



AUDIT OF CITY AGREEMENTS WITH CASCADES HOLDINGS, LLC (THE EDISON)

For the most part, the City and Cascades Holdings complied with governing agreements. Several issues were identified, some of which involve Cascades Holdings and others that relate primarily to City responsibilities.

T. Bert Fletcher, CPA, CGMA
City Auditor

HIGHLIGHTS

Highlights of City Auditor Report #1716, a report to the City Commission and City management

WHY THIS AUDIT WAS CONDUCTED

This audit was initiated in mid-May 2017 in response to a request from a City commissioner. The primary objective of the audit was to determine compliance by the City and a private entity, Cascades Holdings, LLC, with agreements executed by the two parties in connection with the renovation and development of a historic City electric building into a destination restaurant. An additional purpose of the audit was to determine if the City process to solicit and evaluate proposals for the renovation and lease of the building was in accordance with City procurement policies and good business practices.

WHAT WE FOUND

Our audit shows that, for the most part, the City and Cascades Holdings have complied and are complying with the terms and provisions established in the three agreements, to include the Memorandum of Agreement, Construction Funding Agreement, and Lease Agreement. The historic building has been successfully renovated, is being properly maintained, and is currently operating as a fine dining restaurant. City and CRA funds were used for authorized purposes in connection with renovation of the building. Cascades Holdings contributed its required share of costs to that renovation, as well as to restaurant startup expenses. Cascades Holdings has paid all rent due to date in a timely manner. Additionally, nothing came to our attention to indicate the solicitation and evaluation of proposals for the renovation and lease of the historic building, and the selection of the proposal deemed to be in the City's best interests, was not in accordance with City procurement policies and procedures or not otherwise in accordance with good business practices.

Several issues were nevertheless identified. Some of those issues involve or impact Cascades Holdings and others relate primarily to City responsibilities. Some of the more significant issues pertain to a required lease addendum not being executed, improper collateralization of certain property, and property insurance costs not being passed through to Cascades Holdings.

Some of the identified issues are partially attributable to a lack of clear assignment, to specific City staff, of the overall responsibility for management of the contractual relationships with Cascades Holdings. Some of the issues are also likely attributable, at least in part, to a transition of management within the City Real Estate Department that occurred near the completion of the renovation activities and opening of The Edison.

The full report may be obtained from the City Auditor's website: <http://www.talgov.com/transparency/auditing-auditreports.aspx>. For more information, contact us by e-mail at auditors@talgov.com or by telephone at 850/891-8397.

ISSUES IDENTIFIED AND RELATED RECOMMENDATIONS

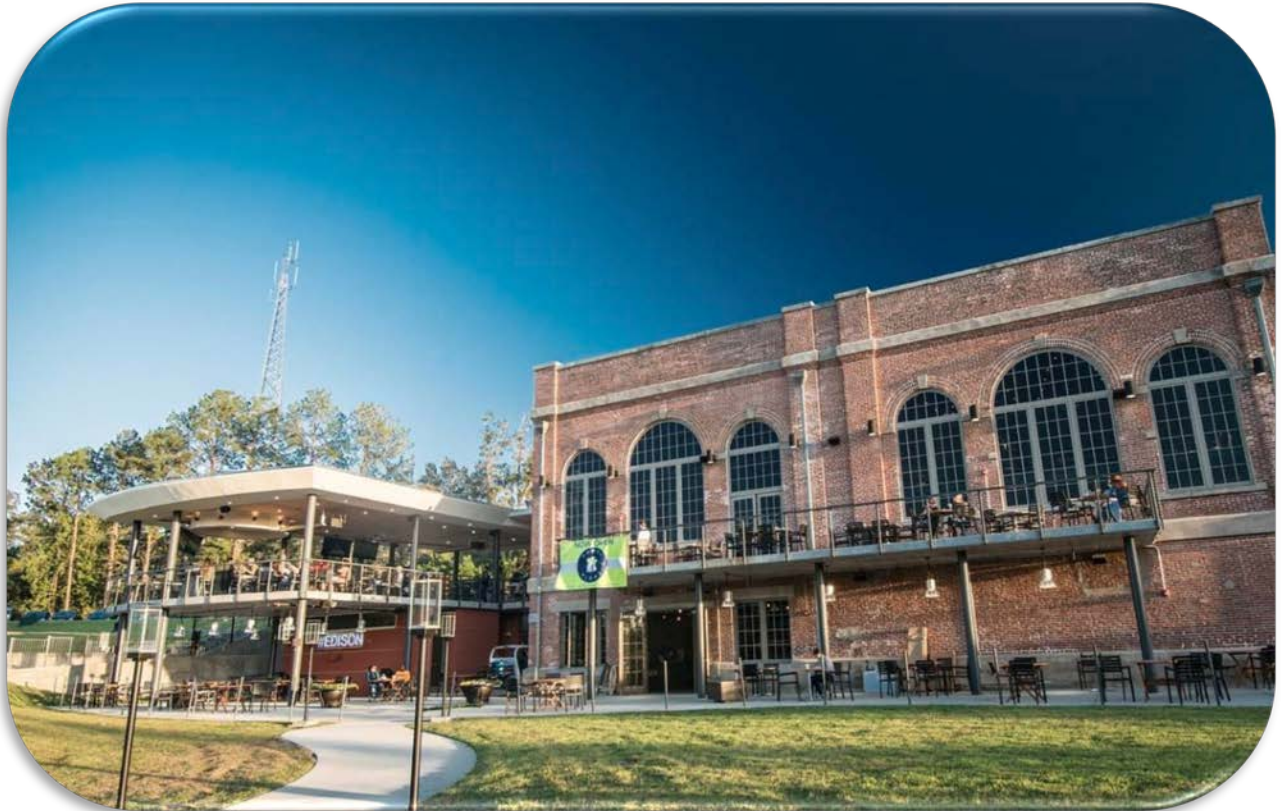
1. A required lease addendum documenting the appropriate distribution of property items upon termination of the lease was not prepared and executed. That circumstance increases the risk of questionable actions by both parties in the event the lease terminates, thereby increasing the risk of litigation and loss of property. The required lease addendum should be prepared and executed.
2. Certain property was improperly collateralized as security interests. We identified security interests that had been recorded against all equipment and fixtures attached to and located on the premises housing The Edison. Those security interests were recorded for the benefit of two financial institutions that loaned funds to Cascades Holdings for the building renovation and start-up of the restaurant. These recorded security interests do not take into account items that should inure to the City in the event the lease is terminated with outstanding balances owed on the respective loans. The City should make appropriate efforts to have the recorded security interests modified to exclude those items that are intended to inure to the City if the lease is terminated.
3. Property insurance costs were not passed through to Cascades Holdings. The City's comprehensive property insurance policy covers the renovated building housing The Edison. The Memorandum of Agreement executed by both parties provides that Cascades Holdings shall reimburse the City for the cost of that property insurance coverage. Contrary to that provision, the Lease Agreement executed by the City and Cascades Holdings does not provide for Cascades Holdings to reimburse the City for those costs, estimated to be approximately \$6,700. The City should execute an addendum to the Lease Agreement providing for an annual reimbursement by Cascades Holdings for those costs.

Additional identified issues were indicative of needed enhancements by City staff responsible for managing and overseeing the City's relationship with Cascades Holdings. Appropriate recommendations were made to address those additional issues.

Furthermore, notwithstanding state statutes and the taxable status of other City properties leased for commercial purposes, the Leon County Property Appraiser indicated real estate taxes will not be assessed on the property leased by Cascades Holdings for The Edison. The City should request from the Leon County Property Appraiser documentation exempting that property from those taxes.

We would like to thank staff in the Real Estate Department, Environmental Services and Facilities Department, Risk Management Division within the Treasurer-Clerk's Office, Office of the City Attorney, and CRA, as well as the owners and management of Cascades Holdings and The Edison, for their cooperation and assistance during this audit.

Audit of City Agreements with Cascades Holdings, LLC (dba “The Edison”)



Report #1716
August 8, 2017



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Copies of this audit report #1716 may be obtained from the City Auditor's website (<http://www.talgov.com/transparency/auditing-auditreports.aspx>), by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail, or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

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Audit of City Agreements with Cascades Holdings, LLC (dba “The Edison”)



T. Bert Fletcher, CPA, CGMA
City Auditor

Report #1716

August 8, 2017

Executive Summary

SUMMARY PARAGRAPH

The scope of this audit focused on compliance by the City and a private entity, Cascades Holdings, LLC (Cascades Holdings), with three agreements executed by the two parties in connection with the renovation and development of a historic City electric utility building located within Cascades Park into a destination restaurant. An additional purpose was to determine if the process used by the City to solicit and evaluate proposals for the renovation and lease of the historic building was in accordance with City procurement policies and good business practices. Our audit shows that, for the most part, the City and Cascades Holdings have complied with the terms and provisions established in the three agreements. The historic building has been successfully renovated, is being properly maintained, and is currently operating as a fine dining restaurant, known as “The Edison.” Cascades Holdings has paid all rent due to date in a timely manner. Additionally, nothing came to our attention to indicate the solicitation and evaluation of proposals for the renovation and lease of the historic building, and the selection of the proposal deemed by management and staff to be in the City’s best interests, was not in accordance with City procurement policies and procedures and good business practices. Several issues were nevertheless identified. Some of those issues involve or impact Cascades Holdings and others relate primarily to City responsibilities. Some of the more significant issues pertain to a required lease addendum not being executed, improper collateralization of certain property, and property insurance costs not being passed through to Cascades Holdings. Recommendations were made to address each of the identified issues.

For the most part, the City and Cascades Holdings have complied with governing agreements; several issues were nevertheless identified for which recommendations were made.

EXECUTIVE SUMMARY

This audit was initiated in mid-May 2017 in response to a request from a City commissioner. As noted previously in the summary paragraph, the primary objective of the audit was to determine compliance by the City and a private entity, Cascades Holdings, with three agreements executed by the two parties in connection with the renovation and development of a historic former City electric utility building, located within Cascades Park, into a destination restaurant. Those three agreements included an initial "Memorandum of Agreement" and the subsequently executed "Construction Funding Agreement" and "Lease Agreement." Compliance with a pertinent provision of a fourth related agreement, the "Collateral Assignment of Lease and Landlord's Subordination," was also addressed by this audit. The City, and the CRA, contributed funds towards the renovation of the historic electric utility building, which is leased by Cascades Holdings. Cascades Holdings is using the leased building to operate its restaurant, known as "The Edison." An additional purpose of this audit was to determine if the process used by the City to solicit and evaluate proposals for the renovation and lease of the historic building was in accordance with City procurement policies and good business practices.

This audit was conducted to determine compliance by the City and Cascades Holdings with agreements executed in connection with the renovation and lease of a historic City electric utility building.

This audit also addressed the City's process to solicit and evaluate proposals for the renovation and lease of the historic City building.

Various procedures were conducted to meet our audit objectives.

Activities addressed by this audit occurred during the period April 2012 through the end of our audit fieldwork in June 2017. To achieve our audit objectives, we performed various procedures, including but not limited to, reviewing City Commission agenda items and meeting minutes; interviewing current and former management and staff within the City and owners and management of Cascades Holdings and The Edison; identifying, reviewing, and analyzing applicable agreements, records, and transactions; and conducting site visits to The Edison.

Our audit shows that, for the most part, the City and Cascades Holdings have complied and are complying with the terms and provisions established in the Memorandum of Agreement (MOA), Construction Funding Agreement, and Lease Agreement. The historic building has been successfully renovated, is being properly

The historic building has been successfully renovated, is being properly maintained, and is currently operating as a fine dining restaurant.

maintained, and is currently operating as a fine dining (destination) restaurant. City and CRA funds were used for authorized purposes in connection with renovation of the building. Cascades Holdings contributed its required share of costs to that renovation, as well as to restaurant startup expenses. Cascades Holdings has paid all rent due to date in a timely manner. Additionally, nothing came to our attention to indicate the solicitation and evaluation of proposals for the renovation and lease of the historic building, and the selection of the proposal deemed to be in the City's best interests, was not in accordance with City procurement policies and procedures or not otherwise in accordance with good business practices.¹ Several issues were nevertheless identified. Some of those issues require appropriate corrective action that directly involve or impact Cascades Holdings, and others relate primarily to City responsibilities and/or actions that should be taken by City staff in future similar circumstances. The identified issues include the following:

- A required lease addendum was not prepared and executed. Because of the two-party relationship in developing the building into a destination restaurant, it was appropriate for the City and Cascades Holdings to agree on what assets will inure to (be received and retained by) each party in the event of termination of the resulting lease agreement. Accordingly, the executed lease agreement provided that the two parties were to identify all items that would be considered property (trade fixtures and other personal property items) that could be removed by Cascades Holdings upon termination of the lease. Those items were to be listed in an addendum to the lease agreement. Completion of that lease addendum was not only critical to ensure a fair and appropriate distribution of items in the event of termination of the lease, but also to ensure any property to be retained by the City was not collateralized as a security interest in any loans executed by Cascades Holdings in connection with its development of the

A required lease addendum identifying property items that may be removed in the event the lease is terminated was not prepared and executed.

¹ Records for the solicitation, evaluation, and selection of proposals for this project were included in the documents recently provided to the U.S. District Court in connection with two FBI subpoenas served the City and CRA on June 13, 2017.

restaurant. We determined that the City and Cascades Holdings did not identify items that would be considered property that could be removed by Cascades Holdings upon termination of the lease, and list those items in an addendum to the lease agreement. That circumstance increases the risk of questionable actions by both parties in the event the lease terminates, thereby increasing the risk of litigation and loss of property. In response to our audit inquiry on this matter, City staff commenced working with Cascades Holdings to identify applicable property as the first step in determining what items should inure to each entity in the event the lease is terminated. We recommend those efforts be continued and a lease addendum prepared that identifies the items that can be removed by Cascades Holdings if the lease terminates. *(Subsequent to the completion of the audit fieldwork, City staff indicated the required lease addendum had been prepared and executed. We will review that addendum in connection with our follow-up on this audit.)*

- Certain property was improperly collateralized as security interests. The City, along with Cascades Holdings and a financial institution that loaned funds to Cascades Holdings, executed an agreement whereby the City consented to subordinate its interest in “all equipment, furniture, fixtures, and inventory owned by the Tenant (*Cascades Holdings*), ... including all equipment, furniture and fixtures affixed or in any manner attached to the real estate and/or building structure (*Edison grounds and building*), provided the same (*those items*) can be removed or unattached without damage to the building or structure, **except for** the following: all walk-in coolers and freezers, range hoods, bars, hostess stands, and booths.” That agreement implies that the City intends to retain those excepted items (i.e., walk-in coolers and freezers, range hoods, bars, hostess stands, and booths) in the event the lease is terminated. However, as noted in the previous issue, a required lease addendum was not prepared to provide for the City’s retention of those items in the event of lease termination. Furthermore, without an identification and determination of **all** items on the premises, it is not clear that the

Certain property was improperly collateralized as security interests in connection with loans obtained by Cascades Holdings.

listed items are comprehensive as to what the City should have excluded from the collateral subordination agreement.

We identified security interests that had been recorded against the equipment and fixtures attached to and located on the premises housing The Edison. Those security interests were recorded for the benefit of two financial institutions that loaned funds to Cascades Holdings for the building renovation and start-up of the restaurant. Our review of the recorded security interests indicated the following:

The security interests recorded against certain property were in contradiction to a collateral subordination agreement executed by the City, Cascades Holdings, and the lending financial institutions.

- One of the lending financial institutions recorded a first and second security interest in **all** equipment, inventory, accounts, instruments, chattel paper, general intangibles and goods, ... as well as **all** fixtures attached to and located in or on the premises.
- Both lending financial institutions recorded a joint security interest in certain designated equipment that was acquired by Cascades Holdings with the applicable loan proceeds. The designated items included a range, fryer, ovens, ice cubers, walk-in refrigerators and coolers, draft beer draw system, and exhaust hood.

These recorded security interests do not take into account any items that should inure to the City in the event the lease is terminated with outstanding balances owed on the respective loans. Additionally, these recorded security interests appear to be in conflict with the aforementioned collateral subordination agreement executed by Cascades Holdings, one of the banks, and the City, as they do not exclude the items designated to be excluded by that agreement. In effect, items that should inure to the City (upon lease termination) based on the intent of the lease addendum (which was not executed) were improperly collateralized. We recommend the City make appropriate efforts to have the recorded security interests modified to exclude those items that are intended to inure to the City if the lease is terminated.

Contrary to the Memorandum of Agreement executed by the City and Cascades Holdings, the Lease Agreement did not provide for property insurances costs paid by the City to be reimbursed by Cascades Holdings.

- Property insurance costs were not passed through to Cascades Holdings. The executed agreements required Cascades Holdings to obtain appropriate liability and workers’ compensation insurance coverages. In regard to property insurance coverage, the City’s comprehensive property insurance policy covers the renovated historic former electric building housing The Edison. Accordingly, the Memorandum of Agreement executed by both parties provides that “In addition to the amounts payable to the City (*i.e., rent*), Developer (*Cascades Holdings*) shall reimburse the City for the City’s cost of property insurance coverages for the Electric Building (*The Edison*) and any related improvements that are the subject of the lease.” Contrary to that provision, the Lease Agreement executed by the City and Cascades Holdings does not include terms providing for Cascades Holdings to reimburse the City for the share of the property insurance premium costs paid by the City for the building. That cost is approximately \$6,700. We recommend the City execute an addendum to the Lease Agreement providing for an annual reimbursement to the City by Cascades Holdings for those costs; or provide documented justification for waiving that provision as contained in the MOA.

Other issues were identified that indicate the need for enhancements by City staff responsible for managing the City’s relationship with Cascades Holdings.

- Additional identified issues were indicative of needed enhancements by City staff responsible for managing and overseeing the City’s relationship with Cascades Holdings. Those issues/recommended enhancements included the following:
 - In future circumstances of this nature, the City should ensure warranties are obtained for the periods specified by controlling agreements.
 - In future circumstances of this nature, the City should ensure general contractors provide timely lien waivers for work performed on applicable projects.
 - The City should enhance efforts in tracking insurance coverages required for and pertaining to the renovated

building and restaurant, and ensure those coverages are maintained.

- In future circumstances of this nature, the City should require contracted parties to obtain and provide required performance bonds that insure the City’s investments in the event required construction activities are not completed.
- The City should enhance efforts to ensure any future security deposits are timely requested and properly recorded in the City’s accounting records.
- In future circumstances of this nature, the City should withhold retainage from reimbursement requests for project construction costs in accordance with established agreements and industry practices.
- The City should follow up, as planned, to ensure relatively minor issues identified during its recent on-site monitoring visits are addressed, to include repair of a minor roof leak. Additionally, the City should prepare a documented plan and schedule for conducting future on-site monitoring visits.

Some of the issues are likely attributable to the lack of clear assignment of oversight responsibility to specific City staff, and a transition of management within the City Real Estate Department.

Some of the identified issues are partially attributable to a lack of clear assignment, to specific City staff, of the overall responsibility for management of the contractual relationships with Cascades Holdings. Some of the issues are also likely attributable, at least in part, to a transition of management within the City Real Estate Department that occurred near the completion of the renovation activities and opening of The Edison. For future projects of this nature, we recommend City management assign oversight responsibility to specific City staff. During future managerial transitions, City management should also ensure appropriate managers and staff are made aware of applicable circumstances and changes in their roles and responsibilities.

Other Matter

Real Estate Ad Valorem Taxes Not Assessed: Sections of Chapter 196, Florida Statutes, provide that properties of municipalities leased to a non-governmental entity and used for commercial purposes shall

*The Leon County
Property Appraiser
indicated ad valorem
taxes will not be assessed
on the real property
leased for operation of
The Edison.*

be subject to ad valorem taxation, unless an exemption is granted by the applicable county property appraiser. Section 20 of the Lease Agreement executed between the City and Cascades Holdings in connection with The Edison restaurant, provides: “Tenant (*Cascades Holdings*) shall pay all real estate ad valorem tax assessments, if any, assessed against the Premises (*land and building housing The Edison restaurant*).” Our review showed that ad valorem taxes were not assessed by the Leon County Property Appraiser on the real estate (land and building) leased by Cascades Holdings for operation of The Edison restaurant.

Ad valorem taxes are assessed on other City-owned properties (real estate) that are leased to non-governmental entities for commercial uses. Because we were unaware of factors that would exempt the land and building housing The Edison from those taxes, we recommended the City notify the Leon County Property Appraiser of this lease. In response to that recommendation, management of the Real Estate Department contacted the Leon County Property Appraiser (property appraiser’s office) regarding the lease of the property and building to Cascades Holdings for The Edison restaurant. Our office followed up with the property appraiser’s office on that inquiry. In its verbal response, the property appraiser’s office indicated the land and building would not be assessed ad valorem taxes. We recommend the City obtain written documentation from the property appraiser’s office exempting that land and property from those taxes

Acknowledgments

We would like to express our appreciation for the cooperation and assistance provided during this audit by staff of the City Real Estate Department, the City Environmental Services and Facilities Department, the Treasurer-Clerk’s Risk Management Division, the Office of the City Attorney, and the CRA. We also express our gratitude for the cooperation and assistance provided by owners and management of Cascades Holdings and The Edison during this audit.

Audit of City Agreements with Cascades Holdings, LLC (dba “The Edison”)



T. Bert Fletcher, CPA, CGMA
City Auditor

Report #1716

August 8, 2017

Objectives, Scope, and Methodology

We determined compliance by the City and Cascades Holdings with agreements executed in connection with the renovation and lease of the historic City electric building as a destination restaurant.

We also reviewed the City's process to solicit and evaluate proposals for the renovation and lease of the building.

Objectives and Scope. This audit was initiated in mid-May 2017 in response to a request from a City commissioner. The primary purpose of the audit was to determine compliance by the City and a private entity, Cascades Holdings, LLC (Cascades Holdings), with three agreements executed by the two parties in connection with the renovation and development of a historic former City electric utility building, located within Cascades Park, into a destination restaurant. Those three agreements included an initial "Memorandum of Agreement" and the subsequently executed "Construction Funding Agreement" and "Lease Agreement." Compliance with a pertinent provision of a fourth related agreement, the "Collateral Assignment of Lease and Landlord's Subordination," was also addressed by this audit. The developed restaurant, known as "The Edison," is currently operating within the park. Cascades Holdings owns the restaurant while the City retains ownership of the building. The City, and the Community Redevelopment Agency (CRA), contributed funds towards the renovation of the historic electric utility building, which is leased by Cascades Holdings.

An additional purpose of this audit related to activities prior to execution of the aforementioned agreements. That additional purpose was to determine if the process used by the City to solicit and evaluate proposals for the renovation and lease of the historic electric utility building, preferably as a destination restaurant, was in accordance with City procurement policies and good business practices.

Activities addressed by this audit occurred during the period April 2012 through the end of our audit fieldwork in June 2017.

Methodology. To accomplish our audit objectives, we performed various procedures, to include:

- Reviewing City Commission and CRA agenda items and related meeting minutes showing discussions and authorizations pertaining to the renovation and development of the historic electric utility building, and lease of the renovated building to a private enterprise.
- Reviewing and evaluating the process used by the City to solicit proposals for renovation, development, and lease of the historic electric utility building; and, the process to determine and select the best proposal for the preferred development (destination restaurant).
- Determining whether the City conducted due diligence in regard to the ability of Cascades Holdings to renovate the historic electric utility building and operate a successful destination restaurant.
- Reviewing and obtaining an understanding of the agreements executed between the City and Cascades Holdings.
- Interviewing an owner and management of Cascades Holdings and The Edison, as well as, applicable former and current City management and staff responsible for managing and overseeing activities relating to the executed agreements.
- Determining whether applicable provisions of the Memorandum of Agreement (MOA) authorized by the City Commission were properly incorporated into the Construction Funding Agreement and Lease Agreement that were subsequently executed by City management.
- Determining compliance by the City and Cascades Holdings with the Construction Funding Agreement. Specific audit tasks included:
 - Reviewing City payments (included City and CRA funds) made to Cascades Holdings to determine whether the City and CRA contributed their required shares of renovation costs

We conducted various audit procedures in accomplishing the objectives of this audit.

We interviewed applicable individuals at the City and Cascades Holdings (The Edison), and we reviewed and analyzed pertinent records and transactions.

and whether those payments were substantiated and in accordance with the agreement.

- Reviewing records provided by Cascades Holdings as evidence of the renovation and startup costs incurred and paid by Cascades Holdings, for the purpose of ensuring Cascades Holdings contributed its required share of costs and ensuring those costs were substantiated, reasonable, and in accordance with the agreement.
- Determining whether the renovation work was timely completed.
- Verifying there were no outstanding construction liens filed by contractors and subcontractors in connection with their work to renovate the building.
- Determining whether required warranties for the renovation work were provided to the City by Cascades Holdings and its general contractor.
- Verifying Cascades Holdings provided required post-construction documents (as-built drawings) to the City.
- Determining compliance by the City and Cascades Holdings with the Lease Agreement. Specific audit tasks included:
 - Determining if a required security deposit was paid by Cascades Holdings to the City.
 - Determining if required rental payments were made in a timely manner by Cascades Holdings to the City.
 - Verifying the renovated building was used only for purposes provided for and authorized by the Lease Agreement.
 - Verifying that both Cascades Holdings and the City were properly maintaining the building and premises in accordance with provisions of the Lease Agreement.
 - Verifying Cascades Holdings was paying the utilities for The Edison.

Audit procedures were performed to determine compliance with key provisions of three primary agreements executed by the City and Cascades Holdings.

- Determining whether Cascades Holdings maintained required insurance coverages for The Edison.
- Determining whether the City and Cascades Holdings, as required by the Lease Agreement, executed a timely addendum to the lease that identified trade fixtures and other personal property that may be removed by Cascades Holdings from the premises upon termination of the lease.
- Determining if Cascades Holdings paid applicable ad valorem taxes assessed against the property.
- Determining whether any collateral or security interests had been inappropriately filed or recorded against the City's interest in the building and property.
- Determining whether there had been any significant reported complaints regarding the operation of The Edison in regard to noise, hours of operation, traffic flow, or parking. Included as part of this procedure was verifying the City conducted a required ninety-day post review to address the noted areas.

We made site visits to The Edison to make some of our audit determinations and verifications.

In addition to interviews of applicable individuals and examination of applicable records, we visited and observed The Edison during business and non-business hours to make some of the noted determinations and verifications.

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 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Overview

In 2011, as demonstrated by City Commission agenda items and related meeting minutes, private sector entities had inquired into transforming the City historic electric utility building located in

Cascades Park into a retail shop or restaurant. As a result, an initial concept paper was developed by City and CRA staff that outlined redevelopment options. The option recommended within that initial concept paper was to develop the building into a restaurant with ancillary retail uses. That option also stated the redevelopment would not be viable without public resource assistance, and therefore recommended pursuing a private-public partnership to redevelop the building. To retain control of the building's future uses and to protect the public capital investment in the redeveloped building, it was recommended that the building be leased and not sold to a private developer and restaurateur. Among other things, a final concept paper developed by City and CRA staff provided additional information on the estimated rehabilitation costs, and recommended the City solicit proposals from the private sector to determine interest in redevelopment of the historic building through a private-public partnership and subsequent lease of the redeveloped building for a destination restaurant.

A RFP was issued by the City soliciting redevelopment proposals.

Upon the City Commission's acceptance of the final concept paper and recommendations, City staff prepared and issued a Request for Proposals (RFP) in April 2012. The lead-in to the RFP stated the City was requesting proposals from individuals or companies for the renovation and lease of the historic electric building in Cascades Park, and was seeking a developer or restaurateur that would transform the building into a destination restaurant. The RFP was advertised in the local newspaper and through DemandStar, a free electronic service available for government agencies to advertise and notify companies of their solicitations for goods or services, to include RFPs. Two proposals were received in response to the City's RFP; however, only one of those proposals was considered responsive, as the other proposal was submitted after the deadline established for delivery of such proposals to the City.

When only one responsive proposal was received, which was determined to not be a preferable redevelopment option, the RFP was reissued.

City records show that because only one responsive proposal was received, and the designated City evaluation committee found that proposal not preferable in regards to the proposed development and the proposer's request for additional public funding, a decision was made to reissue the RFP in the hope that additional proposals would

be received. Accordingly, the RFP was reissued in July 2012. In addition to advertising that reissued RFP through the local newspaper and through DemandStar, it was advertised in Orlando and Miami newspapers.

Two proposals were received in response to the reissued RFP. One proposal was submitted by the same entity (Baycrest Corporation, or Baycrest) that submitted the responsive proposal to the initial RFP. Among other things, that Baycrest proposal requested \$2.5 million in public funds to assist in renovating the historic building, committed only \$200,000 of its own funds to that renovation, and did not propose a specific end use of the building. The other responsive proposal was submitted by Proof Brewing Company (Proof Brewing). Among other things, Proof Brewing’s proposal requested public assistance of \$1.35 million for renovation of the historic building, committed \$1.5 million of its own funds towards that renovation, and proposed as an end use a fine dining restaurant and microbrewery, along with a separate park level specialty restaurant selling quick, gourmet, and take away food items, including ice cream and coffee. The City evaluation committee reviewed and ranked each proposal. Proof Brewing was ranked significantly higher than Baycrest. As a result, in October 2012, City management recommended, through an agenda item, that the City Commission authorize the City to negotiate an agreement with Proof Brewing, with the negotiated agreement to be brought back to the City Commission for its review and potential authorization. The City Commission authorized that action.

Two proposals were received in response to the reissued RFP; after their evaluation one was selected; the City Commission authorized management to negotiate an agreement with the proposing entity – Proof Brewing.

As part of finalizing plans and costs estimates during the negotiation process, a determination was made that the costs to renovate the building into a usable and leasable structure, based on the planned uses of the building by Proof Brewing, was higher than initially estimated. Specifically, the initial estimate of \$2,904,000 was determined to be \$763,020 below the final estimated cost of \$3,667,020. As a result, City management requested approval to increase the City and CRA’s contribution to a total of \$2.1 million, with \$816,789 coming from CRA funds (as initially approved by the CRA on November 21, 2011) and \$1,301,945 from City funds. The

During the negotiation process it was determined the renovation costs would be higher than initially estimated.

remaining \$1,548,286 was to be funded by Proof Brewing. In July 2013 the City Commission approved the additional funding.

Subsequent to that July 2013 commission authorization, Proof Brewing Company assigned its proposal rights to renovate the building for the described restaurant to Cascades Holdings, LLC. In December 2013, based on City managements' recommendations, the City Commission accepted the assignment of the proposal to Cascades Holdings, and authorized the City to execute a Memorandum of Agreement (MOA) with Cascades Holdings for the renovation and leasing of the building for operation of a destination restaurant.

Memorandum of Agreement

The executed MOA established the funding contributions by the City (including CRA funds) and Cascades Holdings, which are noted above in a previous paragraph of this report. Additionally, the MOA:

Proof Brewing assigned its rights to Cascades Holdings; the City Commission authorized City management to execute a Memorandum of Agreement (MOA) for the renovation and lease of the historic building.

- Required Cascades Holdings to provide final design documents, as well as business and financial plans demonstrating its ability to (1) provide the required contributions for interior improvements, fixtures, equipment, and other business startup costs and (2) successfully operate a destination restaurant in Cascades Park. The MOA provided for those documents to be reviewed, approved, and accepted by the City before renovations could be started.
- Provided for execution of a Construction Funding Agreement between the City and Cascades Holdings to address:
 - Construction costs.
 - Each party's obligations towards those construction costs.
 - Timeliness and milestones for completing the renovation.
 - A construction review and inspection process.
 - The process for reimbursement by the City for authorized renovation costs.
- Provided for execution of a Lease Agreement between the City and Cascades Holdings to address:

The MOA established guidelines and provisions to be included in subsequent construction (renovation) and lease agreements.

- Leasable area and lease rates.
- Lease term and renewal options.
- Required insurance coverages.
- Required maintenance of the building and premises, to include responsibilities of both parties for that maintenance as well as repairs to major systems and structural components.
- Parking, business operations during park events, outside entertainment, and compliance with applicable laws and regulations, including the City's noise ordinance.

Construction Funding Agreement

In August 2014, City management executed the required Construction Funding Agreement with Cascades Holdings. Key terms and conditions of that agreement included:

A Construction Funding Agreement was executed with Cascades Holdings in August 2014.

- Definition of the construction (renovation) costs payable from City and CRA funds, with City-funded payment not to exceed \$1.3 million and CRA-funded payments not to exceed \$816,789.
- Provisions that construction (renovation) costs that exceed the combined City/CRA-funded commitment of \$2,116,789 were to be paid from Cascades Holdings funds.
- Definitions of Tenant Building Improvements and Tenant Startup Costs that must be paid from Cascades Holdings funds, with a requirement that Cascades Holdings expend a minimum of \$1,548,286 for those costs.
- Establishment of schedules identifying items considered to be City Improvements and those to be considered Tenant Building Improvements, with costs incurred for the identified items tracked on those schedules.
- A contract payment process that provides for timely reimbursement to Cascades Holdings from City/CRA funds for allowable costs; and, verification by a City construction

The Construction Funding Agreement established funding requirements for both parties; it also established provisions relating to the building's renovation and protection of the City's interests.

administrator that the related work, for which the City is invoiced, was performed in accordance with the agreement and related construction documents before reimbursement by the City is made.

- Provisions requiring Cascades Holdings to provide evidence under oath that, upon completion of the renovation, there are no legal claims (liens) that can be filed against the City by those (contractors and subcontractors) performing the renovation work or supplying materials or equipment with respect to that work.
- Requirement that Cascades Holdings and its general contractor provide a warranty that guarantees the renovation work against defects for two years from the date the renovation is completed.
- Requirement that the renovation be completed no later than one year after the issuance of applicable construction and regulatory permits.
- Requirement that, upon completion of the renovation, Cascades Holdings will provide the City appropriate construction and architectural drawings (as-built drawings) provided by the contractor (as the City will remain the owner of the building).
- The right for the City to inspect, copy, and audit books, records, documents, and other evidence relating to City/CRA and Cascades Holdings funds expended pursuant to the Construction Funding Agreement; additionally, the right for the City to conduct an audit to evaluate compliance with the terms and conditions of that agreement.
- Provision that Cascades Holdings require its general contractor, prior to commencement of the renovation, to post a performance bond or provide an alternative form of security to protect the City and Cascades Holdings in the event the general contractor does not successfully complete the contracted renovation work.

The construction (renovation) was substantially completed in the late summer of 2015, and The Edison opened for business in September 2015.

Lease Agreement

Simultaneously with the execution of the Construction Funding Agreement, City management executed the required Leasing Agreement with Cascades Holdings in August 2014. Key terms and conditions of that agreement included:

- Establishment of an initial lease term of 20 years, with options for four 5-year renewals.
- Establishment of monthly rental amounts payable to the City no later than the 10th of each month; with periodic escalations in the rental amounts.
- Requirement that Cascades Holdings provide the City a \$10,000 security deposit as security for Cascades Holdings' full and faithful performance of the lease provisions.
- Requirement that use of the renovated building and premises must be solely for the purpose of a destination restaurant, with allowed ancillary uses to include, without limitation, a coffee shop, catering company, and educational or teaching uses, or such other uses that may be approved by the City. Uses that are contrary to any law, policy, or duly constituted ordinance are not permitted. Uses shall not constitute a nuisance.
- Provisions that, except for defined maintenance and repair requirements designated as the responsibility of the City, Cascades Holdings is to maintain, at its own cost, the building and premises in a clean, attractive, and first-class condition. Items specified to be maintained by Cascades Holdings include, but are not limited to, interior walls, ceilings, floors, mechanical systems, windows, doors, landscaping, janitorial, lighting, plumbing, drains, kitchen equipment, elevator, electrical system, and HVAC (heating, ventilation, and air conditioning) systems. Cascades Holdings is to replace, as needed, the noted items other than those items designated as the responsibility of the City.
- Provisions that the City is responsible for repair and maintenance of the building's roof, exterior walls and windows, and structural elements. Additionally, the City is responsible for replacing,

A Lease Agreement was executed with Cascades Holdings in August 2014.

The Lease Agreement established rental rates and lease terms; the authorized uses of the renovated building; the requirements for maintenance and insurance coverages; the requirements for payment of utilities and taxes; and other provisions to protect the City's and public's interests.

when necessary, mechanical systems (excluding kitchen or cooking equipment), HVAC systems, and the elevator system.

- Requirement that Cascades Holdings shall pay all utilities associated with its operation of the restaurant and use of the building.
- Requirement that Cascades Holdings shall carry general liability insurance and fire legal liability insurance, with a combined single limit coverage of at least \$2,000,000. Also, the City is to be named an additional insured under that policy and the policy shall require written notice to the City prior to the carrier cancelling the policy. Cascades Holdings is required to provide the City certificates of insurance (COIs) evidencing the required coverages are obtained.
- Provision that no later than 30 days prior to the due date of the first rental payment, the City and Cascades Holdings will identify all items that are Cascades Holdings' trade fixtures and other personal property and list those items as an addendum to the Lease Agreement. Upon termination of the lease, Cascades Holdings may remove the items listed in the lease addendum from the premises. (Inherent in this provision is that items not included in the lease addendum are property of the City and may not be removed from the premises upon termination of the lease.)
- Requirement that Cascades Holdings shall pay all ad valorem taxes assessed, if any, on the premises (real property).
- Requirement that Cascades Holdings shall be liable for all taxes levied against its leasehold interest or personal property and trade fixtures owned or placed by Cascades Holdings in the premises.
- Provision that Cascades Holdings does not, and will in no event under any circumstances, have the power to subject the City's interest in the building and premises to any construction, mechanic's, or materialmen's lien or lien of any kind.
- Provision that Cascades Holdings will not permit any outside entertainment after certain designated hours.

- Provisions designating a parking lot available for the exclusive use of The Edison during its hours of operation, as well as designation of another parking lot available for use by The Edison and its patrons, at no additional cost, after 5:00 PM.
- Requirement that the premises be thoroughly cleaned and swept daily and all solid waste removed from the premises after each lunch and dinner shift.
- Requirement that the City and Cascades Holdings review restaurant operations after 90 days of operation, including traffic flow, parking, noise levels, outdoor amplification, and hours of operation.

Collateral Assignment of Lease and Landlord's Subordination

The City, Cascades Holdings, and a financial institution lending funds to Cascades Holdings for the renovation and startup of the restaurant, executed an assignment and subordination agreement.

In May 2015, subsequent to the execution of the Construction Funding Agreement and Lease Agreement in August 2014, but prior to the opening of The Edison in September 2015, the City (as landlord), Cascades Holdings (as borrower), and a financial institution (C1 Bank, as lender) that loaned funds to Cascades Holdings in connection with the renovation of the premises and startup of the restaurant, executed a “Collateral Assignment of Lease And Landlord’s Subordination” agreement (assignment and subordination agreement). The agreement noted that the terms of the bank’s loan to Cascades Holdings require the bank to have a security interest in Cascades Holdings’ collateral and a collateral assignment of Cascades Holdings’ interest in the lease. Accordingly, under the assignment and subordination agreement, the City consented to assignment of the lease to the bank in the event Cascades Holdings defaulted on its loan or the lease. Additionally, the City consented to subordinating its interest in the “collateral.”

The assignment and subordination agreement provided that certain specified items would be excluded from collateralization.

The collateral is defined in the agreement as all equipment, furniture, fixtures, and inventory, and leasehold improvements purchased by Cascades Holdings with the loan proceeds received from the bank, including items affixed or in any manner attached to the real estate or building, provided those items can be removed from or unattached

without damage to the building or structure. However, the agreement specifically excluded certain items from the collateral, to include all walk-in coolers or freezers, range hoods, bars, hostess stands, and booths. Accordingly, to the extent the City had rights to those excepted items, the bank would not have a security interest in them, or the bank's security interest would be subordinated to the City's interest.

Restaurant Operations

As stated previously, The Edison opened for business in September 2015 and has remained open for business to date. The business includes a fine dining restaurant; inside and outside bars; a cafe that serves coffee, juices, sandwiches, drinks, etc.; and on-site and off-site catering.

Audit Results: Solicitation and Evaluation of Proposals

Our review did not disclose any matters to indicate the City's solicitation and evaluation of renovation and lease proposals, as well as the selection of the proposal deemed to be in the City's best interest, was not in accordance with City procurement policies and procedures, or not in accordance with good business practices. In reaching that conclusion, we made the following audit determinations:²

- The RFP was structured in accordance with parameters and provisions established in City procurement policy and manuals. *(Unless otherwise noted, "RFP" herein and thereafter refers to both the initial and reissued RFP, as there were no changes to the initial RFP.)*
- The RFP was prepared in accordance with the Initial and Final Concept Papers prepared by City staff and approved by the City Commission. Specifically, the RFP sought proposals from

² See footnote 1 on page 3

Our review did not disclose any matters to indicate the City's solicitation and evaluation of renovation and lease proposals, as well as the selection of the proposal deemed to be in the City's best interest, was not in accordance with City procurement policies and procedures, or not in accordance with good business practices.

individuals or companies for the renovation and lease of the historic electric utility building into a destination restaurant.

- The RFP properly indicated that the City (and CRA) planned to participate in the cost of the renovation.
- The RFP provided general information on the existing building to be renovated.
- Appropriate efforts were made to advertise the RFP to potential entities through newspapers and through DemandStar. (Those efforts were enhanced for the reissued RFP.)
- Proposals received and accepted as responsive proposals were received by the deadline specified in the RFP. The one proposal that was not received by the deadline established for the initial RFP was properly not accepted as a responsive proposal by the City.
- A reasonable management decision was made to reject the one responsive proposal to the initial RFP and reissue the RFP after a determination was made that the one responsive proposal received for the initial RFP did not provide for a desired development with acceptable levels of private and public participation.
- The RFP included reasonable and pertinent proposal response requirements that would be used as a basis (criteria) to evaluate and rank the submitted proposals. The weighting of the proposal response requirements (evaluation criteria) was not unreasonable.
- The proposals submitted in response to the RFP were evaluated and ranked by a team of appropriate City and CRA employees and a knowledgeable citizen. We are not aware of any conflicts of interests that any members of the evaluation team had regarding the project or entities that submitted proposals.
- The proposal ranked as the most favorable by the evaluation team was the proposal recommended to the City Commission, and negotiations were held with the entity that submitted the proposal, with agreements (contracts) subsequently executed based on that proposal and related negotiations.

As part of the audit process, we initially questioned whether rejecting both responses received to the reissued RFP, and then revising and submitting a third RFP may have resulted in additional proposals. We determined that specifying an amount of public funds (City and CRA) eventually committed to the project (\$2.1 million) in a revised RFP, and increasing the advertising of the RFP through other mediums (e.g., additional newspapers and trade associations) may have generated additional proposals for the City’s consideration. However, we also acknowledge that taking that plan of action may not have generated any additional responses, and may have resulted in the two entities, that did submit proposals to the first reissued RFP, electing to not submit responses to a third revised RFP. Accordingly, our final conclusion was that, because of the inability for management to foresee the outcome of a third RFP, we considered actions taken and decisions made by the City to be reasonable.

**Audit Results:
Agreements –
Areas of
Compliance**

For the most part, we found both the City and Cascades Holdings complied with the MOA, Construction Funding Agreement, and Leasing Agreement. The historic electric utility building has been successfully renovated and is currently operating as a destination restaurant. Specific provisions and areas where compliance and goals have been achieved, as determined or verified during our audit, are noted below.

Memorandum of Agreement

City staff conducted due diligence in determining Cascades Holdings’ ability to complete the project.

City Due Diligence: As required by the MOA, Cascades Holdings provided final design documents and business and financial plans that were reviewed and analyzed by knowledgeable City staff to demonstrate their commitment and ability to contribute the required financial contributions and to complete the desired renovation and operate a successful restaurant.

Agreements Consistency: We found that the vast majority of provisions established in the MOA approved by the City Commission

were correctly and properly incorporated into the Construction Funding Agreement and Leasing Agreement executed by City management and Cascades Holdings. That consistency demonstrated City management followed the direction authorized by the City Commission in the MOA. Some of the more significant MOA provisions incorporated into the subsequent construction and leasing agreements included:

- Contribution (funding) amounts required by both the City (includes the CRA) and Cascades Holdings, and required uses of those contributed funds by Cascades Holdings.
- Timelines and milestones for completion of the renovation.
- A construction review and inspection process, with an associated process for reimbursement to Cascades Holdings by the City for authorized renovation costs.
- Lease start dates and rental payments based on defined lease rates and square footage, with defined escalation provisions.
- A twenty-year initial lease term with options for four 5-year renewals.
- Required maintenance by Cascades Holdings of adequate and appropriate insurance coverages for general liability, fire legal liability, and workers' compensation.
- Requirements related to maintenance of the building and premises.
- Requirements relating to parking, business operations during special events held in Cascades Park, and compliance with City noise ordinances.
- Allowed times of operations.
- Required ninety-day post review of The Edison's operations by City staff.

The vast majority of provisions within the MOA were properly incorporated into the other agreements.

Construction Funding Agreement

Funding Renovation and Startup Costs: Both the City (and CRA) and Cascades Holdings contributed their required shares of funds to the renovation and startup of the restaurant.

Construction and Renovation: Cascades Holdings used the contributed funds solely for the structural renovation of the historic electric utility building. The renovation was timely completed through a general contractor. Renovation and startup costs were documented by Cascades Holdings. Prior to payment of City (and CRA) funds towards the project, knowledgeable City and CRA staff reviewed evidence of those costs (expenses) and inspected the renovation work completed to date.

Construction Liens and Warranties: Cascades Holdings provided the City proper and satisfactory evidence (under oath) that all claims for labor and materials employed or used in the renovation of the historic City electric utility building have been settled, that no legal claims can be filed against the City for that work, and that each subcontractor had provided releases and waivers of all claims (“Waivers of Lien – Labor and Material”). Warranties for the renovation work were also obtained and provided by Cascades Holdings and its general contractor.

Construction Documents: Upon completion of the renovation, Cascades Holdings provided the City appropriate construction and architectural drawings (as-built drawings).

The City and Cascades Holdings each complied with most provisions of the Construction Funding Agreement; including contributing their required shares of funds towards the renovation and/or startup of the restaurant.

Lease Agreement

Security Deposit: As required by the Lease Agreement, Cascades Holdings submitted a \$10,000 security deposit to the City.

Rental Rates and Payments: Rental rates and required monthly rental payments were established in accordance with the MOA. Those rates and amounts were established to recover the present value of the City's \$1.3 million investment in building renovation cost (does not include the CRA's investment). To date, Cascades Holdings has made

Overall, critical provisions of the Lease Agreement have been followed by both parties.

each of the required payments in a timely manner. Payments made to date, which cover a 21-month period as of May 2017 and which properly include State and local sales taxes, totaled \$99,392.

Insurance Coverages: To protect the City-owned building and City investments therein, Cascades Holdings, for the most part, maintained required insurance coverages at levels specified and required by the Lease Agreement.

Maintenance of the Building and Premises: To date, City Environmental Services and Facilities Department staff have performed two site visits to verify Cascades Holdings is adequately maintaining The Edison building, mechanical systems and equipment, and premises. Based on those site visits, as well as our site visits during this audit, we determined Cascades Holdings is properly maintaining The Edison building and premises in a clean, attractive, and appropriate condition. This includes, but is not limited to, walls, ceilings, floors, windows, plumbing, decks, bars, and the surrounding grounds. Evidence indicates that major mechanical systems and equipment are being properly and adequately maintained, to include HVAC, electrical, elevator, plumbing, fire alarm, and fire suppression systems. Nightly and daily cleanings of the building and premises are performed.

Licensing: The Edison restaurant was and is currently licensed by the State of Florida as required by the Lease Agreement and State statutes and regulations. The Edison's licensing qualifications were recently audited by the State Department of Business and Professional Regulations. That audit showed The Edison was in compliance with those qualifications.

Authorized Uses: Based on our audit observations, inquiries of applicable City staff, and review of applicable reports, nothing came to our attention that the building and premises have been used for unauthorized purposes or in violation of applicable laws and regulations (e.g., noise ordinance). Authorized uses verified during our audit included a destination restaurant, cafe, and catering company, as well as rentals of rooms for events, including training and education events.

A required post review was completed and presented to the City Commission; no significant issues were identified by that review.

Utilities: Cascades Holdings is paying for all utilities, to include electric, water, sewer, natural gas, refuse, storm water, and fire service fees. Utility bills have been paid in a timely manner.

Required Post Opening Review: Appropriate City and Cascades Holdings management and staff conducted the required post review (i.e., ninety-day post review) and City staff presented the results to the City Commission. The review and related report addressed traffic flow, parking, noise levels, and hours of operation. No major issues were identified. Appropriate direction and instruction was provided by the City Commission to address traffic flow and to enhance removal of solid waste from the premises.

Audit Results: Identified Issues

Notwithstanding that, for the most part, the City and Cascades Holdings complied with the MOA, Construction Funding Agreement, and Leasing Agreement, we did identify a few areas where compliance was not achieved and/or improvements and enhancements are needed. Appropriate actions by the City and/or Cascades Holdings are required to resolve some of the identified issues. For the other issues, necessary actions have already been taken and/or City staff have been reminded to ensure appropriate actions are taken in the event the City engages in similar projects in the future.

Issues Requiring Appropriate Action (directly impacting Cascades Holdings)

A required lease addendum was not executed to show property that may be removed from the premises by Cascades Holdings in the event the lease is terminated.

ISSUE #1 – Required Lease Addendum Not Prepared and Executed: As described in the background section of the audit report, The Edison is the culmination of a private-public partnership involving the City and Cascades Holdings. As previously noted, both entities invested significant resources in the project. The City’s investment was focused towards stabilizing, rehabilitating, and developing the former historic electric utility building into a leasable shell space. Those areas included the foundation; flooring; interior and exterior walls; windows; HVAC, electrical, lighting, plumbing,

and fire protection systems; and an elevator. On the other hand, Cascades Holdings investment was focused towards finishing the building, to include interior improvements such as lighting and plumbing fixtures, bars, security systems, and other business startup costs including furniture, equipment, decorations, artwork, smallware, and point of sale systems.

Because of the two-party relationship in developing the building into a destination restaurant, it was appropriate for both parties to agree on what improvements and assets will inure to (be received and retained by) each party in the event of termination of the resulting lease agreement. Accordingly, section 17 of the lease agreement executed between the City and Cascades Holdings provided that, no later than 30 days prior to the due date of the first rental payment, the City and Cascades Holdings were to identify all items that would be considered property (trade fixtures and other personal property items) that could be removed by Cascades Holdings upon termination of the lease. Those items were to be listed in an addendum to the lease agreement. Inherent in that provision is that items not included on that list will inure to (i.e., be retained by) the City upon lease termination. Completion of that lease addendum was not only critical to ensure a fair and appropriate distribution of items in the event of termination of the lease, but also to ensure any property to be retained by the City was not collateralized as a security interest in any loans executed by Cascades Holdings in connection with their development of the restaurant.

In response to our audit inquiry, City staff and Cascades Holdings initiated steps to identify property that may be removed from the premises if the lease is terminated.

We determined that, contrary to section 17 of the lease agreement, the City and Cascades Holdings did not identify all items that would be considered property that could be removed by Cascades Holdings upon termination of the lease, and list those items in an addendum to the lease agreement. Accordingly, no formal determination has been made as to which items can or cannot be removed from the building in the event the lease terminates. That circumstance increases the risk of questionable actions by both parties in the event the lease terminates, thereby increasing the risk of litigation and loss of property. Furthermore, not identifying and preparing a lease addendum showing the items that can be removed by Cascades

Holdings in the event of lease termination precludes the City from determining that all items that should inure to the City were not collateralized in connection with loans executed by Cascades Holdings to acquire equipment, furniture, fixtures, etc. That circumstance occurred, as addressed in the following issue.

In response to our audit inquiry on this matter, City staff commenced working with Cascades Holdings to identify applicable property as the first step in determining what items should inure to each entity in the event the lease is terminated. We recommend those efforts be continued and a lease addendum prepared that identifies the items that can be removed by Cascades Holdings if the lease terminates. *(Subsequent to the completion of the audit fieldwork, City staff indicated the required lease addendum had been prepared and executed. We will review that addendum in connection with our follow-up on this audit.)*

ISSUE #2 – Certain Property Improperly Collateralized as Security Interests: Notwithstanding that the City and Cascades Holdings did not execute the required lease addendum as described in the previous issue, the City, along with Cascades Holdings and a financial institution that loaned funds to Cascades Holdings, executed an agreement (“Collateral Assignment of Lease and Landlord’s Subordination”) whereby the City consented to subordinate its interest in “all equipment, furniture, fixtures, and inventory owned by the Tenant (*Cascades Holdings*), ... including all equipment, furniture and fixtures affixed or in any manner attached to the real estate and/or building structure (*Edison grounds and building*), provided the same (*those items*) can be removed or unattached without damage to the building or structure, **except for** the following: all walk-in coolers and freezers, range hoods, bars, hostess stands, and booths.”

Security interests were improperly recorded against certain property items.

That agreement implies that the City intends to retain those excepted items (i.e., walk-in coolers and freezers, range hoods, bars, hostess stands, and booths) in the event the lease is terminated. However, as noted above, the required lease addendum was not prepared to provide for the City’s retention of those items in the event of lease

termination. Furthermore, without the identification and determination of **all** items on the premises, it is not clear the listed items are comprehensive as to what the City should have excluded from the collateral subordination agreement.

Through the Leon County Clerk of the Court's website, we identified security interests (i.e., "Uniform Commercial Code Financing Statements") that have been recorded against the equipment and fixtures attached to and located on the premises housing The Edison restaurant. Based on our review, those security interests were recorded for the benefit of two financial institutions that loaned funds to Cascades Holdings in connection with the building renovation and start-up of the restaurant. Our review of the recorded security interests indicated the following:

Efforts should be made to have the recorded security interest modified to exclude items that should inure to the City in the event the lease is terminated before Cascades Holdings pays off its loans.

- One of the lending financial institutions recorded a first and second security interest in **all** equipment, inventory, accounts, instruments, chattel paper, general intangibles and goods, ... as well as **all** fixtures attached to and located in or on the premises.
- Both lending financial institutions recorded a joint security interest in certain designated equipment that was acquired by Cascades Holdings with the applicable loan proceeds. The designated items included a range, fryer, ovens, ice cubers, walk-in refrigerators and coolers, draft beer draw system, and exhaust hood.

These recorded security interests do not take into account any items that should inure to the City in the event the lease is terminated with outstanding balances owed on the respective loans. Additionally, these recorded security interests appear to be in conflict with the aforementioned collateral subordination agreement executed by Cascades Holdings, one of the banks, and the City, as they do not exclude the designated items as collateral.

In summary, through actions of Cascades Holdings and the lending institutions, items that should inure to the City (upon lease termination) based on the intent of the lease addendum (which was not executed) were improperly collateralized. That collateralization

results in the lending financial institutions having first position over the City in regard to those items in the event Cascades Holdings defaults on the related loans. At this point, upon completion of the lease addendum showing the items that are intended to inure to Cascades Holdings in the event of lease termination (as recommended in Issue #1 above), we recommend the City make appropriate efforts to have the recorded security interests modified to exclude those items that are intended to inure to the City if the lease is terminated.

ISSUE #3 - Property Insurance Costs Not Passed Through to

Cascades Holdings: In regard to insurance, both the MOA and Lease Agreement established terms requiring that Cascades Holdings obtain appropriate general and fire legal liability and workers' compensation insurance coverages. In regard to property insurance coverage, the City's comprehensive property insurance policy covers the renovated historic City electric building which houses The Edison. Accordingly, the MOA provided, in part, that "In addition to the amounts payable to the City (*i.e., rent*), Developer (*Cascades Holdings*) shall reimburse the City for the City's cost of property insurance coverages for the Electric Building (*The Edison*) and any related improvements that are the subject of the lease." Contrary to that provision, the Lease Agreement executed by the City and Cascades Holdings does not include terms providing for Cascades Holdings to reimburse the City for the share of the property insurance premium costs paid by the City for the building. As a result, no reimbursements for those costs have been provided the City. In response to our requests, the City Treasurer-Clerk's Risk Management Division provided an approximation of those costs based on the size of the building. That approximation is \$6,700, which is reasonable. We recommend the City execute an addendum to the Lease Agreement providing for an annual reimbursement to the City by Cascades Holdings for those costs; or provide documented justification for waiving that provision as contained in the MOA.

Contrary to the MOA, the Lease Agreement did not provide for property insurance costs to be passed through to Cascades Holdings.

Other Issues

Cascades Holdings' general contractor did not warranty its work for the required two-year period; instead, the contractor only provided a one-year warranty.

ISSUE #4 - Warranty Term Less Than the Required Period: As a means to ensure a proper and adequate renovation of the former municipal building, the Construction Funding Agreement executed by the City with Cascades Holdings required that all work be guaranteed by Cascades Holdings and its general contractor against defects resulting from the use of inferior materials, equipment, or workmanship for two years from the date of completion of the renovation. That agreement also required that Cascades Holdings include a similar provision (two-year warranty) in the contract executed with its general contractor, and to include a provision in that contract that would make the City a third-party beneficiary of all warranties under that construction contract.

The execution of the Construction Funding Agreement, in effect, provided the City a two-year warranty from Cascades Holdings. Additionally, Cascades Holdings' contract executed with its general contractor did make the City a third-party beneficiary for applicable warranties. However, contrary to the Construction Funding Agreement, we found that the contract executed by Cascades Holdings with its general contractor (Culpepper Construction) only provided for a one-year warranty.

We acknowledge that no serious defects have been identified to date, which is approximately 1.75 years since the project's completion. However, providing a one-year warranty instead of the required two-year warranty increased the risk that any cost to address and repair any defective work completed by the general contractor would have to be paid from City funds. In future circumstances of this nature, we recommend applicable City staff ensure provisions required by its agreements with developers be included in related agreements executed between the developer and its general contractors.

ISSUE #5 – Lien Waiver Not Timely Obtained from General Contractor: As noted in the background section of this report, provisions of the Construction Funding Agreement required Cascades Holdings to provide evidence, under oath, that upon completion of the renovation there were no legal claims (liens) that

Cascades Holdings did not obtain a lien waiver from the general contractor in a timely manner.

can be filed against the City by those (contractors and subcontractors) performing the renovation work or supplying materials or equipment with respect to that work. Cascades Holdings provided the City proper and satisfactory evidence (under oath) that all claims for labor and materials employed or used in the renovation of the historic City electric utility building have been settled, that no legal claims can be filed against the City for that work, and that each subcontractor had provided releases and waivers of all claims (“Waivers of Lien – Labor and Material”). Notwithstanding those lien waivers that were provided, a “Waiver and Release of Lien” was not obtained and provided by Cascades Holdings’ general contractor (Culpepper Construction) until after our audit inquiry in June 2017. In future similar circumstances, we recommend applicable City staff ensure lien waivers are timely obtained and provided.

ISSUE #6 – Required Insurance Coverages Not Verified: As previously noted in this report, to ensure the City’s interests were adequately protected the Lease Agreement executed by the City required Cascades Holdings to maintain appropriate levels of general liability and fire legal liability insurance, with the City to be named an additional insured under the policy (or policies). Cascades Holdings is required to provide the City certificates of insurance (COIs) evidencing the required coverages are obtained and maintained. Also, the Lease Agreement provides the policy (policies) shall include terms requiring a minimum of ten-days written notice to the City prior to the carrier cancelling the policy.

City staff should enhance efforts to ensure Cascades Holdings maintains required insurance coverages.

We found the City was not adequately tracking activity to ensure the required coverages were maintained. Specifically, City Real Estate staff and staff of the Treasurer-Clerk’s Risk Management Division did not review COIs submitted by Cascades Holdings in a manner to verify the coverages acquired by Cascades Holdings were appropriate and in accordance with the Lease Agreement. As a result, City staff did not determine that certain coverages (fire legal liability) were not maintained at the required levels, or that in the first year of the lease the City was not listed as an additional insured on the general liability and fire legal liability policy, and was not

required to be notified in the event the applicable carrier cancelled that policy.

Through our audit procedures we determined that, other than the matters noted in the previous paragraph, Cascades Holdings has maintained adequate and required insurance coverages. Furthermore, for the current year (second year of the lease), the City is properly listed as an additional insured and the carrier must provide the City at least ten-days written notice before cancelling the policy. Additionally, in a timely response to our inquiry, Cascades Holdings acquired additional fire legal liability coverage to meet the coverage required by the Lease Agreement (i.e., increase the level of coverage from \$1 million to the required \$2 million). Notwithstanding that action and our audit determinations, we recommend the City Real Estate and Risk Management staff enhance their efforts to properly track activity and ensure required coverages are maintained.

ISSUE #7 – Performance Bond Not Provided: Performance bonds serve to insure a developer/owner’s investment in a project in the event the general contractor (hired by the developer/owner) is unable to complete the construction activities. As described in the background section of this report, the Construction Funding Agreement provided for Cascades Holdings to require its general contractor, prior to commencement of the renovation, to post a performance bond or provide an alternative form of security to protect the City and Cascades Holdings in the event the general contractor did not successfully complete the contracted renovation work. We determined Cascades Holdings did not require its general contractor (Culpepper Construction) to obtain and provide a performance bond, or alternative form of security, in the event the general contractor was unable to finish the contracted construction activities.

Exemption from a performance bond requirement was not obtained and documented.

In response to our inquiry on this matter, Cascades Holdings indicated the cost to acquire such a performance bond was considered prohibitive, and therefore they contacted the City’s Real Estate staff indicating their intent to not require the general contractor to acquire a performance bond. Cascades Holdings indicated it was their intent

to instead rely on the withholding of retainage from the payments made to the general contractor as sufficient incentive to ensure the contracted construction was satisfactorily completed. In our subsequent discussions on this matter with the former City Real Estate director, the former director indicated he recalled the matter being discussed with Cascades Holdings, but also indicated he had no recollection of approving the waiver of the performance bond requirement.

We acknowledge (1) the general contractor did satisfactorily complete the required construction, (2) the withholding of retainage by Cascades Holdings from amounts invoiced by the general contractor did serve as an incentive to ensure the required work was completed, and (3) Cascades Holdings notified the City of its intent to not require a performance bond. Notwithstanding those acknowledgements, without documented approval (e.g., executed agreement modification), Cascades Holdings did not comply with a contractual term executed to protect both the City and Cascades Holdings investments in the building. Additionally, City staff did not monitor this contractual provision in a manner to ensure it was properly followed or properly waived. In future circumstances of this nature, we recommend City staff ensure required performance bonds (or alternative forms of security) are obtained as prescribed by controlling agreements, or waivers from such requirements are approved by applicable City management and documented in City records.

ISSUE #8 – Security Deposit Not Timely Requested or Properly

Recorded: As described previously in this report, the Lease Agreement provided for Cascades Holdings to provide the City \$10,000 as security for Cascades Holdings' full and faithful performance of the lease provisions. As also previously noted, that \$10,000 security deposit was paid by Cascades Holdings and deposited by the City. However, due to City staff oversight and contrary to the lease terms, the funds were not requested and paid until 3.5 months after the lease commenced. Additionally, the funds were incorrectly recorded by the City as a revenue instead of a liability. Not reflecting the funds as a liability could significantly

The security deposit was not timely requested or properly recorded by the City.

restrict the ability of City staff in future years to identify the funds within the City's records for either (1) return to the tenant (Cascades Holdings) upon termination of the lease or (2) application of the deposited funds to amounts owed by the tenant. In response to our inquiry on this matter, the recording of the funds was corrected. In future similar circumstances, we recommend City staff timely request funds due the City and properly record security deposits as liabilities of the City.

ISSUE #9 – Retainage Not Withheld from Construction

Reimbursement Requests: In regard to construction projects, industry practices provide for the owner/developer to withhold “retainage” from amounts payable to the general contractor hired to construct the applicable structure. For example, under industry practices, amounts up to 10% may be withheld from each reimbursement request submitted by the general contractor to the owner/developer. Upon satisfactory completion of the structure or upon reaching predefined milestones, the retained amounts (retainage) is paid (released) to the general contractor. The purpose of retainage is to incentivize the general contractor into completing the required construction and to partially insure the owner/developer in the event the contracted construction work is not satisfactorily completed.

The City did not withhold retainage from construction reimbursement requests submitted by Cascades Holdings.

Our review of payments by Cascades Holdings (as “developer”) to its general contractor (Culpepper Construction) showed Cascades Holdings withheld retainage from amounts payable to that contractor in accordance with the described practices. We also noted that, in accordance with these industry practices, the City, as “owner” of the building being renovated, included terms in the Construction Funding Agreement which provided for the City to withhold amounts reimbursable (payable) to Cascades Holdings for those construction costs. Specifically, the agreement provided 10% of each reviewed and approved reimbursement request, submitted by Cascades Holdings, be withheld (retained) until 50% of the defined “City Improvements” were completed. Upon reaching that milestone (50% completion of City Improvements), the Construction Funding Agreement provided for retainage of 5% to be withheld from

subsequent reimbursement requests. Upon completion and acceptance by the City of all City Improvements, the agreement provided for the total of the retained amounts to be paid (released) to Cascades Holdings. *(Note: City Improvements is defined as renovation work pertaining to developing the existing structure into a leasable shell space.)*

Notwithstanding that Cascades Holdings withheld retainage from its general contractor, the City did not withhold retainage from amounts reimbursable to Cascades Holdings for construction costs. During the renovation activities, Cascades Holdings submitted six reimbursement requests to the City for construction costs. Those payments totaled \$2,036,047, and pertained to construction costs paid by Cascades Holdings (1) directly to Culpepper Construction as general contractor and (2) directly to other vendors for specific renovation work not performed through the general contractor. *(Note: The City and CRA committed a total of \$2,116,789 to the renovation; of that amount \$2,036,047 was paid by the City to Cascades Holdings and the remaining \$80,742 was paid by the City directly to other entities that performed certain renovation work {e.g., partial demolition work} prior to the contract with Cascades Holdings.)*

We acknowledge that the construction (renovation) work was satisfactorily completed and that amounts payable for that work have been properly paid. However, by not withholding the applicable retainage, the City limited its means to incentivize Cascades Holdings and to partially insure the City in the event the construction work had not been completed as planned. In future circumstances of this nature, we recommend the City comply with provisions established in its contracts and agreements relating to retainage.

ISSUE #10 – Minor Roof Leak and Maintenance Issues: Based on (1) our interviews of Cascades Holdings management; (2) our observations and inspections made during a site visit and walk through on June 7, 2017; and (3) our discussions with, and reviews by, City Environmental Services and Facilities Department staff, we concluded that the premises are being maintained in a clean,

On-site monitoring visits conducted by knowledgeable City staff identified some minor maintenance issues.

attractive, and appropriate condition. This included, but was not limited to, interior walls, ceilings, floors, windows, doors, lighting, plumbing, drains, kitchen equipment, outside decks and bars, and the surrounding grounds. Procedures reported as performed by Cascades Holdings to properly maintain the premises included nightly and daily cleanings of the restaurant, sweeping outside decks and sidewalks/walkways, patrolling the grounds and picking up trash, and transporting collected solid waste to dumpsters located off the premises on at least a daily basis.

Also, based on the previously noted audit procedures, we concluded that the major mechanical systems and equipment are working properly and are being properly and adequately maintained, to include HVAC, electrical, elevator, plumbing, fire alarm, and fire suppression (sprinkler) systems. Although a minor leak in the roof was noted and reported to the City by Cascades Holdings, nothing came to our attention to indicate the building, including the roof, was not structurally sound. In regard to the minor leak that was reported by Cascades Holdings, City staff determined the roof was under warranty and indicated the applicable contractor would be notified for appropriate action. We recommend the City follow-up to verify any needed repairs are made.

The City should follow-up as planned to address the minor maintenance and repair issues identified during the last on-site monitoring visit.

We also determined that the City Environmental Services and Facilities Department has conducted two site visits to date (first one in July 2016 and second one in June 2017) to verify Cascades Holdings is properly and adequately maintaining the building and premises. While those site visits were conducted by knowledgeable and appropriate City staff for the purpose of ensuring Cascades Holdings is maintaining the building and facility in accordance with the requirements of the Lease Agreement (clean, attractive, and first-class condition), no formal report was prepared by City staff to document the procedures conducted or monitoring results for the first visit conducted in July 2016. In a timely response to our recommendation to prepare reports for future monitoring visits, applicable City staff documented the procedures performed and the monitoring results in a written report for the second visit conducted in June 2017.

Our review of that monitoring report prepared for the second visit showed the City recommended actions be taken by Cascades Holdings to remedy a few relatively minor issues. Those recommendations included:

- For certain HVAC components, clean drains, coils, and/or debris and/or remove collected water for certain air handling units; replace a missing filter; reattach the insulation on a small area of one duct.
- Replace a missing grill on part of an outside heating unit (patio).
- Move shelves to allow proper access to electrical panels in one room.
- Address a few other relatively small issues, such as cleaning a bathroom exhaust fan and replacing a missing faceplate.

City staff should prepare a documented plan and schedule for conducting subsequent on-site monitoring visits.

The City Environmental Services and Facilities Department plans to follow up and ensure those actions are taken. We recommend that planned follow-up be conducted.

Lastly, City Environmental Services and Facilities Department management indicated they plan to conduct bi-annual site visits in the future, unless more frequent visits are determined necessary. However, no formal schedule/plan has been prepared to formally document the intended frequency of subsequent site monitoring visits and inspections/observations. To help ensure the building and facility are properly maintained (especially in the event of staff turnover), we recommend the City prepare a documented plan and schedule for conducting subsequent on-site monitoring visits.

Some of the issues are likely attributable to the lack of clear assignment of oversight responsibility to specific City staff and a transition of management within the City Real Estate Department.

Concluding Statement

Some of the above-identified issues are likely attributable, at least in part, to a lack of clear assignment, to specific City staff, of the overall responsibility for management of the contractual relationships with Cascades Holdings. Some of the issues are also partially attributable to a transition of management within the City Real Estate Department that occurred near the completion of the renovation activities and opening of The Edison. Specifically, the former Real Estate Department director, who was involved in the project from the onset, retired from the City effective September 1, 2015. The temporary

Certificate of Occupancy was granted September 17, 2015. The Edison opened for business September 20, 2015. The new Real Estate director (a former City right-of-way supervisor) was hired into the Real Estate director position effective October 3, 2015.

Accordingly, in addition to our previous recommendations, we recommend for future projects of this nature that City management assign oversight responsibility to specific City staff. During future managerial transitions, City management should also ensure appropriate managers and staff are made aware of applicable circumstances and changes in their roles and responsibilities.

**Other
Matter**

During our review, we became aware of another matter regarding the assessment of ad valorem taxes on the land and building housing The Edison restaurant. That matter is discussed in the following paragraph.

Real Estate Ad Valorem Taxes Not Assessed: Sections of Chapter 196, Florida Statutes, provide that properties of municipalities leased to a non-governmental entity and used for commercial purposes shall be subject to ad valorem taxation, unless an exemption is granted by the applicable county property appraiser. Section 20 of the Lease Agreement executed between the City and Cascades Holdings in connection with The Edison restaurant, provides: “Tenant (*Cascades Holdings*) shall pay all real estate ad valorem tax assessments, if any, assessed against the Premises (*land and building housing The Edison restaurant*).” Our review showed that ad valorem taxes have not been assessed by the Leon County Property Appraiser on the real estate (land and building) leased by Cascades Holdings for operation of The Edison restaurant. In response to our inquiry on this matter, representatives of The Edison stated no exemption from such ad valorem taxes had been requested from or granted by the Leon County Property Appraiser.

The Leon County Property Appraiser indicated ad valorem taxes will not be assessed on the real property leased for operation of The Edison.

Ad valorem taxes are assessed on other City-owned properties (real estate) that are leased to non-governmental entities for commercial uses. Because we were unaware of factors that would exempt the land and building housing The Edison from those taxes, we

recommended the City notify the Leon County Property Appraiser of this lease. In response to that recommendation, management of the Real Estate Department contacted the Leon County Property Appraiser (property appraiser’s office) regarding the lease of the property and building to Cascades Holdings for The Edison restaurant. Our office followed up with the property appraiser’s office on that inquiry. In its verbal response, the property appraiser’s office indicated the land and building would not be assessed ad valorem taxes. We recommend the City obtain written documentation from the property appraiser’s office exempting that land and property from those taxes.

***Overall
Conclusion***

Our audit shows that, for the most part, the City and Cascades Holdings have complied and are complying with the terms and provisions established in the MOA, Construction Funding Agreement, and Lease Agreement. The historic building has been successfully renovated, is being properly maintained, and is currently operating as a fine dining restaurant. Cascades Holdings has paid all rent due to date in a timely manner. Additionally, nothing came to our attention to indicate the solicitation and evaluation of proposals for the renovation and lease of the historic building, and the selection of the proposal deemed to be in the City’s best interests, was not in accordance with City procurement policies and procedures or not otherwise in accordance with good business practices. Several issues were nevertheless identified. Some of those issues involve or impact Cascades Holdings and others relate primarily to City responsibilities. Recommendations were made to address each of the identified issues.

We would like to express our appreciation for the cooperation and assistance provided during this audit by staff of the City Real Estate Department, the City Environmental Services and Facilities Department, the Treasurer-Clerk’s Risk Management Division, the Office of the City Attorney, and the CRA. We also express our gratitude for the cooperation and assistance provided by owners and management of Cascades Holdings and The Edison during this audit.

***Appointed
Officials'
Responses*****City Manager Response:**

I appreciate the Auditor's thorough review of this matter. I am pleased that, overall, the audit concluded that the terms of the agreements have been generally complied with, and that the Auditor did not identify any issues related to the 2012 Request for Proposals and the vendor selection. It is important that all terms of the lease agreement are followed. Accordingly, action plan steps will be completed to formalize a lease addendum, ensure proper asset collateralization, and pass through property insurance costs to the lessee, among other items. I am confident that the implementation of these action plan steps will ensure full compliance with the terms of the agreements. I would like to thank the Auditor and his staff for their efforts in this audit.

City Attorney Response:

The City Attorney's Office appreciates the professionalism exhibited throughout the audit process by all departments involved. The City Attorney's Office will continue to work with the Real Estate Department and Risk Management Department to properly revise the lease to include the tenant inventory addendum and property insurance costs. We will continue to work with all applicable City departments to ensure future construction and renovation projects are properly managed and documented. Additionally, the City Attorney acknowledges the time and effort expended by the City Auditor, and staff, to conduct a thorough and comprehensive audit in an expedited manner.

City Treasurer-Clerk Response:

I am pleased that the City Auditor found that the City and Cascades Holdings have generally complied with established procedures and agreements, and I look forward to completion of the action plan to ensure that all identified issues are properly addressed. For matters related to required insurance coverages, Risk Management will work with Real Estate to ensure that annual certificates of insurance are obtained, reviewed and maintained in a timely manner. Current coverages are considered appropriate; however, we will work with the Real Estate Department to ensure that all related processes are improved and properly communicated.

Appendix A – Management’s Action Plan

Action Steps	Responsible Employee	Target Date
A. Objective: Ensure City assets and investments are properly protected		
1) Real Estate Department staff will work with Cascades Holdings to identify all items that are tenant trade fixtures and other personal property that may be removed by Cascades Holdings in the event of termination of the lease. The agreed upon items will be listed in an addendum to the Lease Agreement, as was intended by the Lease Agreement. The Office of the City Attorney will be consulted in this matter.	City Attorney’s Office (Kristen McRae) Real Estate (Judy Donahoe and Marlon Toombs)	Completed*
2) Appropriate efforts will be made to have the current security interests, recorded with the Leon County Clerk of Court, modified to exclude those property items that will inure to the City in the event the lease is terminated before Cascades Holdings pays off the applicable loans to which those security interests apply. Those efforts will include working with both Cascades Holdings and the applicable lending financial institutions.	City Attorney’s Office (Kristen McRae) Real Estate (Judy Donahoe)	11/1/2017
3) An amendment to the Lease Agreement will be negotiated that provides for Cascades Holdings to reimburse the City for the cost of property insurance paid by the City on the renovated City building (housing The Edison) leased to Cascades Holdings.	City Attorney’s Office (Kristen McRae) Real Estate (Judy Donahoe) Risk Management (Gail Shuffler)	11/1/2017
4) Applicable staff will be reminded that, in future similar circumstances, entities contracting with the City will require their general contractors to warranty their work for the period specified in controlling agreements and contracts.	City Attorney’s Office (Kristen McRae) Real Estate (Judy Donahoe)	Completed*
5) Applicable staff will be reminded that, in future similar circumstances, entities contracting with the City will require their general contractors to provide timely lien waivers for work performed on the applicable project.	City Attorney’s Office (Kristen McRae) Real Estate (Judy Donahoe)	Completed*
6) Real Estate Department staff will prepare records to track insurance coverages required to be maintained by non-City entities leasing City-owned properties. Those records will be used by Real Estate Department staff to ensure the required insurance coverages are obtained and maintained.	Real Estate (Judy Donahoe)	9/1/2017
7) The Risk Management Division, within the Treasurer-Clerk’s Office, will timely assist Real Estate Department staff ensure that required insurance coverages are obtained and maintained on leased City properties. Such assistance will include, but not be limited to, timely reviewing initial and annual certificates of	Risk Management (Gail Shuffler)	9/30/2017

insurance (COIs) to ascertain if adequate and required coverages are obtained and maintained (current); timely documented responses will be provided to the Real Estate Department as to those determinations.		
8) Applicable staff will be reminded that, in future similar circumstances, required performance bonds (or alternative forms of security) should be obtained; or, if justifiable, appropriate authorization to waive the performance bond requirement obtained and documented.	City Attorney’s Office (Kristen McRae) Real Estate (Judy Donahoe)	Completed*
9) Applicable staff will be reminded, that in future similar circumstances, required security deposits should be requested and obtained in a timely manner.	City Attorney’s Office (Kristen McRae) Real Estate (Judy Donahoe)	Completed*
10) Applicable staff will be reminded to comply with applicable provisions of subsequent agreements, to include provisions requiring the withholding of retainage for construction and renovation projects.	City Manager’s Office (Wayne Tedder)	Completed*
11) Environmental Services and Facilities Department staff will follow-up and ensure that the minor roof leak is repaired and other needed maintenance actions are taken, as recommended in the report completed based on their June 2017 on-site monitoring and inspection visit.	Environmental Services & Facilities (John Powell)	9/15/2017
12) Environmental Services and Facilities Department staff will develop a documented plan and schedule for the conduct of future on-site monitoring and inspection visits.	Environmental Services & Facilities (John Powell)	Completed*
13) Oversight responsibility for the ongoing contractual relationships with Cascades Holdings will be assigned to specific staff.	City Manager’s Office (Wayne Tedder)	9/1/2017
B. Objective: Ensure proper accountability of security deposits		
1) Training will be provided to Real Estate Department and Accounting Services staff as to the proper manner to identify and record security deposits.	Accounting Services (Patrick Twyman) Real Estate (Judy Donahoe)	Completed*
C. Objective: Ensure ad valorem taxes are paid when applicable		
1) Request confirmation from the Leon County Property Appraiser that he does not intend to assess ad valorem property tax on the land and building housing The Edison.	Real Estate (Judy Donahoe)	9/1/2017
2) In an effort to assist the Leon County Property Appraiser, staff will develop a process to notify the Appraiser of all (current and future) leases of City-owned properties to non-governmental entities for non-governmental (e.g., commercial) uses.	Real Estate (Judy Donahoe)	9/1/2017
* Action plan step completed per City management. Completion will be verified during the audit follow-up process.		