 1.8% year-over-year)
- Submarket Leasing activity down 53.7% (same as 68 Southfield).