

Inquiry Report

Blueprint 2000 & Beyond

Report #1002

October 9, 2009

Executive Summary

On September 15, 2008, the Board of Directors for the Blueprint 2000 & Beyond (BP 2000) met in a regular meeting. During the Public Hearings portion of that meeting a citizen made assertions that BP 2000 was not complying with regulations and as a result was jeopardizing \$50 million in state and federal funding.

The Board asked the Office of the City Auditor to inquire into the assertions made by the citizen and provide information as to the validity of those assertions.

To gain a better understanding of the assertions made, we met with the citizen and discussed their concerns relating to BP 2000. In that meeting we learned that the concerns were in three specific areas:

1. The monetary incentives offered to property owners were often not correct based on Florida Department of Transportation (FDOT) guidelines.
2. BP 2000 primarily used “out of town” contractors (appraisers) resulting in local taxpayer money leaving the area and not being reinvested in the Tallahassee area.
3. The appraisals (for right-of-way acquisitions) obtained by BP 2000 were incorrect and higher than could be justified which resulted in too much being paid for property acquisitions.

To address those assertions we reviewed relevant laws, regulations, policies, and procedures; selected a sample of right-of-way acquisitions for examination; and interviewed selected individuals.

Our inquiry into the assertions showed there were four out of twenty parcel acquisitions tested where we had concerns:

- For two purchases BP 2000 made errors in calculating the monetary incentive paid to property owners. The resulting underpayments occurred because BP 2000 erred in applying an incentive formula developed by FDOT for a pilot incentive program (subsequently incorporated into the FDOT Right-of-Way Manual).
- For two additional parcels the incentive was intentionally reduced because the property owner was the owner of the company that performed the road construction.

The amount offered for the 20 parcels tested totaled \$13.4 million, of which \$1.76 million was attributable to incentives. For the four parcels identified where exceptions were noted, the incentives were \$127,000 less than the property owners would have received according to the FDOT incentive formula. This difference between the incentive amounts not paid and the total incentive paid for the 20 parcels equated to a seven percent underpayment (\$127,000/ \$1.76 million in incentives) or less than a one percent error of total payments for the 20 parcels tested (\$127,000/ \$13.4 million). For the four parcels only, the incentive underpayment ranged from 8.1 to 11.5 percent per parcel.

We also noted that in all instances the appraisals used as the basis for acquiring right-of-way were reviewed by a second independent appraiser, and in all instances the review appraiser concurred with the valuation of the property to be acquired.

Finally we noted that BP 2000 did, in most cases, use an appraiser from outside the local area, however that appraiser was selected through a competitive process.

Based on our review of the available information, the assertions do not merit further inquiry or investigation.

Scope, Objectives, and Methodology

The scope of our audit was limited to addressing the assertions made at the September 15, 2008, BP 2000 Board of Directors meeting, as further clarified by our meeting with the citizen that made the assertions.

The objectives of this audit were to specifically identify and review the assertions raised by the citizen at the September 15, 2008, BP 2000 Board of Directors meeting. Those assertions included:

1. BP 2000 was jeopardizing funding by not complying with the Federal Register and the FDOT ROW Manual. Specifically, incentives were not being calculated correctly and property owners were not being offered/paid the proper amount based on the formula in the FDOT ROW Manual.
2. BP 2000 uses “out of town” appraisers. This causes local taxpayers’ money to leave town and not be reinvested into the Tallahassee area.
3. A stated goal of the director of BP 2000 has been to reduce legal costs associated with right-of-way acquisitions. In order to accomplish this goal, BP 2000 has obtained inflated appraisals of the property being acquired. This has resulted in BP 2000 making offers to property owners that are too high and waste taxpayer money.

In order to accomplish the objective of reviewing the assertions, we interviewed the citizen that made the assertions, BP 2000 staff, and FDOT staff. Additionally, we identified and reviewed applicable regulations, policies, and procedures; and reviewed a sample of property acquisitions.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those 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.

Background

Section 163.01(7) of the Florida Statutes provides for the creation of the Blueprint 2000 Intergovernmental Agency, known as Blueprint 2000 & Beyond (BP 2000). BP 2000 is a joint City and County Intergovernmental Agency whose primary purpose is the construction of large capital infrastructure projects such as road and stormwater improvements. The Board of Directors for BP 2000 is comprised of the members of both the Leon County Board of County Commissioners and the Tallahassee City Commission.

BP 2000 is primarily funded through a local option 1% sales surtax that was approved by the voters in 2004. BP 2000 receives 80% of the surtax and the remaining 20% is divided evenly between Leon County and the City of Tallahassee. Since inception BP 2000 has received approximately \$153 million in revenue and has expended approximately \$244 million, to include sales tax revenues and debt issuance.

On September 15, 2008, the BP 2000 Board of Directors met in a regular meeting. In that meeting a citizen made certain assertions about the operations and activities of BP 2000.

According to the minutes of that meeting, a citizen made assertions centered on BP 2000 not complying with the FDOT ROW Manual and jeopardizing \$50 million of state and federal funding.

In response to those assertions, the BP 2000 Board of Directors requested the City Auditor’s Office

inquire into the assertions and provide feedback as to the validity of those assertions.

On April 7, 2009, we met with the citizen that made the assertions in the September 15, 2008, Board of Directors meeting to gain first hand understanding of what the assertions were and what other concerns the citizen may have that were not included in the minutes of the September 15, 2008, meeting. In our meeting with the citizen, we learned that there were three specific assertions.

The first assertion was that BP 2000 was not calculating the incentive amounts correctly based on FDOT guidelines and was therefore jeopardizing federal and state funding.

“Incentives” refers to a program used by BP 2000 that is based on a comparable program used by FDOT. The incentive program used by FDOT is outlined in the FDOT ROW Manual and its use is optional. We are aware that the incentive program is used in some but not all FDOT districts. The manual sets guidelines for the program and identifies a specific formula that is used to calculate the incentive amount. The concept underlying the incentive program is that the overall cost and time required for right-of-way acquisitions can be reduced if property owners are offered an incentive amount in excess of the appraised value. These reductions in cost and time are obtained by eliminating litigation over the taking of property for right-of-way projects.

The second assertion was that BP 2000 uses “out of town” appraisers resulting in money leaving the local area. The citizen also commented the belief that the use of out of town appraisers may be a contributing factor in the appraisals being too high (the third assertion) as factors impacting the value of the property that would be known to a local appraiser may not be known to an appraiser from out of town.

The third and final assertion made by the citizen related to the appraisals obtained for and relied upon by BP 2000 when making offers to property owners for right-of-way acquisitions. The assertion was that appraisals were incorrect and higher than could reasonably be justified.

With our understanding of the citizen’s assertions, we conducted the audit.

Issues and Recommendations

Assertion 1: Incentives were not in accordance with the formula provided for by FDOT ROW Manual thereby jeopardizing state and federal funding.

The FDOT has implemented a program whereby property owners are paid an amount in excess of the appraised value of their property with the expectation that the program will reduce overall project times and costs. This program is known as the incentive program. The incentive program is outlined in the FDOT ROW Manual, Section 7.3 (Manual) and cites both federal regulations and state statutes as authority for the program. This is an optional program that is used by some but not all FDOT districts.

The Manual stipulates that if the incentive program is used on one right-of-way project as part of a transportation corridor, it must be used for all right-of-way projects in that corridor and incentives will be applied to all parcels on applicable projects. In practical terms this means that if a monetary incentive is offered and given to one property owner as part of a project, a monetary incentive must be offered to all property owners impacted by a taking of their property.

The Manual also lays out the formula that will be used to calculate the incentive amount. Table 1 below shows the formula.

Table 1
FDOT Formula for
Calculation of Incentive Amounts

Approved Compensation is		Incentive	Of Amount Over
Over	But not Over		
0	\$1,000	\$1,000	\$0
\$1,000	\$2,500	\$1,000 + 83.3%	\$1,000
\$2,500	\$5,000	\$2,250 + 70%	\$2,500
\$5,000	\$7,500	\$4,000 + 50%	\$5,000
\$7,500	\$10,000	\$5,250 + 45%	\$7,500
\$10,000	\$20,000	\$6,375 + 40%	\$10,000
\$20,000	\$30,000	\$10,375 + 35%	\$20,000
\$30,000	\$100,000	\$13,875 + 32.5%	\$30,000
\$100,000	\$300,000	\$36,625 + 30%	\$100,000
\$300,000	\$513,500	\$96,625 + 25%	300,000
\$513,500		\$150,000	

As can be seen from the table above, the incentive calculation is based on the approved compensation. In the case of BP 2000, the approved compensation is derived from the appraised value of the property. It is important to note that the incentive amount is divided between the property owner and the owner of any leasehold improvements or outdoor advertising/billboards (ODA) based on their relative percentage of the total appraised value of the taking.

When we met with the citizen that made the assertions we were provided with a listing of property acquisitions where the citizen had recalculated the incentive amounts. That schedule showed that for 16 of the 58 acquisitions there were differences that exceeded \$500. In total, the citizen’s schedule showed in excess of \$400,000 in differences.

With the above understanding of the calculation of incentive amounts and the schedule of acquisitions provided by the citizen, we judgmentally selected a

sample of 20 acquisitions for further testing. That sample included 10 of the 16 parcels specifically identified by the citizen as having differences.

In our testing we noted that for 16 of the 20 parcel acquisitions we examined, the incentive amounts were calculated and offered to the property owner correctly, or there was in our opinion, a reasonable explanation as to why the incentive was different than the amount prescribed for by the FDOT formula.

For two of the four remaining parcels BP 2000 acknowledged the error in the calculation of the incentive amount. It was explained that both acquisitions were when BP 2000 first began the use of incentives. Generally, compensation to property owners for right-of-way takings is comprised of three parts, land, improvements, and damages. Land is the actual value of the property that is taken, improvements is for any damage to buildings or other man made features on the property, and damages is compensation for any reduction in the value of the property that was not part of the taking. The errors that were noted related to BP 2000 not including the amounts related to damages in the calculation of the incentive amount. These errors resulted in underpayments of the incentives by \$35,600 and \$32,480. Table 2 below summarizes those acquisitions. BP 2000 was aware of these errors prior to our review and had made changes in their process to help ensure that these type errors do not occur again. Such changes include multiple independent recalculations of the incentive amount to be included in the offer to the property owner prior to the offer being made.

Table 2
Summary of Incentive Errors

	1 st Parcel	2 nd Parcel
Land	\$95,400	\$192,770
Improvements	\$21,650	\$0
Damages	\$118,700	\$108,630
Incentive	\$41,750	\$64,500
Total	\$277,500	\$365,900
Incentive Error	\$35,600	\$32,480
Correct Amount	\$313,100	\$398,380

For the final two parcels where it was noted that the incentive amount was not in accordance with the formula outlined by FDOT, there was a decision by BP 2000 to reduce the incentive amount because the property owner was also the owner of the company that was performing the road construction. Those decisions led to incentive amounts of \$46,000 and \$13,070 less than the amounts would have been per the FDOT incentive formula. Table 3 summarizes those parcel acquisitions.

Table 3
Summary of Incentive Reductions

	1 st Parcel	2 nd Parcel
Land	\$275,250	\$89,050
Improvements	\$18,650	\$0
Damages	\$4,000	\$0
Incentive	\$50,000	\$20,000
Total	\$347,900	\$109,050
Incentive Reduction	\$46,000	\$13,070
Correct Amount	\$396,900	\$122,120

For the above four parcels, the total incentive amounts were \$127,150 less than the amount would have been per the FDOT incentive formula.

We met with FDOT staff to obtain any additional information that may assist our inquiry into the assertion for this issue. In that meeting we inquired as to whether any of BP 2000’s funding was being jeopardized by their use of the incentive program.

The FDOT staff that we met with stated funding was not, to their knowledge, endangered by the use of the incentive program.

To address the four instances where there were discrepancies noted in the calculation, offer, and payment of the incentive, we recommend that BP 2000 consult with its legal counsel as to what further action(s) may be taken.

Assertion 2: BP 2000 is using out of town consultants thus causing local taxes to leave the local area.

The citizen’s second assertion was that BP 2000 is using non-local appraisers and because BP 2000 is a taxpayer funded entity this causes local taxes to leave the Tallahassee area. In our meeting with the citizen it was our understanding that the citizens’ main concern related to the appraiser that was used for the majority of acquisitions.

To address this assertion we identified the appraiser(s) used to value the 20 property acquisitions examined as part of our inquiry into the first assertion.

When we reviewed the location of the appraisers we noted that for 17 of the 20 acquisitions, an “out of town” appraiser was used and local (Tallahassee/Leon County) appraisers were used for the other three property acquisitions.

Additionally, while not mentioned by the citizen, we noted that in general, BP 2000 has used the same appraiser for the vast majority of the appraisals that have been obtained. While there is no specific requirement for BP 2000 to periodically re-solicit bids from vendors for various services, it is a common practice to do so and can be beneficial as lower pricing and/or better services may be available.

When we inquired of BP 2000 as to their method of selecting vendors for appraisal services, we learned that the current appraiser was selected through a competitive process when BP 2000 was initially organized and the renewal options from that appraisers initial contract were exercised. This has

lead to the appearance that BP 2000 only uses out of town appraisers.

Based on our review, it appears that BP 2000 did primarily use an out of town appraiser as asserted. However, that appraiser was selected through a competitive process. In discussions, BP 2000 staff stated they have also used local appraisers as both appraisers and review appraisers. Most recently, for the last 90 parcel acquisitions, the review appraisal was performed by an FDOT appraiser at no cost to BP 2000.

While the citizen's assertion may be technically correct in that the appraiser most commonly used is from outside the local area, BP 2000 has used acceptable business practices in the selection and retention of appraisal services. Therefore, it does not appear that this assertion merits further inquiry or comment.

Assertion 3: Appraisals obtained by BP 2000 were incorrect and higher than could reasonably be supported.

There are many factors that an appraiser must consider when preparing their valuation of a piece of property. Some of those factors include, the, location, size, and zoning of the parcel; recent sale amounts of similar properties; the potential future revenue to be obtained through the use of the property; improvements to the property; and the highest and best use of the property. In order to arrive at a valuation for a piece of property, an appraiser must accumulate all the relevant factors that impact the valuation of the property and make an estimate as to the value of the property in question. As there is no set formula for the valuation of property, there is a certain amount of judgment used by the appraiser when valuing a piece of property. It is not likely that two different appraisers would arrive at the exact same amount when valuing the same piece of property. However, there is an expectation that the appraised values will be comparable. When reviewing an appraisal the objective is to have a high degree of assurance that the value arrived at by the appraiser is reasonable.

From our sample of 20 property acquisitions, we reviewed the appraisals that were obtained for each

acquisition. Our review of the appraisals showed that every appraisal was obtained from a state certified appraiser. It also showed that there was a second appraisal review obtained for every appraisal.

An appraisal review is performed by a state certified appraiser who reviews the work of the first appraiser. In an appraisal review, the reviewer develops an opinion as to whether the analyses, opinions, and conclusions of the first appraiser are appropriate and reasonable.

We also reviewed the appraisal reviews and noted that for all 20 acquisitions the reviewer concurred with the appraiser's analysis, opinions, and value estimate conclusions as being adequately supported, reasonable, and appropriate.

Due to the inexact nature of appraisal services, the objective is to obtain a high degree of assurance that an appraised amount is within a range of values that could be considered reasonable. By obtaining an appraisal review for all property appraisals, it appears that BP 2000 has taken adequate steps to ensure that the appraisals it receives are reasonable. Therefore, it does not appear that this assertion merits further inquiry or comment.

Conclusion

This inquiry was for the purpose of reviewing and evaluating the three assertions made by a citizen at the September 15, 2008, BP 2000 Board of Directors meeting. Those assertions were: (1) incentives were not in accordance with the FDOT ROW Manual thereby jeopardizing state and federal funding, (2) primarily out of town appraisers were used causing local tax money to leave the Tallahassee area, and (3) appraisals obtained for the valuation of right-of-way acquisitions were higher than could be justified. Based on our review of the available information, we found that overall the assertions do not merit further inquiry.

Executive Director's Response

The audit was comprehensive and fair, my compliments to Dr. McCall and Mr. Sutton. A few areas warrant reinforcement or highlighting:

- 1) The first assertion suggested that Blueprint was not calculating incentives properly and therefore jeopardizing federal funding.
 - a) We acknowledge that we made incentive calculation errors on two of our earliest offers, as referenced in the report and we also made a conscious decision to deviate from the norm on two of the tested parcels. Procedures have been instituted to prevent a reoccurrence of the calculation errors. Noteworthy is that in each of the four exceptions in this report the property owners were represented by legal counsel. Blueprint believes that legal representation is a safeguard, intended to protect the interests of property owners.
 - b) In the four cases cited by the auditor, each parcel settled without the need for acquisition by an order of take hearing. I believe this provides proof that the purchase offers were satisfactory to the property owner, the owner's attorney, and to BP 2000.
 - c) As for the allegation that Blueprint has jeopardized federal funding; a previously provided letter from FDOT District 3 Secretary adequately refutes this allegation as does the investigation by the City's auditor.
- 2) The second assertion criticized Blueprint for utilizing an "out of town" appraiser. This is true. Our goal was to utilize the services of the best appraisers available. Weigel-Veasey Appraisers Inc. in the opinion of many including myself is clearly among the best. It should be noted that this firm was an original member of the General Engineering Consultant team that was competitively selected and approved by the Intergovernmental Agency. This firm is also used locally by the City, County, and FDOT. We have used and continue to use local appraisers where possible. We originally were using local appraisers whose names were provided by the City and County Attorney's office for review appraisal and other appraisal work. In several instances these appraisers elected not to participate in the BP 2000 program because of workload or a desire to represent property owners. FDOT agreed to provide review appraisal services for the most recent 90 parcels at no cost to the Agency.
- 3) The third and last assertion that states our appraisal values are too high is unsupported. All of Blueprint's appraisals have been and will continue to be reviewed by a second independent certified appraiser or FDOT review appraisers.

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