



2018-10

Leigh Street Development Project Audit

City of Richmond, VA

City Auditor's Office

May 15, 2018



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Highlights

*Audit Report to the Audit Committee,
City Council, and Administration*

Why We Did This Audit

The Office of the City Auditor conducted this audit at the request of City Council. The objective of this audit was to evaluate the overall compliance and performance of the contracts with the Leigh Street Development Project and the associated agreements. This was not an economic impact analysis of the project.

We recommended the DCAO of Economic/Community Development:

- Update the financial projections for City Council to determine the long term impacts on the project which reflects updated assumptions regarding the developments in the East End and Westhampton for the foreseeable future.
- Work with the EDA and City Administration to better define and document the process to approve the annual Redskins local contribution and make adjustments in future payments as needed for in kind contributions not included.
- Work with the EDA to confirm that payments are in accordance with the Leigh Street Agreement between the City and the EDA.
- Work with the EDA/Bon Secours to develop the East End and Westhampton properties within reasonable timeframes so that the other benefits anticipated for the City from these agreements are achieved.



Background - In June 2012, the Governor announced that the Washington Redskins planned to move their summer training camp to Richmond. In November 2012, City Council approved multiple ordinances for the Leigh Street Development Project with the Economic Development Authority (EDA). As a part of the project, a citywide economic development package was developed to benefit three City locations which included the Leigh Street site to host the Redskins training camp. The City provided \$10 million in financing for the development of the Leigh Street component of the project. To date, \$1.5 million of those funds have been repaid to the City by the EDA and the remaining amount of the debt is being refinanced through General Obligation Debt.

Financial Projections & Project Viability – We obtained a copy of a pro forma support document from November 2012 developed for the Leigh Street Development Project. It had two scenarios projecting revenues and expenditures. This was one of the pieces of information used to evaluate whether or not the agreement would be beneficial. The auditors reviewed both scenarios and compared to actual revenues/expenditures that resulted from the project from FY13-FY17 and determined that the projections were not feasible considering all of the project components.

Contract Compliance and Development Status - We tested a variety of contract compliance and development status issues for the Leigh Street, East End, and Westhampton developments. Some of which included:

Leigh Street - Payments totaling \$3,325,000 associated with the naming rights were made by Bon Secours and recorded properly by the EDA in their financial statements. All ground lease payments were remitted to the State. The monthly base rent payments and common areas maintenance were made in compliance with the lease agreements.

East End/Westhampton – For these properties, delays in progress have occurred. The Westhampton site zoning dates have been granted five extensions from the original Sept. 1, 2015 date to now July 1, 2018. Subsequent deliverables on this project have therefore been delayed. East End progress was delayed due to the land acquisitions on a delinquent real estate tax sale. These delays have caused the progress anticipated by the City from these contracts not to be achieved on the original planned timelines. Bon Secours stated they plan to meet all the remaining deadlines.

Schools Payments - The City has received four payments of \$100,000 from Bon Secours. The commencement date of the contract indicates fiscal years commencing January 2, 2014 and ending January 2, 2023, but does not specify which entity's fiscal year. The first payment remitted by Bon Secours was Dec. 22, 2014 (their FY14, City's FY15). This meant the Ordinance adopted April 28, 2014 to increase the capital budget for schools (City's FY14) was in error.

Local Contribution Payments – Overall, detail documentation to support the amount of in-kind contributions could be enhanced. There were additional costs in support of the training camp. The Richmond Police Department (RPD) indicated that on-duty police work was provided related to traffic control during the training camp. RPD provided resources totaling 1,933 hours which equated to \$58,005 from 2013-2017. An EDA representative indicated that the question of police costs reimbursement was the subject of original negotiations, but the City did not get these included in local contributions. Overall the auditors could not conclude if the EDA is capturing the full value of other cost in support of the camp.

Other Contributions - The EDA provided information showing other contributions by the Redskins which included; sporting goods equipment (uniforms, equipment, footwear) donated to Richmond Public Schools, Coaches in the Classroom that places academic athletic advisors in all City of Richmond High Schools, and the Redskins Read Across Richmond – Summer Reading Program. We did not audit the exact value of these contributions but do note these items in the body of this report.

Management concurred with 4 of 4 recommendations. We appreciate the cooperation received from management/staff and the EDA members while conducting this audit.

BACKGROUND, OBJECTIVES, SCOPE, METHODOLOGY, MANAGEMENT RESPONSIBILITY and INTERNAL CONTROLS

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. Those Standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the audit objectives. The auditors believe that the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

BACKGROUND

In June 2012, the Governor announced that the Washington Redskins planned to move their summer training camp to Richmond. The City worked with the Redskins to identify ideal locations for the training camp. On October 22, 2012, the Mayor, CEO of Bon Secours, and the General Manager of the Redskins announced the development of the training camp and wellness facility on a property on Leigh Street, owned by the Commonwealth of Virginia. In November 2012, City Council approved multiple ordinances for the Leigh Street Development Project.

As a part of the Leigh Street Development Project, a citywide economic development package was developed to benefit three City locations. The strategy of the package was to incorporate fitness, sports medicine, pediatrics, and men's health at various locations. The three locations as identified in the chart below include: Leigh Street (Training Camp Location), Westhampton (Former School), and East End (Richmond Community Hospital). Various deliverables were incorporated into the agreements for each location.

The City provided \$10 million in financing for the development of the project. The City financed the project by reallocating capital improvement funds from other capital projects.

The EDA as a part of the agreement established a "project fund." Any excess revenues are to be applied in the following order: operating costs, payment to the City of a minimum of \$500,000 (if funds available), and the local obligation to the Redskins (if the EDA chooses). Any remaining funds in the "project fund" after the first three should be remitted to the City.

The agreement indicates the following:

3.6.4.3 City Outlay. It is the intent of the City and the Authority that, to the extent funds are available in the Project Fund and not obligated to pay any contractual arrangements requested by the City or authorized to be undertaken by the Authority pursuant to this Cooperation Agreement, the City Outlay shall be paid back to the City. The Authority shall not be required to expend any funds derived from any source other than revenues from the Development to pay back the City Outlay. The City and the Authority acknowledge that the Authority has no legal obligation to return the City Outlay other than to the extent funds are available in the Project Fund in accordance with this Cooperation Agreement, as the City provides the Appropriation to the Authority as an appropriation pursuant to section 15.2-953(B) of the Code of Virginia and not as a loan.

Below is a depiction of all elements of the Leigh Street Development Project:



Auditor prepared

OBJECTIVES

The objectives of this audit were to evaluate the overall compliance and performance of the contracts associated with the Leigh Street Development Project. Additional objectives were as follows:

- Evaluate whether the performance agreement between the EDA and Bon Secours complied with Council ordinances for the Leigh Street Project.
- Test Financial Projections and Project Viability.
- Evaluate whether Bon Secours is in compliance with the deliverables in the performance agreement.
- Test the Redskins local contribution payments to ensure their accuracy and that in-kind contributions are reflected.
- Review the Leigh Street Project Financial Statements to determine if they are reasonable and if additional payments could be remitted to the City.
- Evaluate how the Leigh Street Development Project was financed.

SCOPE

Contracts related to the Leigh Street Development Project were reviewed from the approval of the ordinances in November 2012 – February 2018. Pro-Forma financial projections were analyzed through June 30, 2017.

The scope of this audit was not an economic impact study of the Redskins/Bon Secours project and therefore should be considered in addition to other information and studies. The Department of Economic Development contracted with VCU in 2018 for a separate study which we understand may include areas (Ex. Lodging and Meals taxes) that were not analyzed within this audit.

METHODOLOGY

Auditors performed the following procedures to complete this audit:

- Interviewed management and staff;
- Reviewed and evaluated relevant contract and agreements and tested for compliance;
- Reviewed detail transactions associated with the agreements;
- Reviewed financial projections and compared to actuals revenues/expenditures;
- Reviewed audited financial statements; and
- Performed other tests, as deemed necessary.

MANAGEMENT RESPONSIBILITY

City management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

INTERNAL CONTROLS

According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

Based on the audit test work, the auditors concluded that internal controls need improvement, which are covered throughout the body of this report.

FINDINGS and RECOMMENDATIONS

SUMMARY CHART OF FINDINGS



Description	FY13	FY14	FY15	FY16	FY17	FY18
Payment of \$100K to City for Schools	N/A					
Payment of Ground Rent at Westhampton Rent \$5,000	N/A	N/A	N/A			
Payment of Maintenance Fee at Westhampton \$28,000	N/A	N/A	N/A			
Payment of Naming Rights to the EDA \$825,000 for four years					N/A	N/A
East End Medical Office Construction	N/A	N/A				
Other East End Developments	N/A	N/A				
Westhampton Construction and Development Project	N/A	N/A				
Payment of Rent at Leigh Street - 1st Floor (Including Pro Rata share of Operating Expenses)	N/A					N/A
Payment of Rent at Leigh Street - 2nd Floor (Including Pro Rata share of Operating Expenses)	N/A					N/A
Local Contribution - Recalculation	N/A					
Other Contributions to the Community	N/A					
Grant Repayment in Compliance with terms of the Agreement.	N/A	N/A				
Ground Lease Paid to State per the Contract						
Pro Forma Projections						
Other Revenues	N/A					N/A
Other Expenditures	N/A					N/A
Real Estate Tax revenue projections						
East End	N/A	N/A				
Westhampton	N/A	N/A				
Leigh Street	N/A	N/A				
BPOL Tax revenue projections						
East End	N/A	N/A				
Westhampton	N/A	N/A				
Leigh Street	N/A					
Business Personal Property Tax revenue projections						
East End	N/A	N/A				
Westhampton	N/A	N/A				
Leigh Street	N/A					

Financial Projections and Project Viability

The auditors obtained a copy of a pro-forma financial projection (pro-forma) from November 2012 for the Leigh Street Development Project that had been developed as support for information previously provided to City Council. The pro-forma (see Appendix A) had two scenarios projecting revenues and expenditures for the project. The pro-forma was one of the pieces of information used to evaluate whether or not the agreement would be cost beneficial.

The auditors reviewed both scenarios and compared to actual revenues/expenditures from FY13-FY17. The auditors used the EDA's audited project fund financial statements, rent receipt details, and property tax records to obtain actual amounts. Upon review, the auditors determined that the projections were not feasible considering key components of the project. The net variances not counting the payment to the City totaled \$4.6 million (Scenario A) and \$6.7 million (Scenario B). Below are some of the larger examples of items in the pro-forma that did not materialize as outlined:

Revenue Items

- Both scenarios projected \$550,000 per year of rental income on the Leigh Street Facility starting in 2014. However, this amount is dependent on the construction and development of the Westhampton property, which has not occurred. In both scenarios, this resulted in a variance of \$606,670 from FY14-FY17.
- A second line item called "2nd Floor Cost Reimbursement from the EDA" in the pro-forma outlined additional income of \$1,545,000 in both scenarios and actual reimbursements totaled \$762,052 for FY14-FY17, resulting in a variance of \$782,948.
- A revenue line item outlined as "Other Sponsorships and Rental" had projections of \$2,332,000 in Scenario A and \$4,400,000 in Scenario B, whereas actual income was \$633,722, resulting in variances of \$1,698,278 and \$3,766,278, respectively.

Expenditure Items

- Expenditure line items for principal payment of the first and second floor of the facility were outlined to be paid for a total of \$8,859,809 and actual payments totaled \$1,500,000 (\$1,000,000 through FY17 and \$500,000 in October 2017).
- An expenditure line item for "Training Facility Mgmt., Maintenance & Asset Renewal" were outlined with an estimated cost of \$50,000 per year for FY14-FY17 and actual expenditures totaled \$1,195,241 for FY13 – FY17, resulting in a variance of \$995,241. Of this \$217,842 was paid to SMG

for management services. This increased expense was offset by \$1,030,402 less spent in Football Fields Operating Expenses.

- An expenditure line item for "EDA Admin Costs" estimated \$100,000 per year for FY14-FY17 and actual expenditures totaled \$1,872,017, resulting in a variance of \$1,472,017. Per the EDA, these costs included personnel, professional services, building operations, and operational supplies.

Taxes

For the tax projections, the City collected less than half of the total estimated tax revenues. The pro-forma financial projection taxes did not include any real estate taxes for the training camp facility, but included taxes for the Westhampton and East End developments starting in FY15. The space lease outlines that taxes are to be paid on the Leigh Street facility. Total real estate taxes of \$235,290 has been received for the training camp site from 2014 - 2018. The differences between the projections and the actuals are mainly due to the projection assessing the land at its built-up value for all sites from FY15 and the buildings have not been completed yet leading to a larger and unrealistic projection.

EDA Financial Statements

The auditors also reviewed the audited financial statements for the EDA to analyze the established project fund for the Leigh Street Development Project. The audited financial statements demonstrated operating income in two of the five fiscal years, with operating losses in the remaining three years. The cash/cash equivalents decreased each year with the exception of one. In FY17, funds were transferred in from another fund to finish the second floor of the training facility in addition to other payments. It was concluded that without funding from other areas, the facility's income is not sufficient to cover the obligations including the City payment, the Redskins payment, and the operating expenditures of the facility.

Other Costs & Park

The pro-forma outlines a total initial cost estimate of \$8,859,809 for the training camp facility. The costs outlined in the pro-forma are for the site, fields, locker room, sports medicine facility, and 2nd floor. Based on a review of the construction contract, the construction plans were modified to defer the completion of the second floor of the facility and to add on a public park to the property. Per EDA representatives, the total for the construction of the facility was approximately \$10.84 million, which included \$10 million in City funds of which approximately \$1.1 million were for the new recreational area. The EDA indicated that, due to the lack of rent from the second floor, it was challenging to increase cash flow for the project. The second floor was finished later using funds transferred from other EDA sources.

Overall, in comparison to the outlined projections, revenues were short of projections and expenditures were higher with the exception of the repayment to the City for the grant payable. This is partially a result of the revenues not occurring yet as projected from the development East End and Westhampton projects, and cost overruns of the park. The expenditures also include over \$1 million in cash payments to the Redskins that were not anticipated.

The Department of Economic Development contracted with VCU to conduct an economic impact study of the Redskins/Bon Secours project. This study, which is being done independent of this audit, should provide additional information regarding other revenues as a result of this project.

Contract Compliance and Development Status

As a part of the Leigh Street Development Project, a citywide economic development package has been developed to benefit three City locations. The strategy of the package is to incorporate fitness, sports medicine, pediatrics, and men's health at various locations throughout the City. The three locations are as follows: Leigh Street (Training Camp Location), Westhampton (Former School), and East End (Richmond Community Hospital). Various criteria were incorporated into the agreement for each location.

Leigh Street (Redskins Training Camp)

Naming Rights

On July 8, 2013, Bon Secours (Naming Sponsor) and the EDA entered into a naming rights agreement. Bon Secours entered into an agreement with the Redskins, which allows the Naming Sponsor a license to use the Redskins' logos. The facility located at 2401 West Leigh Street was designated the "Bon Secours Washington Redskins Training Center." A total of \$3,325,000 over four installments of \$831,250 were paid by Bon Secours for the naming rights. All payments associated with the naming rights were made by Bon Secours and recorded properly by the EDA in their financial statements.

Ground Lease – Commonwealth (% Allocated to Bon Secours)

Effective January 1, 2013 the Commonwealth of Virginia and the EDA entered into a ground lease with a term of 20 years, ending on December 31, 2032. According to the lease, the lessee must pay the landlord \$40,560 each year in advance on the commencement date. The ground lease can be renewed for four additional terms of 10 years. If the EDA does not notify the Commonwealth of the intent to renew the ground lease, the annual lease amount will increase in each subsequent

term. The ground lease specifies that the space will be used to construct a football training facility, two practice fields, drill field, and a field house. The ground lease also indicates that after the start of construction, the lessee has the right, at its own cost and expense to make additional improvements as long as they are in compliance with building codes and ordinances, compatible with current use, and approved by the lessor.

All ground lease payments were remitted for the ground lease contract with the Commonwealth of Virginia with one not remitted timely. None of the payments were remitted in advance of the commencement date as outlined in the contract. All payments were recorded in the EDA's audited financial statements and corresponding general ledgers.

The auditors did not identify any options within the ground lease to shorten the term without defaulting. The lease does outline provisions if the property is declared a surplus with an option to buy or if the lessee defaults on the lease.

Rent 1st & 2nd Floor

The auditors reviewed the detail rent payments for the Training Camp facility for compliance with the lease agreement. The monthly rent payments include; monthly rent, reimbursements to the EDA for Common Area Maintenance (CAM), and an allocation of the ground lease to the State. There is also a condition in the lease agreement that outlines the escalation of rent payments, pending the development of the Westhampton property. Currently the Westhampton project has not started, so the training camp rent falls under the conditional rent escalation section of the lease. Rent is escalated based on the calculated Consumer Price Index (CPI) or three percent, whichever is less. The auditors recalculated the escalated rent, and determined it was properly increased. The monthly base rent and CAM payments were in compliance with the lease agreement for the first and second floors.

East End

As outlined in the Performance Agreement between Bon Secours and the EDA, the specific contract deliverables are outlined for each area of the City. For the East End area, below are some of the specific goals/deliverables to be executed by Bon Secours:

- Project size will be a minimum of 25,000 square feet;
- Minimum of \$8,500,000 in construction costs;

- Once the project is complete, 75 FTE's will be created with a payroll and benefit costs of \$6,700,000;
- Once the project is complete, new FTE's will be maintained for a minimum of 10 years;
- No tax exemptions for the property if for some reason the property is not subject to real estate taxes or business personal property, an amount equal to those taxes will be paid by Bon Secours;
- Land will be acquired necessary for the expansion project;
- Commencement of Construction will occur within 18 months following the satisfaction of the land condition or the final approvals; and
- Completion of the project will be completed within 24 months following the Commencement of Construction.

The agreement provided for acquisition of a preferred original site within six months or an alternate site by July 8, 2014. After acquiring an alternate site on June 18, 2014, the acquisition of the last parcel to complete the assemblage for the original site occurred November 16, 2015. The original site acquisition was delayed until completion of the City's delinquent real estate tax sale. Richmond Redevelopment Housing Authority acquired the alternate site for a grocery store and other economic development. The original site was again selected with zoning approval completed Sept. 12, 2016. Corporate approvals are now due within two years of zoning (Sept, 12, 2018) with construction commencement due 18 months after that and construction completion due two years after starting. In reviewing the deliverables of the agreement for this area, the land has been acquired, but some delays occurred as noted above. Although construction on the facility has not started, some progress has occurred. Bon Secours indicated they have given back over \$6.4 Million (**unaudited**) to the East End through SEED and other construction/donations. Also, the Sarah Garland Jones Center for Healthy Living was built for over \$1.9 million and has booked 356 programs.

Westhampton

For the Westhampton location (former Richmond Public School), the property located at 5800 Patterson Avenue was declared a surplus by the City Assessor and directed to the EDA via Ordinance 2012-214-192 approved November 26, 2012. The EDA then leased the property to Bon

Secours with an initial rent of \$5,000 for the facility and \$28,000 for the playing field maintenance for a term of 60 years with two additional renewals.

As outlined in the Performance Agreement between Bon Secours and the EDA, the specific contract deliverables are outlined for each area of the City. For the Westhampton property, below are some of the specific goals/deliverables to be executed by Bon Secours:

- Project size will be a minimum of 75,000 square feet at the Westhampton School or elsewhere in the City;
- Minimum of \$24,000,000 in construction costs;
- Once the project is complete, 120 FTE's will be created with a payroll and benefit costs of \$10,800,000;
- Once the project is complete, new FTE's will be maintained for a minimum of 10 years;
- No tax exemptions for the property if for some reason the property is not subject to real estate taxes or business personal property, an amount equal to those taxes will be paid by Bon Secours;
- Expedited permitting with the City for the project;
- Once the zoning condition is satisfied, site plans and other permits will be applied for;
- Commencement of construction will occur within 18 months following the satisfaction of the zoning condition or the final approvals; and
- Completion of the project will be completed within 36 months following the Commencement of construction.

The original agreement provided a zoning approval deadline of Sept. 1, 2015 with subsequent steps in the process to follow specific timelines after zoning approval. Final construction was to be completed no later than March 1, 2022. To date, five amendments granting extensions for zoning approval have occurred with the latest extension to July 1, 2018. Overall, the development process of the Westhampton property has just begun, thus benefits from the development as noted above have not materialized for either the EDA or the City based on the original timelines. In an e-mail to the EDA Chairman dated April, 27, 2018 a Bon Secours representative stated that "completion deadlines have not been extended" and "We plan to meet all the remaining deadlines."

Payment to City for Schools

The performance agreement outlines in the Payments to Support Public Schools section that \$100,000 will be paid by Bon Secours to the City starting on January 2, 2014 for a period of 10 years. The payments will be to benefit Richmond Public Schools. This additional payment was added and approved by the City Council via an amendment to Ordinance 2012-230-218 on December 10, 2012.

The City has received four payments of \$100,000 from Bon Secours. The commencement date of the contract indicates fiscal years commencing January 2, 2014 and ending January 2, 2023, but does not specify which entity's fiscal year. The first payment remitted by Bon Secours was made December 22, 2014 (their FY14 and City's FY15). Bon Secours indicated they pay in November and December because of their fiscal year and budget. Bon Secours indicated that the last 2 payments at the end of the contract will be made within a few months of each other. The City, by means of an Ordinance adopted April 28, 2014 accepted to increase the capital budget for schools for the City's FY14. Background information within the Ordinance and Resolution Request for the increase in the school's capital budget indicates that the City received a payment from Bon Secours in February 2014. However, payment records from Bon Secours show that a payment was not made to the City during this time period. Also, the City could not demonstrate a receipt of payment from Bon Secours for this. Bon Secours was in compliance for their fiscal years, but the city erred in budgeting, likely due to a misunderstanding regarding fiscal years.

Local Contribution Payments

Review of Payments

Within the agreement between the EDA and Pro Football, Inc. (Redskins), local contributions in the amount of \$500,000 are to be made for each year of the agreement. Local contributions as outlined in the agreement means any goods and services contributed to the Redskins by the EDA or others. If the goods and services contributed to the Redskins exceed \$500,000 a credit shall be applied to the following year. The contract also outlines that if there is a shortfall in the local contribution in the initial year, the shortfall will be divided among the next six years. Any shortfalls after the first year of the agreement may constitute a default at the discretion of the Redskins.

The agreement indicates that the Redskins will meet with the EDA no later than December each year to determine any credits/adjustments and the timing for the payment of the remaining balance. Within the agreement with the Redskins, several items are outlined to be considered as local contributions by the EDA. Some of these items include lodging, meals, transportation, sponsorship tents and signage, security, field preparation, photography/videography, cleaning of certain areas, and other agreed items.

In-Kind Services

The auditors inquired of City and EDA staff about how the local contribution payments are determined. The EDA indicated that it is agreed on by the EDA Chairman, a Redskins representative, and a City representative. Credits for sponsorships, parking, ambassadors, and other costs are part of the calculations. The annual local contribution letter is signed by the EDA Chairman, Redskins representative, and EDA counsel.

A total of five in-kind local contributions have been calculated and applied based on the agreement from 2013 -2017. The first payment (2013 payment) was deferred over the next six years. In-kind contributions of \$1,340,273 have been applied to the annual commitment to the Redskins. The auditors were not able to obtain detail documentation from the City or the EDA for some areas of the in-kind contributions applied to the local commitment. The net of the in-kind contributions with the annual requirement has resulted in five cash payments to the Redskins totaling \$1,064,357. An EDA representative indicated that they did not anticipate having to pay out any cash payments as a part of the agreement. They also indicated that due to the delay in the completion of the 2nd floor at the training camp, a shortfall in revenues hindered their cash flow.

Overall, detail documentation to support the amount of in-kind contributions could be enhanced. The Richmond Police Department (RPD) indicated that on-duty police work was provided related to traffic control during the training camp. RPD provided resources (via police officers' hours) totaling 1,933.50 hours which equated to \$58,005 from 2013-2017. An EDA representative indicated that the question of police cost reimbursement was the subject of negotiation in 2013 and 2014 but the City did not get these included in local contributions. This explains why RPD indicated that this information had not been previously requested for potential inclusion in the City's local contributions. Overall the auditors could not conclude that the City is capturing the full value of other costs in support of the camp.

Payment Schedule

Upon execution of the Leigh Street Development Project, the City provided \$10 million in financing for the development of the project to the EDA. The City financed the project by reallocating capital improvement funds to the Leigh Street Development Project. The EDA as a part of the agreement established a “project fund.” Any excess revenues from the project are to be applied in the following order:

1. Operating costs of the development including management agreements.
2. Payment to the City of a minimum of \$500,000 (if funds are available in the fund).
3. Payment of any local obligations up to \$500,000 (if the EDA chooses).
4. Amounts remaining in the “project fund” after satisfying all payments for the items listed above.

The agreement indicates that funds from other revenue sources are not required to repay the capital outlay from the City. It also indicates that the EDA “shall” pay the City back which is contradictory. The auditors compared the dates for payments to the City for the grant payable with the dates for the payments to the Redskins. The results are shown in the table below:

Calendar Year	Payment Date – Redskins Payment	Redskins Local In-Kind Contribution Amount	Redskins Cash Contribution Amount	Payment Date – City Grant Payable	City Payment Amount
2013	N/A	\$213,890	\$286,110*	N/A	N/A
2014	N/A	N/A	N/A	N/A	N/A
2015	3/16/2015	\$262,147	\$285,538	3/16/2015	\$500,000
2016	3/29/2016	\$186,991	\$360,694	3/29/2016	\$500,000
	12/29/2016	\$317,166**	\$138,519		
2017	10/31/2017	\$0	\$92,000	10/31/2017	\$500,000
	10/31/2017	\$0	\$47,685		
	12/14/2017	\$360,079	\$139,921		
		\$1,340,273	\$1,064,357		\$1,500,000

Auditor prepared

* Amount not included in cash total. It was divided equally and deferred among the next 6 years

**Local contribution stated \$409,166, of this \$92,000 was not an in-kind contribution that was deferred and paid on 10/31/2017

The 2013 cash payment to the Redskins was deferred over the next six years at \$47,685/year, with two years remaining (\$95,370). Based on a comparison of the payments and local payments and in-kind from the EDA to the City and the Redskins, it was noted that five years of training camp local contribution credits totaled \$1,340,273 (2013-2017 camps). Non-City sponsorship credits of \$684,656 have also been received as well as credits for ambassadors and other things. Three payments totaling \$1.5 million have been paid to the City. Per the City Attorney's Office, the contribution limit is based on a calendar year, the agreement states "annually." In no calendar year were the direct cash payments to the Redskins in excess of \$500,000, \$92,000 was deferred from the 2016 cash payment and was paid in 2017. In 2016, when cash payments are combined with any other obligations for the purpose of retaining the Redskins, thresholds required by the agreement may not have been in compliance with the agreement.

Other Contributions

Through meetings held with the EDA, SMG, and the City's Economic Development Department, it was indicated that other contributions have been given to the City and Richmond Public Schools by the Redskins outside of the terms of the agreement established with the EDA and the Redskins. The EDA provided documentation showing a total of \$680,725 (**unaudited**) had been contributed from 2013 – 2016. No information was provided for 2017 from the EDA. In a televised interview called Training Camp Enhancements, it was stated by the Executive Director for the Washington Redskins Charitable Foundation (WRCF) on July 6, 2017 that more than \$750,000 (**unaudited**) has been contributed to the community. The auditors identified several articles outlining the programs/enhancements and contributions that have been brought to the community. The auditors did not validate the dollar value of these contributions. A brief description of some of these contributions is outlined below:

Redskins Read Across Richmond – Summer Reading Program: The Redskins have implemented a reading program within the Richmond Public Schools and Chesterfield County Schools that encourages reading over the summer. By participating, the student, the class, and the school can win prizes. Based on the interview with the WRCF it was noted that 41 schools have implemented the program.

Redskins High School Coaches in the Classroom: This program places academic athletic advisors in all City of Richmond High Schools. The "coaches" assist athletes create plans for the future beyond high school.

Capital Improvements and Sports Program Equipment: It was identified that in multiple years, the Redskins donated sporting goods equipment (uniforms, equipment, footwear) to Richmond Public Schools. The goal of donating the equipment is to promote an active lifestyle. The Redskins also partially contributed to a Play 60 Playground and a new football field for John Marshall High School.

Contract Approval – Leigh Street Development Project

The auditors reviewed the approved City Council ordinances with the various contracts associated with the development project. Based on this review, the auditors determined that the terms and conditions were in alignment with what was approved by City Council with minimal exceptions. The noted exceptions are related to administrative matters.

Recommendations:

- 1. DCAO of Economic/Community Development needs to update the financial projections for City Council to determine the long term impacts on the project which reflects updated assumptions regarding the developments in the East End and Westhampton for the foreseeable future.*
- 2. DCAO of Economic/Community Development needs to work with the EDA and City Administration to better define and document the process to approve the annual Redskins local contribution and make adjustments in future payments as needed for in kind contributions not included.*
- 3. DCAO of Economic/Community Development needs to work with the EDA to confirm that payment(s) are in accordance to the agreement.*
- 4. DCAO of Economic/Community Development needs to work with the EDA/Bon Secours to develop the East End and Westhampton properties within reasonable timeframes so that the other benefits anticipated for the City from these agreements are achieved.*

SCENARIO A

Revised 11-21-2012 - Including 2nd Floor Addition (Total Project -Variable Rate Financing) Breakeven Sponsorship and Other EDA Revenue over 10 years

City Finances Site and Fields	\$ 2,312,798
City Finances Sports Medicine Facility	\$ 3,009,179
City Finances Locker Room Wing	\$ 2,037,832
City Finances 2nd Floor	<u>\$ 1,500,000</u>
Total Construction Cost	\$ 8,859,809

	FYE 6/30	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Projected Revenue													
<i>Training Field Site</i>													
Rent on Training Facility from Bon Secours			550,000	550,000	550,000	550,000	437,500	437,500	-	-	-	-	3,075,000
Bon Secours Sponsorship & Naming Rights			825,000	825,000	825,000	825,000							3,300,000
2nd Floor costs reimbursement from EDA	7,500		390,000	386,250	382,500	378,750							1,545,000
Other Sponsorship and Rental			583,000	583,000	583,000	583,000	583,000	583,000	583,000	583,000	583,000	583,000	5,830,000
<i>Westhampton School Site</i>													
Ground Lease Revenue **			33,000	33,000	33,000	33,000	33,000	33,000	33,000	33,000	33,000	33,000	330,000
Total Revenue	7,500	2,381,000	2,377,250	2,373,500	2,369,750	1,053,500	1,053,500	616,000	616,000	616,000	616,000	616,000	14,080,000
Projected Expenses													
Interest on Line of Credit	36,799	73,598	54,018	34,438	14,858								213,711
Principal Payments		1,958,000	1,958,000	1,958,000	1,485,809								7,359,809
Interest on Line of Credit (2nd Floor)	7,500	15,000	11,250	7,500	3,750								45,000
Principal Payments (2nd Floor)		375,000	375,000	375,000	375,000								1,500,000
Ground Lease Payment to the Commonwealth	15,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	315,000
Training Facility Mgmt, Maintenance & Asset Renewal		50,000	50,000	50,000	50,000	50,000	75,000	75,000	75,000	75,000	75,000	75,000	625,000
Football Fields Operating Expenses (2% escalation)		250,000	255,000	260,100	265,302	270,608	276,608	281,541	287,171	292,915	298,773	298,773	2,737,430
EDA Admin Costs (Legal, Auditing, Banking, Ins, Employee)		100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	1,000,000
<i>Westhampton School Site</i>													
Fields Maintenance		28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	280,000
Total Expenses	59,299	2,879,598	2,861,268	2,843,038	2,352,719	478,608	509,020	514,541	520,171	525,915	531,773	531,773	14,075,951
Net Revenue	(51,799)	(498,598)	(484,018)	(469,538)	17,031	574,892	544,480	101,459	95,829	90,085	84,227	84,227	4,049
Cumulative Net Revenue	(51,799)	(550,397)	(1,034,415)	(1,503,953)	(1,486,922)	(912,030)	(367,551)	(266,091)	(170,263)	(80,178)	4,049	4,049	

** In addition to Ground Lease Payments, Bon Secours will take over maintenance of the ball fields on the Westhampton site (an estimated annual cost of \$28,000 per year).

SCENARIO B

Revised 11-21-2012 Including 2nd Floor Addition (Total Project -Variable Rate Financing) Sponsorship and Other EDA Revenue over 10 years

City Finances Site and Fields	\$ 2,312,798
City Finances Sports Medicine Facility	\$ 3,009,179
City Finances Locker Room Wing	\$ 2,037,832
City Finances 2nd Floor	\$ 1,500,000
Total Construction Cost	\$ 8,859,809

	FYE 6/30	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Projected Revenue													
<i>Training Field Site</i>													
Rent on Training Facility from Bon Secours			550,000	550,000	550,000	550,000	437,500	437,500	-	-	-	-	3,075,000
Bon Secours Sponsorship & Naming Rights			825,000	825,000	825,000	825,000							3,300,000
2nd Floor costs reimbursement from EDA	7,500	390,000	386,250	382,500	378,750								1,545,000
Other Sponsorship and Rental		1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	11,000,000
<i>Westhampton School Site</i>													
Ground Lease & Field Maintenance Revenue **		33,000	33,000	33,000	33,000	33,000	33,000	33,000	33,000	33,000	33,000	33,000	330,000
Total Revenue	7,500	2,898,000	2,894,250	2,890,500	2,886,750	1,570,500	1,570,500	1,133,000	1,133,000	1,133,000	1,133,000	1,133,000	19,250,000
Projected Expenses													
Interest on Line of Credit	36,799	73,598	54,598	34,598	14,598								214,191
Principal Payments		1,900,000	2,000,000	2,000,000	1,459,809								7,359,809
Interest on Line of Credit (2nd Floor)	7,500	15,000	11,250	7,500	3,750								45,000
Principal Payments (2nd Floor)		375,000	375,000	375,000	375,000								1,500,000
Ground Lease Payment to the Commonwealth	15,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	315,000
Training Facility Mgmt, Maintenance & Asset Renewal		50,000	50,000	50,000	50,000	50,000	75,000	75,000	75,000	75,000	75,000	75,000	625,000
Football Fields Operating Expenses (2% escalation)		250,000	255,000	260,100	265,302	270,608	276,020	281,541	287,171	292,915	298,773	298,773	2,737,430
EDA Admin Costs (Legal, Auditing, Banking, Ins, Employee)		100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	1,000,000
<i>Westhampton School Site</i>													
Westhampton School Fields Maintenance		28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	280,000
Total Expenses	59,299	2,821,598	2,903,848	2,885,198	2,326,459	478,608	509,020	514,541	520,171	525,915	531,773	531,773	14,076,431
Net Revenue	(51,799)	76,402	(9,598)	5,302	560,291	1,091,892	1,061,480	618,459	612,829	607,085	601,227	601,227	5,173,569
Cumulative Net Revenue	(51,799)	24,603	15,005	20,307	580,598	1,672,490	2,733,969	3,352,429	3,965,257	4,572,342	5,173,569	5,173,569	

** In addition to Ground Lease Payments, Bon Secours will take over maintenance of the ball fields on the Westhampton site (an estimated annual cost of \$28,000 per year).

Total Project Tax Revenue

City Finances Site and Fields	\$ 2,312,798
City Finances Sports Medicine Facility	\$ 3,009,179
City Finances Locker Room Wing	\$ 2,037,832
City Finances 2nd Floor	\$ 1,500,000
Total Construction Cost	\$ 8,859,809

FYE 6/30	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	Total
Projected Revenue											
<i>Training Field Site</i>											
Business Personal Property (\$100,000 of Equipment)	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	37,000
BPOL	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	80,000
											-
<i>Westhampton School Site</i>											
Real Estate Taxes (\$24.0 Million Assessed Value Bldg)		288,000	288,000	288,000	288,000	288,000	288,000	288,000	288,000	288,000	2,592,000
Business Personal Property Taxes (\$250,000 of Equipment)		9,250	9,250	9,250	9,250	9,250	9,250	9,250	9,250	9,250	83,250
BPOL Taxes		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	90,000
											-
<i>Richmond Community/East End</i>											
Real Estate Taxes (\$8.5 Million Assessed Value Bldg)		102,000	102,000	102,000	102,000	102,000	102,000	102,000	102,000	102,000	918,000
Business Personal Property (\$125,000 of Equipment)		4,625	4,625	4,625	4,625	4,625	4,625	4,625	4,625	4,625	41,625
BPOL Taxes		8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	72,000
Total Tax Revenue	11,700	433,575	3,913,875								

Assumptions:

- Real Estate Taxes based on \$1.20 per \$100 of Assessed value
- Business Personal Property Taxes \$3.70 per \$100 Assessed Value

APPENDIX B: MANAGEMENT RESPONSE FORM
2018-10 Leigh Street Development Project Audit

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	DCAO of Economic/Community Development needs to update the financial projections for City Council to determine the long term impacts on the project which reflects updated assumptions regarding the developments in the East End and Westhampton for the foreseeable future.	Y	The City is awaiting a economic impact report on the Bon Secours/Redskins Training facility which is being produced by the VCU Center for Urban and Regional Analysis (CURA). This report should be finalized in May 2018. Using the results of this report along with the final concepts for the Westhampton property (which should be complete the summer of 2018), economic projections for the Leigh Street facility, the East End and the Westhampton property can be updated.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	DCAO of Economic and Community Development		1-Sep-18
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	DCAO of Economic/Community Development needs to work with the EDA and City Administration to better define and document the process to approve the annual Redskins local contribution and make adjustments in future payments as needed for in kind contributions not included.	Y	Each year the EDA produces a breakdown of all the components of the local contribution. For future reports, the City will work with the EDA to provide the details behind the line items for each in-kind item that contributes to the local match.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	DCAO of Economic and Community Development		Concurrent with submittal of EDA local match report; no later than December 31, 2018.
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
3	DCAO of Economic/Community Development needs to work with the EDA to confirm that payments are in accordance to the agreement.	Y	The City will continue to work with the EDA to review payments to the Redskins with guidance from the City Attorney's office.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	DCAO of Economic and Community Development		31-Dec-18
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

APPENDIX B: MANAGEMENT RESPONSE FORM
2018-10 Leigh Street Development Project Audit

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
4	DCAO of Economic/Community Development needs to work with the EDA/Bon Secours to develop the East End and Westhampton properties within reasonable timeframes so that the other benefits anticipated for the City from these agreements are achieved.	Y	The City will work with Bon Secours to approve all plans and permits submitted for the East End and Westhampton properties expediently.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	DCAO of Economic and Community Development		1-Dec-18
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION