



# City of Virginia Beach Development Authority FY 22 Annual Operating Budget

VBDA Meeting date: October 19, 2021

# Fiscal Year 2022 Annual Operating Budget

## Reasoning for Retroactive Approval Request

- ✓ Accountant vacancy since February 2021 created significant backlog
- ✓ Economic Development's FY 2021-22 budget includes an additional \$2,051,760 for the EDIP program.
  - In previous years, EDIP funding was appropriated to dedicated Capital Improvement Program project.
  - At the request of Economic Development, the EDIP appropriation was dedicated to its FY 2021-22 operating budget. Economic Development intends to streamline the allocation and administration of EDIP funds to advance VBDA projects.

# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

## Fiscal Year 2022 Operating Budget

	FY 2022	FY 2021 (6/30/21)		FY 2020	
	BUDGET	BUDGET	ACTUAL	BUDGET	ACTUAL
<b>Revenues:</b>					
Economic Development Incentive Program (EDIP) Transfer from City of Virginia Beach	2,051,760	SEE NOTE 1			
Amphitheater Administrative Fee	25,000	—		25,000	25,000
Industrial Revenue Bond Fees	240,000	231,000		240,000	218,052
Corporate Park Conduit Lease Revenue	—	—		—	40,000
Bond Application Fees	125	125		125	—
Miscellaneous	1,000	1,000		1,000	18,054
Interest Income	30,000	30,000		36,000	36,668
<b>Total Authority Revenues</b>	<b>2,347,885</b>	<b>\$ 262,125</b>		<b>302,125</b>	<b>337,774</b>

NOTE 1 - City Economic Development Dept. FY 2021-22 budget includes an additional \$2,051,760 for the EDIP program. In previous years, the EDIP funding was kept in a dedicated project in the Capital Improvement Program. At the request of Economic Development, this dedication was placed in their FY 2021-22 operating budget. As a result, Economic Development intends to streamline the allocation and administration of these funds to the Development Authority.

Disclaimer: This budget represents basic operating revenues and expenses only. No revenues or expenses for the SSD, EDIP, or other special projects are included in this budget. Lease revenues received from the following are passed through to the City Treasurer's Office and are not part of the VBDA's discretionary spending: Virginia Beach Golf Club and Heron Ridge Golf Club. The VBDA is able to retain an administrative fee from the Amphitheater lease payment, must remit the remainder to the City Treasurer's Office.

# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

## Fiscal Year 2022 Operating Budget

	FY 2022 BUDGET	FY 2021 (6/30/21) BUDGET	ACTUAL	FY 2020 (6/30/21) BUDGET	ACTUAL
Expenses:					
Corporate Parks:					
Corporate Park Landscaping	26,595	31,298		31,250	26,250
Corporate Park Conduit Maintenance	159,510	159,510		117,000	117,000
Corporate Park Utilities	4,200	4,200		4,800	3,415
Corporate Park Stormwater Construction Fee	1,400	1,400		1,400	—
Architectural and Engineering Fees	800,000	133,900		126,100	66,835
Total Corporate Park Expense	991,705	330,308		280,550	213,500
Administrative:					
Independent Audit Fees	18,400	18,000		17,615	17,615
Annual Report Fees	30,000	43,300		49,200	—
Strategy Consultant Fees	50,000	50,000		—	—
Commissioner Stipend	6,600	6,600		6,600	1,400
Miscellaneous	10,000	10,000		10,000	2,493
Total Administrative Expense	115,000	127,900		83,415	21,508
VBDA Events:					
Annual Holiday Receptions	16,500	16,500		20,200	9,480
Business Appreciation Month Event	8,000	8,000		8,000	8,000
Amphitheater Box Seats	45,000	SEE NOTE 2		43,800	39,109
VBDA Workshop	500	500		500	—
Total VBDA Event Expense	70,000	25,000		72,500	56,589
Grants / Special Projects:					
Small Business Development Center	20,000	20,000		20,000	—
Rudee Loop Temporary Place Making	—	—		19,137	4,722
Total Grants / Special Projects	20,000	20,000		39,137	4,722
 Total Authority Operating Expenses	 \$1,196,705	 \$503,208		 \$475,602	 \$296,319
 <b>Net Effect on Operating Fund Balance</b>	 <b>\$1,151,180</b>	 <b>-\$241,083</b>		 <b>-\$173,477</b>	 <b>\$41,455</b>

NOTE 2 - Box seats will be utilized during the 2021 Season by rolling forward the 2020 Season credit.

# Fiscal Year 2022 Annual Operating Budget

## Reasoning for Retroactive Approval Request

- ✓ Accountant vacancy since February 2021 created significant backlog
- ✓ Economic Development's City FY 2021-22 budget includes an additional \$2,051,760 for the EDIP program.
  - The funding needed to be approved in the City FY 22 budget, appropriated and then transferred from the City to the VBDA.
  - In previous years EDIP funding was appropriated to dedicated Capital Improvement Program project.
  - At the request of Economic Development, the EDIP appropriation was dedicated to its FY 2021-22 operating budget. Economic Development intends to streamline the allocation and administration of EDIP funds to advance VBDA projects.



# Fiscal Year 2022 Annual Operating Budget

The VBDA Operating Fund has been reconciled as of September 30, 2021.

- Unrestricted Cash balance is \$4,488,246.67
- Additional cash (restricted) balance is \$11,871,014.20
- ✓ Request approval of Fiscal Year 2022 Annual Operating Budget retroactive to July 1, 2021.

# Follow-Up Review of the City Auditor's 2018 Audit of the City of Virginia Beach Development Authority

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**Lyndon S. Remias, City Auditor**

**October 19, 2021**

# Background

The Economic Development Investment Program (**EDIP**) is one of the resources that the VBDA administers. It provides discretionary grants to qualifying businesses that are relocating to or expanding in Virginia Beach in support of economic development projects that create new jobs and capital investments.

The average yearly funding for the last three fiscal years was \$2.3 million, which comes from the allocation of 16 cents of cigarette tax collected for every pack sold.

Policies and procedures over this program are set forth in the EDIP Policy.

- **Part A** covers qualifying new businesses to relocate to Virginia Beach and existing businesses to remain or expand operations within Virginia Beach.
- **Part B** covers qualifying developers and property owners for development or redevelopment of properties in Strategic Growth Areas, Special Economic Growth Areas, Economic Redevelopment Areas, or Opportunity Zones.
- **Part C** covers qualifying developers and property owners for the development or redevelopment of properties in APZ-1 or Clear Zones.
- **Part D** covers general provisions applicable to Parts A, B, and C.



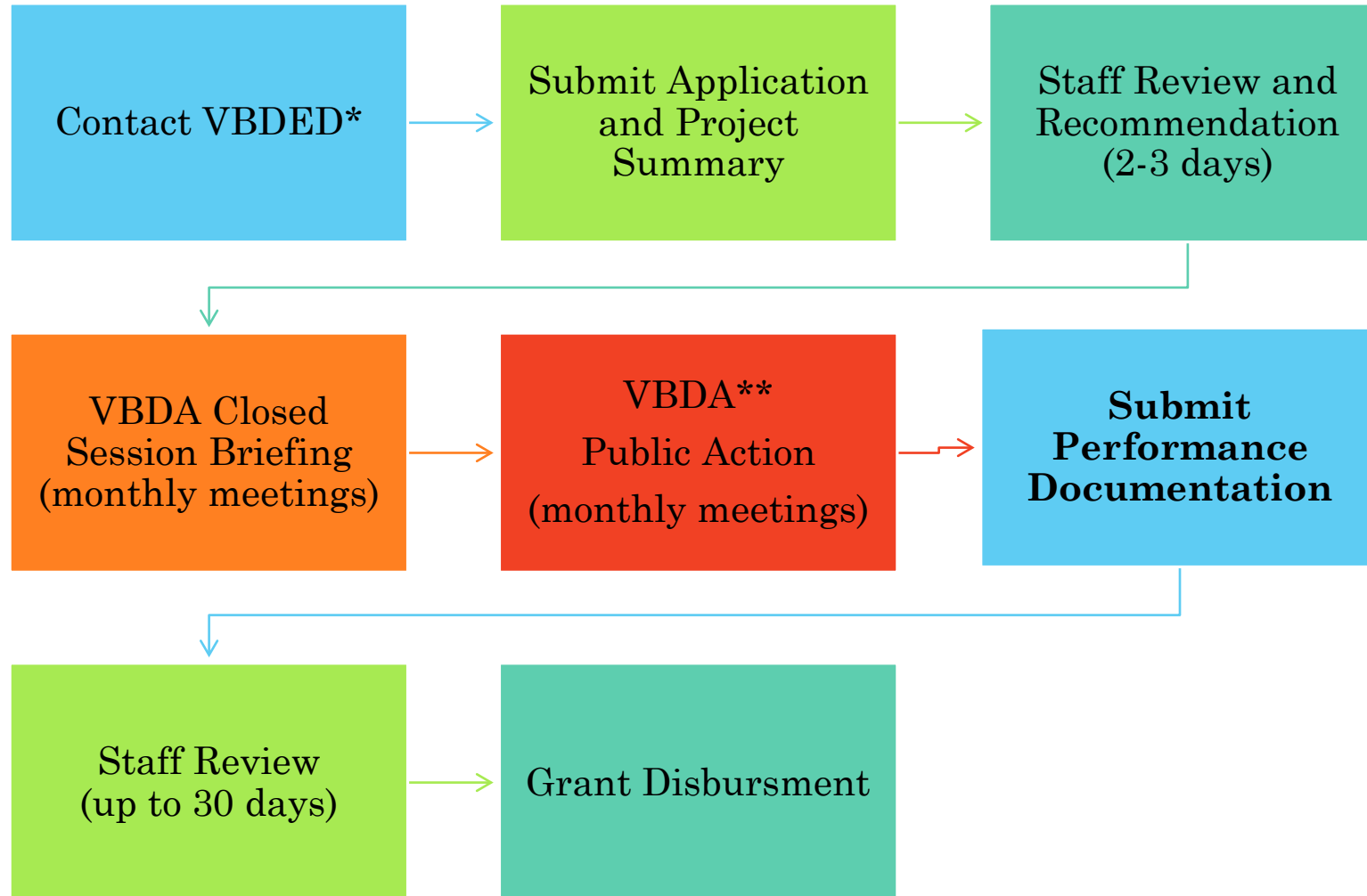
# Background - Part A

- Part A covers qualifying new businesses to relocate to Virginia Beach and existing businesses to remain or expand operations within Virginia Beach. One or more of the following criteria must be met:
  - a. Based on generation of direct tax revenue to city
  - b. Capital Investment
  - c. Award based on job creation at tiered amount based on average salary (most commonly used)
    - Must be filled for one year
    - Must be in the City of Virginia Beach

**Note:** COUNCIL APPROVAL OF CERTAIN EDIP AWARDS.

If the Director, acting on behalf of the Authority, determines the need to provide EDIP funds for the Project, but the criteria set forth in paragraph 2 of this Part A have not been met, the Authority shall obtain specific approval from City Council prior to its approval of the provision of EDIP funds for such purpose.

# Background



\*VBDED - Virginia Beach Department of Economic Development

\*\*VBDA – City of Virginia Beach Development Authority

One recipient received EDIP funds for capital investment in new machinery and tools, but the supporting documentation provided was solely generated by the recipient, i.e., an unfiled Tangible Personal Property/Machinery & Tools Return (CR-13) accompanied by a list of business personal property.

Proper support for the disbursement of EDIP funds should be third-party documentation, such as vendor invoices and/or the business tangible property tax bill, which serves as evidence that the CR-13 was successfully filed with the Commissioner of the Revenue's Office.

**Recommendation:**

1.0 Evaluate the appropriateness of documents provided by the recipient.

# Finding 1. Inadequate Supporting Documentation for Machinery and Tools

The VBDA awarded an EDIP grant of \$350,000 with the understanding that Virginia Beach would receive 147 full-time equivalent (FTE) positions.

However, this grant was awarded without an effective process in place to measure and ensure how the FTE positions are going to be filled. The absence of an effective process to verify performance at the time of the award increases the risk of inaccurate disbursements.

**Recommendation:**

2.0 Ensure that an effective process of verifying performance is developed at the time of the EDIP grant award.

## Finding 2. No Effective Process In Place to Verify Recipient's Performance

# Finding 3. Filling of Job Positions Not According to the EDIP Policy

Seven recipients received funds for positions that were filled less than one year. This is inconsistent with the EDIP Policy requirement that states, “For any job to qualify for an award, that position must be filled for at least one year.” An email in one of the recipients’ folder mentioned that disbursement could be made at the Department Director’s discretion. However, the EDIP Policy makes no mention of this discretion, nor does it have anything other than the one sentence requirement.

Two recipients had positions filled before their resolution was adopted by the VBDA. The resolution date is the official start of the grant and only those positions created from that date and up to 36 months thereafter are considered part of the performance period.

# Finding 3. Filling of Job Positions Not According to the EDIP Policy

## Recommendations:

3.0 Revise the EDIP Policy to include more detail on the job expansion and retention criteria.

3.1 Ensure that disbursements are made only:

- 1) For positions filled or retained within the performance period.
- 2) After the positions were filled for more than one year.





# Finding 4. Inadequate Supporting Documentation for Job Expansion

Due to the large amounts of EDIP funds disbursed, we deem that proof of performance for job expansion and retention should be supplemented by a stronger form of evidence, such as a computerized Human Resources employee report. Currently, the recipient merely needs to submit a memo attesting to the accuracy and completeness of the accompanying list of employees.

The current list is a Microsoft Excel spreadsheet that contains the job position, date position filled, location, and annual salary of every employee.

We deem this type of support as inadequate, as errors could have easily been made or entries falsified.

# Finding 4. Inadequate Supporting Documentation for Job Expansion

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## Recommendations:

4.0 Require a strong, supplemental form of evidence to ensure that disbursements for job expansion/retention is properly made to strengthen the integrity of the EDIP process.

4.1 Determine the State's method for verifying job creation and, where possible, align with the State's methodology.

4.2 Due to heavy involvement in the disbursements process, have the VBDA Accountant sign the disbursement routing sheet to show that he or she has reviewed the accompanying documentation. The signature will be in addition to those of the Business Development Manager, the Department Director, and the Senior Attorney from the City Attorney's Office.

Currently, the exact amount of Incentive funds available is unknown to the VBDA. Due to the VBDA Accountant's departure, the last report of the Incentive Accounts' Payables and Commitments balance was in January 2021, which presented December 2020's month-end balance of \$1.7 million.

This was an aggregation of all economic incentive programs' individual balances that included EDIP Parts A – D. While subsequent monthly cash flow presentations to VBDA included disbursements, they did not show the Incentive Funds balance.

**Recommendation:**

5.0 Refrain from further awarding any EDIP grants until the exact amount of available funds is determined and made available to the VBDA.

Finding 5. Exact Amount of Incentive Funds Available is Currently Unknown to the VBDA

# Finding 6. EDIP Total Incentive Awards Spreadsheet Needs to be Updated

The Total Incentive Awards spreadsheet, which is the primary record for tracking and summarizing all important information about EDIP awards, has not been updated since the VBDA Accountant's departure in **February 2021**.

Based on our analysis of the spreadsheet, we noted that:

- There is \$596,000 of potentially available EDIP funds that could be recommitted to funding future projects. This is the total undisbursed awards from projects that have ended but not closed, the earliest of which were from fiscal year 2014.
- It does not adequately depict where the award truly stands. For example, the user of the spreadsheet would not know why there was zero disbursement for a project that has ended.

# Finding 6. EDIP Total Incentive Awards Spreadsheet Needs to be Updated

	Part A Findings	#	Total Award	Total Disbursed	Potential Funds Available
1	Performance period ended but not closed & not paid 100%	6	\$705,000	\$566,035	\$138,965
2	Performance period ended but not closed & zero paid	1	\$30,000	0	\$30,000
3	100% paid but not closed	3	\$740,000	\$740,000	-
4	Payment made but not performed*	1	\$500,000	\$436,823	\$63,177
5	Award for jobs expansion but no entry in jobs columns	1	\$46,500	\$21,000	
6	No entry in all other columns except name and amount	1	\$600,000	0	
	<b>Total</b>	<b>13</b>	<b>\$2,621,500</b>	<b>\$1,763,858</b>	<b>\$232,142</b>

\* The City is filing a claim in bankruptcy court.

# Finding 6. EDIP Total Incentive Awards Spreadsheet Needs to be Updated

	Table 2. Part C Findings	#	Total Award	Total Disbursed	Potential Funds Available
1	Performance period ended but not closed & zero paid	5	\$235,000	0	\$235,000
2	No entry in performance period end date and zero paid	2	\$95,000	0	\$95,000
3	Performance period ended but not closed & not paid 100%	1	\$100,000	\$65,823	\$34,177
	<b>Total</b>	<b>8</b>	<b>\$430,000</b>	<b>\$65,823</b>	<b>\$364,177</b>

**Recommendation:**

6.0 Analyze and update the *Total Incentive Awards* spreadsheet to ensure that it properly reflects the status of the projects and to determine the amount of available funds that can be used for future projects.



Based on our confidential staff survey and interviews, as well as the results of our documentation review, we found that the level of knowledge of business development managers on the EDIP policy and process is not consistent.

Seventy-five percent of the Business Development Managers are less than two years in their position and are trained by their seniors. However, the training is informal and can be inconsistent, as they are based on the level of expertise and experience of the trainers.

**Recommendation:**

7.0 Given the considerable size of the EDIP funds awarded, management should take this time to develop a formal training program for Business Development Managers.

## Finding 7. Program Training Needed

# Thank you

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## QUESTIONS?

**Lyndon S. Remias, City Auditor**

**Email: [lremias@vbgov.com](mailto:lremias@vbgov.com)**

**Phone: 757-385-5870**



# VBNG- Management Contract – 5 Year Renewal

City of Virginia Beach Development Authority  
Open Session  
October 19, 2021

# Disclosures

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Applicant Name: Virginia Beach Golf Club, LLC

Affiliated Business Entity: Heron Ridge Golf Club, LLC

# Lease Terms

- Four-year extension approved on March 21, 2017 with two optional extensions of five (5) years each between the City of Virginia Beach Development Authority (“VBDA”) and the Virginia Beach Golf Club, LLC (“VBGC”)
- The resolution for consideration by the VBDA is to extend the management agreement for the first, five (5) year renewal
- The percentage of gross revenues paid to the VBDA are 12% (increased from 10% on 3/21/17)

# Recommendation

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Approve the renewal of the first five (5)-year management extension.