

ECONOMIC DEVELOPMENT COMMITTEE

JUNE 12, 2012

3:50 P.M.

Councilman Benson, Chairman, called the meeting of the Economic Development Committee to order with Councilmen Murphy, Ladd, McGary, Berz, Scott, and Gilbert present. City Attorney Michael McMahan and Shirley Crownover, Assistant Clerk to the Council, were also present.

Others present included Dan Johnson, Chief Maffett, Greg Haynes, Ron Swafford, Vickie Haley, Johnny Feagans, Gary Hilbert, Danny Thornton, Dickie Hutsell and Richard Beeland.

On motion of Councilman McGary, seconded by Councilwoman Ladd, the minutes of the previous meeting were approved.

Chairman Benson stated that it was time to get **Resolution (e)** that is on next week's agenda on the table. This is to approve an economic impact plan for Black Creek Mountain area. People to explain the TIF were present today.

The first to speak was **Gary Chazen**, who is a partner in the Black Creek Development. He noted that Commissioner Graham was here from the County; that there was a Development partner here from New York that is with York Capital; George Masterson, Bond Counsel from Knoxville; Michael Mallen and Alfred Smith of Miller-Martin Law Firm; and Jim Brown from River Trust. He noted that one project encompassed 500 acres and a golf course and also a residential development; that along with Jimmy Chapin, they had developed the golf course; that in 2007 Doug Stein, Mr. Chazen's brother, and himself had bought Jimmy Chapin out. He went on to say that this would be a great development with 450 homes and a great golf course. York Capital would expend the project. This particular project involved 3500 acres on the mountain, and a parcel has been sold to the State for a Wildlife Conservatory. He stated that their purpose here today was to ask for help with the road; that they wanted a TIF to build the road up the mountain; that this road would be engineered to City and County specifications and then turned over to the City; that this would be great and wonderful for this area; that they had the best land planners in the country and would use Best Practices.

Chairman Benson asked him what road this would be and also asked for an explanation of TIF.

Mr. Chazen responded that their Bond Counsel would speak to the meaning of TIF; that the road would be a corridor like Ochs Highway or Signal Mountain Rd. with public infrastructure.

Commissioner Graham stated that this had been before the County Commission, and they voted in favor of this.

Chairman Benson asked how long the road would be and was told a mile and one-half; that they needed the TIF to construct the road and infrastructure.

Commissioner Graham stated that he lived in Lookout Valley and had heard from his people; that the road is a connecting road from bottom to top, and there will be no homes or lots on the road.

Councilman McGary asked Commissioner Graham to please explain the County's involvement in this? Commissioner Graham responded that both the City of Chattanooga and Hamilton County both have to agree to this. Councilman McGary stated that he wanted to know the County's involvement apart from just agreeing; that he wanted to know the role the County Commission would play apart from just approving this. Commissioner Graham stated that he did not understand the question. Councilman McGary repeated that after the County makes the decision, what other action will the County play? Commissioner Graham responded that they would be deferring their taxes also, to pay for the road.

Mr. George Masterson, Bond Counsel, spoke next. He stated that he would try to explain how TIF works; that after approval is given, the Plan provides that the road will be built and utility improvements, and it will be a dedicated street with up to \$9 million dollars TIF bonds; that the Industrial Development Board will issue the bonds, and the bonds will be purchased by the developer; that the bonds will be repaid in up to 20 years from incremental taxes in the future years; that if they are not paid in 20 years, then the bonds will be retired as worthless, and the City will have a road that they did not pay for. He reiterated that Black Creek would have 20 years to repay the \$9 million dollars of bonds; that it would not include the total increment—that a portion would be carved out and also the School System would not suffer. He explained that TIF is an Economic Plan with maximum terms and the maximum amount of bonds, and the municipality has to approve the Plan.

Councilwoman Scott stated that first of all—this is vacant land and is not “blighted” land, and it **will** be developed, the only questions being by “whom” and “when”; that this particular document indicates that this won't get done if this TIF does not happen, and she did not believe it was realistic to think that this would **not** get done—that it would go forward; that it was a pristine and beautiful piece of land and would be a nice development by the individual who is going to do this. She went on to say that the document she read indicated that the County and City money would go to pay for water pipes and electricity lines and sewers to serve the road. She questioned when the City had paid for water lines and electricity lines for a developer; that we had put in sewers. She stated that she did not recall us ever building a road for a private developer, and she questioned doing this now. She went on to say that this particular plan sets a precedent for other developers in the future and questioned what we would do; that it is very difficult to look at this group and say “good”, here is \$9 million dollars and then to say to the next developer “we won't do this for you”. She stated that she had already been contacted by a group wanting this same thing, and it would be hard to pick and choose between developers; that there were lawsuits in process right now over such things.

Councilwoman Scott went on to say that the other thing is that the whole basis of property taxes is to provide services for those who are paying the taxes; that this includes services such as fire and police protection and garbage pickup; that while this developer gets \$9 million dollars to put into infrastructure, there is a question as to who will pay for all the other city services until the bond is paid off in 20 years for the proposed new road up the mountain. She went on to say that the City already has road issues in her district; that this will be a road not connecting to anything other than this private property; that money goes into the General Fund for other taxpayers; that roads now need repair in different places that are already on a list, and this will be a brand new road at the top of the list—that this will be a bitter pill for people who have been waiting on a list. She noted that our sewer system is at capacity during wet water days, and this will be 1500 homes to further bear upon the system; that the infrastructure has to proceed the 20 years to pay this off.

One other issue was that Councilwoman Scott had read somewhere that an attorney for this process had bankrupted and had credit issues; that other projects like this have gone “belly-up”, and this is not a “risk-free” process. She wanted to know if all the individuals involved in this had had successes in other places? She noted that we would be doing something “special” and tax-free for this area only—this one area, and the money spent on this road, along with sewers, water lines and electricity will have to be paid by the rest of the property owners until the bonds are paid off. She stated that she thought this should go to a Referendum and let property owners and the ones paying for this “weigh” in on it—that this is a big responsibility to lay on people who have been waiting in line for roads and other things. She went on to say that there are people in her district with no water, and they have to have wells; that there are no waters lines because it is too expensive, and now these individuals would have to subsidize a brand new development, and this did not work in her mind. She ended by saying that Chairman Benson had passed around an article to everyone during the week, and she, too, had something to pass around.

Councilwoman Ladd shared that she had attended a TML Conference in Knoxville, and there was a session on TIF’s, and the session was packed. She stated that she had thought that TIF’s were new, but they had been on the books for awhile, and the definition did support that they were for “blighted” land, and she questioned how this fell within this definition. She wanted to understand what TIF represents; that before we award anything, she felt that we needed to develop criteria to apply this concept. She noted that when we do PILOTS, we have safeguards and criteria; that this would be our first TIF, and we needed to “vet” it well and make sure that we have done our homework; that there could be a lot of things coming to us.

Chairman Benson looked at what Councilwoman Scott had passed out and stated that he had not passed this to the Council, nor had he read it. Councilwoman Scott stated that he had not “read” it because **she** had just passed this around.

Councilman McGary mentioned the State Legislature, noting that their language is specific as to what is eligible for a TIF; that there is not just one version of a TIF but three. He asked, regarding the road, to please explain the road transfer process; that he understood it was bonded by the owner and would then become the property of the City. He noted that this is the first time the City has thought of entertaining a TIF; that Knoxville has, and it has been tried in other places. He noted that he was not trying to put Commissioner Graham on the spot and again asked what the County would put in? Commissioner Graham responded that they would provide their services, also. Councilman McGary pointed out that this is city property and city services will be affected. He wanted to know how other cities had dealt with this.

Councilman Gilbert stated that they had talked about the downfall; that he wanted them to give the positive side of what the City will gain financially.

Mr. Chazen responded that first, it would probably not be a 20 year payoff but more like 12 or 13 years; that the City would not be putting up money—that the developer is; that the City will be getting some taxes and a lot of jobs; that it will be a boon to the City and the County; that there are TIF's all over the State—Rhea County, Knoxville, Nashville, and Memphis; that he would let the Bond Counsel further elaborate.

Mr. Masterson stated that TIF's had been around a long time; that Housing Authorities did first require that "blight" be evident; however in 2004 this was amended, and we can now do TIF's under Industrial Development Boards project schedule; that they can be related to commercial, and he repeated that this TIF does not require the finding of "blight" but comes under the Industrial Development Board schedule. He went on to say that the Legislature adopted a Bill this year concerning TIF's of 2012 to make all statutes work together. He stated that there were several restrictions, but none of them affected this project. He went on to say that the 2004 IDB Statute had been used all over the State and had been very positive; that to get taxes, you have to "spur" development and TIF allows this without upfront costs. He went on to speak about "jumping the line" on other projects and people waiting around for money to be allocated; that the developer will build the road with increased taxes that the City would never have had—that they were not "jumping the line". He noted that these would be public improvements, and the road would be an asset to Chattanooga—that there would be some upkeep and services.

Chairman Benson asked about the utilities that Councilwoman Scott had brought up? Mr. Masterson responded that no water or electricity would be paid for with this.

Councilman McGary asked about the road, itself—would it be private or city property? The answer was that it would be city property. He wanted to know how other cities had dealt with this concerning dollars not utilized for city services—that this is 3,000 acres, which would be like a "new city"—that there would be a lot of people to have to utilize city services, and he wanted to know how everyone else had paid?

Mr. Masterson responded that the school system is “carved” out—also the money the City and County would use to pay Debt Service is not a part of the increment; that we would be collecting a lot more taxes.

Councilman McGary wanted Mike Mallen to speak about his research concerning other cities.

Attorney Mallen responded that he had given Councilman McGary the list for Knoxville, where there were 20 TIF’s underway; that as far as Knoxville was concerned there was a spread sheet with the “cash flow” right there. Councilman McGary asked if there were no problems in other communities, and Mr. Mallen responded “not that he was aware of”.

Councilwoman Berz stated that she would like to ask a question of the TIF expert. First, would there be no monetary outlay for the City—that the outlay would be for the developer, and he would get a tax break? Mr. Masterson responded that there would be no monetary outlay for the City to build the road; that the developer gets paid back with incremental tax revenue and pays the Industrial Development Board. Councilwoman Berz stated that this seemed to be an upside-down PILOT—that the taxes collected goes back to pay the developer for building the road.

Chairman Benson stated that Taft Highway was not built by a developer nor was Ochs Highway, and he asked for people to look at what is there now—fertile, attractive new towns. He stated that we could not think small—that density is getting worse in the City, and this gives expansion time; that it would be an attractive place; that he did not know about TIF’s for certain yet. He asked Mike Mallen about the taxes now.

Mr. Mallen responded \$30,000 to \$35,000 now; that taxes would be from two and one-half to three million dollars for the City per year. Councilman Benson responded that this would take the pressure off of us for raising taxes. Mr. Mallen added that the School System would not be touched.

Councilwoman Scott stated that first of all, we don’t build roads in new developments—that this is the responsibility of the developer, at all costs. Mr. Mallen explained to her that they would be putting the money up. She went on to say that we have a developer come in and open up the area by building a road, and then it is turned over to the City, if they choose; that the City does not finance the road; that they say there is no monetary outlay for the road, but there will be a tremendous outlay to provide city services; that this is a cost and is a subsidized cost that all will be paying, which is very unusual; that taxpayers’ money goes into the General Fund and is prioritized. She went on to say that this is far different. She continued, stating that many, many things had come in front of the City Council, mentioning the Chattanooga Hotel that was built and the revenue stream—that we still had this “millstone” today and tons of debt; that this was a “can’t lose” idea when it first came up. To say that ideas don’t fail is just

plain wrong! She went on to say that other TIF's have not done well; that TIF's and PILOTS are creative financing that is "carving" a portion out of our General Fund, and the General Fund runs the engine of the City. She stated that TIF's are subject to whims and the economy. She mentioned large resorts around here that have gone "belly-up", and this is a very real possibility. She noted that the person involved in this as the developer and investor went "south", and she had not heard this explained. She reiterated that all taxpayers have to pay for this development's services and again stated that she felt like this was a voter referendum decision—that this is a major step and people supporting it should have the option to say "no" or to "agree" with it.

Councilman Murphy stated that he would like to be clear about two things—that the TIF money will go to pay for the road and sewer line but not other utilities? Mr. Mallen stated that was correct. Councilman Murphy went on to talk about the road and sewer line and the possibility of burying the water line and power. He wanted to know if the water line and power would be paid for separately? Mr. Mallen responded that a contract would be let for these items—separately—that all would be transparent. Councilman Murphy went on to question if the TIF that is sought for would be all of the development and not just commercial? Mr. Mallen explained that the planned area is the entire development to capture the property tax. Councilman Murphy asked if also, new homes would be going up and the answer was "yes". He wanted to know the total project cost and was told \$500 million in houses and \$60 million in developing road and infrastructure. Councilman Murphy stated that what he was wondering if this would pass the test of "Will this happen if we don't approve the TIF"? Mr. Mallen responded that this would **not** happen if this was not passed. Councilman Murphy questioned this when the \$9 million dollars would be only .6% of the cost. Mr. Mallen explained that this would be built out—15 to 20 years—that this would jump start it. Councilman Murphy pointed out that the County had a different situation—that they only provide the schools, and they get the school taxes back.

Councilman Gilbert mentioned Councilwoman Berz talking about PILOTS—that everyone does not qualify for a PILOT—that they bring jobs and revenue and wanted to know if this would do the same thing? He noted that people coming into the City also purchase other things, which adds more to our revenue; that we are receiving nothing now on this property, and the current taxes are \$30,000 to \$35,000, which is not much money. He mentioned that many people thought the Aquarium was a bad idea, but we went ahead and did it—also baseball fields; that these were things that generate money and jobs. He wanted to know if local companies would be involved in this project? Mr. Mallen responded that the construction process would go on for 20 years, with Councilman Gilbert stating that this would be more money for the City.

Councilman McGary stated that he had heard different numbers and wanted to know the total time? Mr. Mallen responded that the Statute says it can be a 20 year period for the life of the TIF, and he had heard 13 years mentioned, also; that it could be 13 years or 20. Councilman McGary asked the total amount of land and was told 2400 acres, with the development of 1200 acres. He stated that he would like in the future to hear from neighboring cities about their TIF's.

Chairman Benson stated that he thought it was a fair statement to say that we live in a “fool’s paradise”—to think that we would never have to build a road; that eventually we would have to build a road, and this was the best way to go.

Mr. Mallen responded “the faster, the better”. He mentioned an 18-hole golf course; that this was a major, reputable developer, and we needed to give it a “jump start”.

Attorney Alfred Smith spoke next, stating that there was one thing he thought should be said—that in reference to the Chattanooga project that this is definitely different—that this is really different—that in the case of the Chattanooga, the City is on the hook; that in this case if this development fails and does not proceed, the City owns the road, and the City has no obligation on these bonds, and we need to think about this a long time. He stated that he previously had not worked on a TIF—that Spring City was the first one—that Spring City used TIF’s before the City and Hamilton County. He noted that he had practiced law for 35 years and saw this as economic development, just as PILOTS—that it is a tool in the economic arsenal; that Councilman Gilbert’s remarks were very appropriate. He went on to say that we could compare this to Volkswagen and could have said “somebody”, “some day”, this is going to happen—that it would happen with Volkswagen or someone else, but we made it happen in 2009 and did not have to wait until maybe 2019, which is a material difference. He went on to say that Aetna Mountain will be developed—that we can make it happen in 2012 or wait until 2022, which may be determined by whether the Council approved this TIF next Tuesday evening. He stated that this makes sense—that the developer is on the cautious, conservative side with a \$1 billion dollar investment on Aetna Mountain; that we need to realize that “sooner” is better than “later”, and this is a small price to pay; that it is taxes that the City will not get and will not get until this area is developed.

Councilman Murphy noted that Mr. Smith had noted that this had been used elsewhere (Spring City)—that this would make sense in an area that was working hard to encourage development. Mr. Smith acknowledged that this was a point well taken.

Councilman McGary asked Mr. Mallen about the document he disseminated about the Knoxville properties and the asset of market value pre-TIF and post-TIF, to be considered, as well.

Councilwoman Scott stated that she had not heard any discussion about the person who took part in a TIF that was not developed. Mr. Masterson responded that all he had worked on had been developed. Councilwoman Scott stated that she had read in the paper that a major investor connected with this had a TIF to fall through. It was noted that the investor is the developer. She wanted to know if this entity was not related to this project? Mr. Chazen responded “not to my knowledge”. She continued stating “not one problem with someone in this group with a failed project?” At this point, the individual with York Capital spoke up,

acknowledging that some projects that York had been involved with had failed—that the answer was “yes”, but it was not a TIF, that he had never been involved with a TIF. She asked if they had not gone “bankrupt”? This representative responded that all developers lost money at some time; that he lost money in 2007.

Councilman Murphy thanked Mr. Masterson for coming over and questioned “debt stream”. Mr. Masterson indicated special language in the Plan, which was part of the Resolution. Attorney McMahan noted that he had spoken to Ms. Madison about this; that they had looked at the numbers and a certain sum of money in regards to the TIF.

At this time, **Jim Folkner** asked to speak. He stated that he had been a private developer involved with roads, water, and sewers, and this had always been paid for by the developer; that he did not begrudge anyone making a lot of money, but it was the “no risk” that we had to think about; that the City would have to be responsible for police and fire service, and garbage and all other services, with no taxes, but the citizens of Chattanooga would be paying taxes now to pick up the slack; that long term it might be a good deal, but the citizens of Chattanooga would have to pick up the slack; that these citizens would not be paying for the services, and we would not be getting tax revenue and would not know when and how much we will be stuck with. He went on to say that this was not Volkswagen and not tourism—that this is a “hope”, thinking that maybe retirees were being targeted for this area. He mentioned \$9 million dollars of tax revenue, and the City would have to provide services until this is paid back. He talked about annexation and how services had not been provided yet. He stated that we could not afford the TIF because the citizens of Chattanooga would have to pick up the slack. Chairman Benson explained to him that we are only talking about the main corridor—that other developers would understand this—that this is a main highway, and this would get it built.

Councilman McGary stated that he would like to follow with a “non sequitur” here; that he shared these concerns—that as a community grows, so does the need for services; that if the housing units go up and the project is a success, revenue comes into the City; that if the houses are built, and no one moves in, there are no services. He went on to say that taxpayers are not fronting the money; that the developer is paying up front; that no City dollars will have transferred; that if actual people move in, it becomes a successful community.

Mr. Folkner questioned if we put in \$9 million dollars, does this apply to all developers’ roads? Councilman McGary explained that this would be a “spine road”, which is different from a developer’s road. Mr. Folkner responded that he disagreed—that all developers build roads, again stating that he was not against them making money but that all developers will expect this and also sewers; that if there is just one house with an occupant, there will have to be services.

At this point, Chairman Benson decided that it was time for the meeting to end, and the meeting was adjourned at 5:00 P.M.