



MEMORANDUM

TO: Jason Gray, City Manager
McKinney Community Development Corporation Board

FROM: Rodney Rhoades, Finance Director

DATE: May 9, 2012

SUBJECT: Findings on Gateway Property Acquisition

Summary

At the request of Ms. Schneible and members of the Community Development Corporation Board, the Finance Department was asked to research the acquisition and improvements on the 12 acre Gateway site purchased in late 2010. Specifically, we were asked to research why the asset was not reflected in the CDC's financial statement. The following is a result of the research.

Background

- In 2008, the McKinney Economic Development Corporation conveyed 12.8 acres of land for the hotel and conference center to McKinney Shores Hotel Partners (MSHP).
- MSHP began development on the site started in early 2008 and ceased construction in October of 2008 resulting in lawsuits and liens being filed shortly after.
- As a result of the litigation and liens filed against MSHP, an agreement to settle was reached and TBG Special Project LLC was created to acquire the land and assume of all liens from MSHP in November of 2010.
- Shortly after, TBG acquired interest from MSHP, the CDC acquired ownership interest in TGB for \$6.1 million. Payments to TBG were made in two separate transactions of \$4.9 and \$1.2 million.
- In late December of 2010, TBG conveyed land and all other rights to CDC resulting in the ownership of the hotel site.
- The CDC paid all back taxes owed to taxing jurisdictions of approximately \$802,000 in early FY 12.
- Total CDC outlay for the 12 acres is approximately \$7 million to date plus an additional \$1.3 million in land improvements that took place through the contract with MSHP.

Current Issue & Financial Impact

- Because the investment in TBG was not considered a land purchase but rather ownership in the company, it was expensed in the operating budget.
- Currently, the asset and improvements are not recorded on the CDC's financial statement. However, based on the conveyance that took place after the ownership purchase in TBG, we need to find a way to record the asset.
- Staff has met with the outside auditor, Weaver and Tidwell, to determine the best course of action to place the asset on the books. Weaver is currently reviewing information provided and will be providing feedback in the coming weeks.

Action Needed

Currently no action is required on the part of the board. Staff will continue to keep you updated on this issue until we have a resolution. Because of the complexity of the transactions in this development, it has required a great deal of research and verification of information. We will continue to work through this process to ensure assets are properly recorded.