



**INDUSTRIAL DEVELOPMENT BOARD
MONTHLY MEETING MINUTES
Electronic-Conducted (Virtual) Meeting
Chattanooga, Tennessee
for
February 1, 2021
11:00 a.m.**

Present were H.H. (Skip) Ireland, III (Chair), Jimmy F. Rodgers, Jr. (Vice-Chair), Ray Adkins, Althea Jones (Assistant Secretary), Jelena Butler, and Lance Truett. Absent was James Miller. It was established that a quorum was present virtually in an electronic meeting to conduct business, and the meeting was duly advertised.

Also present were: Phillip A. Noblett (City Attorney); Charita Allen (ECD); Jermaine Freeman (Deputy Chief of Staff); Eleanor Liu and Jamie Zukiya (Finance); Helen Burns Sharp (ATM); Alicia Juhl (Henderson, Hutcherson & McCullough); Mike Pare (Times Free Press); and Randy Merritt (via phone).

Mr. Ireland called the meeting to order.

MEETING MINUTES APPROVAL

On motion of Mr. Adkins, seconded by Ms. Butler, the minutes of the December 7, 2020, meeting were unanimously approved as published (6-0) upon roll call vote.

**RECOGNITION AND WELCOME OF NEW BOARD MEMBER
LANCE TRUETT**

Mr. Ireland recognized and welcomed new board member, Lance Truett. Mr. Truett stated that he is grateful for the opportunity to serve alongside the Board and excited to administer his voice and opinion in all matters the Board considers. Mr. Truett is very excited to be a part of it.

PERSONS WISHING TO ADDRESS THE BOARD

Ms. Helen Burns Sharp, Founder of Accountability for Taxpayer Money “ATM”, a public interest advocacy group focused on tax incentives and government transparency, has some comments for the Board. Ms. Sharp noticed in the agenda there were some financial statements. This reminded her of something mentioned a couple of months ago. The notes to the financial statement includes reporting on Volkswagen, the TIF program, and several local incentive programs for business. These are the areas where the Board serves as a conduit for financing. Because the Board’s role is different, the notes do not include reporting on the tax abatement that Volkswagen and other companies receive under the Payments In Lieu of Tax Program.

Under the PILOT program, the City takes title to real and personal property so the company can benefit from the Board's tax exempt status. You then lease the property back to the Board for a nominal amount. In the case of Volkswagen, this amounts to about \$17 million per year in current property taxes abated, and it translates to about \$500 million over the 30 years of the PILOT. In addition to the state and local grants, which total about a half a billion dollars and another half a billion dollars that is foregone and not collected due to the PILOT program. Ms. Sharp's point is not to re-visit the Volkswagen PILOT.

Ms. Sharp believes that this is a company that clearly we needed to give a PILOT to because of its impact of the intense competition. Ms. Sharp believes it was a little too generous, and we have begun to tighten agreements in the years since we first gave the VW PILOT in 2008. The point is to remind the Board that right now under the PILOT program, the City and County are not collecting a total of about \$24 million per year in property taxes. While yes, we want to help business and PILOTs belong in our economic development toolbox, let us remember that \$24 million is money that cannot be spent on public safety and workforce development, parks and libraries, and things like that.

This Board has a key role in this, and Ms. Sharp thinks there is some momentum, she hopes, to try to tighten the program a little and get more of a focus on making sure that when the City and County grant PILOTs, are focused on significant public impact, we are looking at the but-for test. In other words, is this a project that would not happen without the PILOT but for the incentive, they would not be here.

Ms. Sharp does not believe there has been reporting to the Board about the PILOTs, fifteen (15) under Ms. Allen's purview active PILOTs in addition to VW. What Ms. Sharp suggests is maybe Ms. Allen ask for a report that would summarize each agreement before it began, when it ended, with the key provisions, and also state what the status is of their meeting the commitments in order for a company to get a PILOT. A company would agree to ex-number of new jobs and ex-amount of investment, and an annual wage for ex-amount. Most of them now are required to do annual reports, and this information should be available. That is a suggestion and wants to thank the Board for their time and also in looking at this group, this is a different board from what she started dealing with in 2012. Ms. Sharp is real excited about the caliber of this Board and sensed in watching the meetings, the Board is asking good questions and take this responsibility seriously. This is an important role that the Board plays in the City.

Mr. Noblett made a comment that this report from HHM that it is merely dealing with the aspect of the Volkswagen group project. That is in connection with this process, the state and federal government wanted to have this type of audit report conducted on an annual basis here for this specific project. That is why there might be a little confusion on what the scope is in connection with this. There are a number of different PILOT projects that this Board actually has a lease on because that is under state law in Tennessee. This Board is not the City of Chattanooga nor Hamilton County. It is an entity that has title during any terms of Payment In Lieu of Tax project most of which are a ten (10) or fourteen (14) max year project. This is a little different because it was an agreement that was worked out with the state and local government for the development of this new business for VW when it first came here to town.

This is the reason that we have this annual report, but we will get that from the folks with HHM. Ms. Sharp said that was helpful because she realized when making the comments this really is not anything before the Board today. It was just a reminder to Ms. Sharp about the PILOT program, and how you may want to get some reporting on it in the future. Mr. Noblett said, yes, ma'am, I think we need to get that through ECD as to what we are getting.

There was no one else present wishing to address the Board.

PRESENTATION OF VOLKSWAGEN AUDIT REPORT
BY HENDERSON, HUTCHERSON & MCCULLOUGH

Ms. Alicia Juhl with Henderson, Hutcherson & McCullough (HHM) presented the audit report for Volkswagen. There was a clean report issued resulting in an unmodified opinion with no findings. In overview of the audit process, they follow general auditing standards. When they plan for former audit services, those are set up to provide a reasonable basis for their opinion. In doing so, they do not look at every single transaction through that process. That is how the audit standards are designed. They also touch on significant accounting policies. There were no new disclosures required for the IDB for Fiscal Year ending June 30, 2020.

With regard to accounting estimates, there are no accounting estimates necessarily for the current year. And in subsequent years, there will be a review perhaps for the allowance on the COVID-19 loans with the Southeast Tennessee District. It is always a pleasure to work with the staff, Eleanor, and her team. As far as they are aware, there were no consultations with other accountants in the process of the audit. We also touched on proposed, corrected or uncorrected misstatements, and had a proposed adjustment for presentation of the COVID-19 loans (just having them shown on the balance sheet as opposed to as an expense). There were no uncorrected misstatements in the audit report. Through the audit process, they also are keeping their eyes open for any internal control deficiencies, any fraud, illegal acts, that type of thing, any significant matters that we would have to go over with management. Ms. Juhl stated they are happy to report that they did not encounter any of those this year through the audit process.

Financials – Pages 3-7 discusses Management Analysis. That is the perspective that management brings to different numbers for the year ending June 30, 2020, and any upcoming items to note plans. Page 8, is the numbers themselves, the Statement of Net Position. This will present the IDB's position through June 30, 2020, with a comparative of June 30, 2019. There were not any significant changes. There was not much activity in the grant area. There were several programs in the Economic Development that helped local businesses make it through the tough COVID-19 time.

The Southeast Tennessee Development District, \$500,000 listed, are the loans referred to in the accounting estimates. No payments were going to be due for a year which is hard to tell at that point if those businesses were able to maintain, just to still be in business at this point, hopefully provided the necessary resources to make it through other options that were available. That was the biggest change.

At the bottom of the page is the Net Position of Total Assets and taking out the Liabilities leaving \$440,590,183. The majority is invested in Leased Assets. The second category is the Economic Development Incentive Program which shows \$1,666,286 how those funds are either set aside or restricted for purposes that have already accrued or for full future uses.

Statement of Revenues, Expenses, and Changes in Net Position – Page 9 will show the activity from July 1, 2019 through June 30, 2020, with the comparative between 2019. Looking at changes from prior years are most significant, would have been the line on revenues for the State of Tennessee, and that relates to many that came through, and then went back out as a sub-recipient to other grant expenditures with TDOT and VW projects. Those are the big changes in that area and looking at revenue versus expenses, the overall change in Net Position was an increase in \$18,377,490. It is always good when you can increase that net position over time.

Cash Flows – Page 10 shows the money that has come in and out of actual cash throughout the year and receipts from local governments, payments out to be related to prior year liabilities for the activities of the current year. The used cash \$1,104,672 results in an ending cash that corresponds back to that cash amount on the Statement of Net Position.

Note Disclosures – Pages 11-18 discloses the basis of what the different categories in the financials in more details on those numbers if you want to dive into the specifics how the COVID loans and some other different projects. One thing to note is the subsequent event note did include the resolution for the \$4 million loan that is going to be upcoming for infrastructure improvement projects.

Pages 19 and 20 goes over the statements we looked at on page 8 and 9, the Statement of Net Position and the Activity Statement. This breaks it into those categories for project in expansion in Tax Increment Financing and the Economic Development. The total lines go to the front. If you want to see that broken-up you can reference those pages. The remaining pages are correlating to what Mr. Noblett spoke about with the state requirements to report on these numbers and to include the activities so that there is a reporting function back to them. They also have the information provided in their reporting structures as well. That is the overview of the highlights.



On motion of Mr. Adkins, seconded by Ms. Jones,

A RESOLUTION AUTHORIZING THE INDUSTRIAL DEVELOPMENT BOARD CHAIR OR VICE-CHAIR AND CITY FINANCE OFFICER TO EXECUTE A MANAGEMENT REPRESENTATION LETTER FOR THE AUDITOR, HENDERSON, HUTCHERSON & McCULLOUGH, PLLC, FOR FISCAL YEAR ENDING JUNE 30, 2020.

After further discussion, the motion carried unanimously with (6-0) upon roll call vote.



On motion of Mr. Rodgers, seconded by Ms. Butler,

A RESOLUTION AUTHORIZING THE INDUSTRIAL DEVELOPMENT BOARD CHAIR OR VICE-CHAIR TO ENTER INTO A PROFESSIONAL SERVICES CONTRACT WITH BARGE DESIGN SOLUTIONS TO CONDUCT A PRELIMINARY ENGINEERING REVIEW FOR A FIFTEEN (15) ACRE SITE PAD AT ENTERPRISE SOUTH INDUSTRIAL PARK (ESIP), IN THE AMOUNT OF FIFTEEN THOUSAND DOLLARS (\$15,000.00). **(VW(CB)65)**

Mr. Jason Payne stated that this contract is for complete development of a fifteen (15) acre property opposite Volkswagen to the west of the current manufacturing facility. Barge Design Solutions has done almost all of the property works, and they try to keep it under the same umbrella. Their branch is local in the Chattanooga Warehouse Row office.

Mr. Ireland asked if at the end of the day we are going to get a report back that says this property is doable or not doable. Mr. Payne stated that we are looking for what it will take to get infrastructure going as far as utilities of what it will take to level off the area where the access would be. Mr. Noblett said that hopefully there will not be more than fifteen (15) acres involved in this, and we want to make sure that the surveying crews establish where that location is and what needs to be added. That is what they have in their charges in connection with this agreement. Mr. Payne stated that is non-specific right now.

The motion carried unanimously with (6-0) upon roll call vote.



On motion of Ms. Butler, seconded by Mr. Adkins,

A RESOLUTION AUTHORIZING CHANGE ORDER NO. 2 FOR BARGE DESIGN SOLUTIONS RELATIVE TO THE SUPPLIER PARK AND CONNECTOR DRIVE, FOR AN INCREASE OF TWENTY-SIX THOUSAND TWO HUNDRED TWENTY-FIVE AND 28/100 DOLLARS (\$26,225.28), FOR A REVISED CONTRACT AMOUNT OF ONE HUNDRED THIRTY-FOUR THOUSAND FIVE HUNDRED TWENTY-FIVE AND 28/100 DOLLARS (\$134,525.28). **(VW(CB)66)**

Mr. Payne stated this contract started in 2009 when Volkswagen decided they did not want a public road through their property. They used some incentive funds to develop a site plan for

Supplier Park and a private drive through their property. In 2012 they changed their mind and asked the state to put a public road through their property so Change Order No. 1 was initiated in 2012 to help them re-design their entrances as it relates to the public road. That process for TDOT has taken eight (8) years to get under construction. Barge is now being asked to help Volkswagen put out their contract to re-work their entrances. That is what the investigation is for to help them go through that process of re-doing their graveling. The \$26,000 is completed local out of City and County.

Mr. Truett asked if these funds are being requested because Volkswagen changed their mind from making it a private infrastructure improvement to a public funded infrastructure improvement. Mr. Payne said not quite. They changed their mind from a private road to a public road. The public road is being paid for from a state industrial access grant. TDOT is managing that construction. These funds are local funds that part has been available from the first MOU and part of it from the second MOU. Mr. Payne and Ms. Liu need to figure out the funds. The final incentives were for infrastructure for Volkswagen to spend. These funds re-done their entrances tying it to the road. Mr. Truett asked if this is what is the design cost as opposed to an actual construction cost? Mr. Payne said, that is correct. Mr. Ireland asked if these were out of the regional MOUs. Mr. Payne said, yes. Mr. Payne said \$23,000 out of the BSUV MOU and about well under \$30,000 under the original 6.2 local MOU.

The motion carried unanimously with (6-0) upon roll call vote.



VOLKSWAGEN FINANCE REPORT

Ms. Eleanor Liu presented the IDB finance report. Ms. Liu stated it is getting pretty boring because she has no new activity to report. It is almost the exact same report showed in the December meeting. No expenditures, no increase or decrease in encumbrance. The total expense spent, encumbered, and contingency are still at 98.89%.



OTHER BUSINESS

PILOT Program Reporting

Ms. Charita Allen wanted to mention to the Board members that the PILOT program reporting comes through the Chamber to the City Council whose end of the year job creation numbers were reported. Their deadline was January 30th. We have them in. At this point, everyone is compliant. They all have met their numbers. We are in the process of working with the Chamber to put together a report. That report annually is presented to the City Council. Typically, about the second week in February, at this point, we are not on the agenda because we do not have the final report from the Chamber. We are in the process of pulling that together.

Our next step is we reach out to the Department of Labor to confirm all of the job numbers. Then we put together another report. Ms. Allen anticipates hopefully by March at the next IDB meeting, we will be able to present that to the IDB. But historically, we have not reported that to the Board because we report that to the City and County because all of the PILOT agreements are approved through the City and County.

As a follow-up to that, the PILOT program was audited by the City Auditor two years ago. Following that, we put in new policies, procedures, reporting, and so we have been following those City Auditor approved procedures for the last two years. Again, Ms. Burns Sharp reached out to the City Auditor, the Audit Committee, and had some questions about the PILOT program. Obviously, we made some updates a couple of years ago, and we feel like we have some great systems in place for accountability -- meeting the but-for, the approvals of reporting we know exactly when we are reaching out to companies, we know when they are supposed to get back to us. We partner with the Chamber on that, we feel like after this two-year process, we feel like we have some good systems in place.

Ms. Allen will come back to the Board with sort of just a high level overview because a detailed overview typically goes to the City and the County every year. Mr. Ireland stated we look forward to it. Mr. Rodgers asked Ms. Allen, when do you think we will get that as a board? Ms. Allen said, she is hoping by March, if we have everything pulled together because typically it goes to City Council first. Ms. Allen still has to get it on the City Council/ECD Committee for that. Mr. Rodgers thinks that is something we ought to have on an on-going basis. Ms. Allen said that it is typically required annually. The process, as it is laid out, is companies have to report their calendar end of year numbers back into the Chamber and the City by the 30th of January, and then it typically takes us about four (4) to six (6) weeks to confirm all of those numbers with the different entities and put together a report to them to present to the City Council.

Amendment to IDB Charter

Mr. Noblett stated that he mentioned last month, the Council had requested to go to a nine-member board, instead of a seven-member board, just to make it easier for them to have appointments to this body. Mr. Noblett has prepared an Articles of Amendment to the Charter and will forward that to the Board to at least look at. It needs to be approved by this body at the next meeting. Mr. Noblett will send a copy of that to the Board so we can get it filed with the Secretary of State if that meets with the Board's approval. Mr. Ireland said that is good and does not think there are any objections. It needs action for the next meeting.

Audit Report

Mr. Rodgers wanted to follow-up with regard to page 8 of the auditor's report that referred to the cash and cash equivalent that the Board has. Mr. Rodgers was curious and wanted to confirm who oversees that money. What department does not fall under? It is not Mr. Noblett. This is under Ms. Liu and Ms. Madison's direction. It is not under Ms. Allen's authority either.

Ms. Liu stated that she is the main person in Finance Department to oversee all the financial reporting. During the year, we have a negative cash hand, and when payments are made, the City of Chattanooga actually fronts the payment first. We then go through the reimbursement process either with the state or locally and the County and take out anywhere from a month or two months until we get the reimbursement. At the very end of the Fiscal Year, if the reimbursement people do not reach us on time, actually rather than carrying negative cash, we do a loan, like a one-day loan with the City of Chattanooga, and have zero cash on hand. That is real cash on hand. And the next day, we get it back to the City of Chattanooga, the cash flow, the transaction during the year in and out, but not necessarily with the cash.

Ms. Allen added that several years ago, Economic Development staff presented to the IDB a list of the accounts along with a description of the intended use of those accounts. Ms. Allen recalls Mr. Rodgers missed that meeting and what we ended up doing was outlining for the IDB members each of the accounts, what was in the account, and then our intended use for the account and then every, sort of the beginning of each Fiscal Year, the staff would come to the Board and ask the Board to then fund those different accounts.

For instance, two years ago, we funded Business Development. The \$15,000 of it was approved earlier for site prep work at ESIP. That came out of the Business Development account that \$15,000. At this point, we had \$25,000 in it. At some point, we will need to come back to the Board, look at all of the accounts again and say, for this Fiscal Year, we would like to move money into the different accounts. We did not do that in July of this year. Ms. Allen believes it was at the height of COVID. There was so much going on that we did not move things into accounts this year. We funded COVID loans and that was only sort of transfer within those internal accounts.

Moving forward, yes, Ms. Liu and Budget oversee the day-to-day accounting of that, but this Board has authority over what is in those buckets and how those buckets are spent. We do not like spending out of different buckets for different things so every year we come do it once and say for small business grants, we anticipate needing \$150,000 this year, let us move that over. For renewing Chattanooga, we think we are anticipating \$50,000, let us move that over. And again, we have done that historically. We did not during COVID this year, and at some point, we will need to come to the Board and sort of outline those things again. We have checks and balances in place and can assure that between Ms. Liu and Ms. Madison, we are spending our funds appropriately.

Mr. Ireland stated within those different buckets, we have enough new members of the Board where that probably would be helpful. Ms. Allen stated she and Mr. Freeman would like to meet with the new board members and give them a one-on-one. They could high level overview of the accounting system from the different programs that we oversee.

Mr. Rodgers asked when with the elections coming up, when will the new administration take over. Whoever that may be? Mr. Noblett stated the appointment in taking of office and oaths of offices occur on the first Monday after the second Tuesday in April which is the 19th of April. Mr. Rodgers stated that Ms. Allen has done a good job in keeping the Board informed and up-to-date and appreciated that very much. Mr. Rodgers just was not sure when the new group would be coming in.

Ms. Liu stated she was not quite finished. Ms. Liu's previous comment has to do with the VW side of it. Ms. Liu stated that as you look at our financial details, there are three components:

- (1) VW, which is a majority, which is a bulk of the assets, of \$400 million;
- (2) TIFs - generally do carry a minimal amount of cash balance. Generally, when the tax payments come in, the turnaround time lasts a week, we send it to the developer. We carry right now \$1,500 cash that is the application fee. That is the minimal amount of cash we carry; and
- (3) ECD programs – which is where Ms. Allen has mentioned, we do have several programs ongoing, and we do have cash payments come in as the lease payment relates to the PILOT. That one we do carry a balance, but we are spending it as the resolution passes by the Board each month. Right now, we carry a balance, a couple of grants come in with matching. We year mark some of the commitments we made. Hopefully that is clear.

Mr. Noblett stated that he thinks a training session would help.

Ms. Liu stated if the report needs to be expended she can. With the third TIF coming up, we may not do any reporting not quite yet. It definitely will be in addition to the VW report that we all are familiar with. Ms. Liu will do a second report on the TIF because in that TIF, the City of Chattanooga will be acting as almost like a developer. The City will incur all the payments on behalf of the TIF and will have to be brought to the Board to get approval before an expenditure can incur. Ms. Liu will also bring to the Board to show what has occurred. There is a \$4 million loan on that project.

East Chattanooga Rising/Nippon Paint TIF

Ms. Liu will do another report to be presented to the Board which is the East Chattanooga/Nippon Paint project. Ms. Allen stated that the last TIF, the East Chattanooga Rising TIF, is for infrastructure that is within the TIF district. The next reporting will be for the re-development or extension of Hardy Street which is on the City-owned property. The City is the developer and is managing that project. Those construction designs, which Ms. Allen thinks, is 30% at this point. Ms. Allen is working closely with CDOT and anticipates by the next IDB meeting to present the Hardy Street sign drawings, what that budget is, what that timeline is, and there is a time set delivery date for it. We will know the timeline and the structure for that. We should have that for the next IDB meeting.

There being no further business, Mr. Ireland welcomed Mr. Truett to the Board, glad that he is here, look forward to working with him, the meeting was adjourned at 11:43 a.m.

Althea R Jones

Althea R Jones (Mar 1, 2021 15:51 EST)

ALTHEA JONES, Assistant Secretary

APPROVED:

H H Ireland III

H H Ireland III (Mar 1, 2021 16:47 EST)

H.H. (SKIP) IRELAND, III, Chair

**The electronic Zoom presentation is kept on record by the Industrial Development Board.*







(3) 02-01-2021 IDB Minutes

Final Audit Report

2021-03-01

Created:	2021-03-01
By:	Maria Manalla (mmanalla@chattanooga.gov)
Status:	Signed
Transaction ID:	CBJCHBCAABAAa3aYHiKNuDDUjDHYG9kfu8TWuTdymKt3

"(3) 02-01-2021 IDB Minutes" History

-  Document created by Maria Manalla (mmanalla@chattanooga.gov)
2021-03-01 - 8:30:21 PM GMT- IP address: 45.43.96.8
-  Document emailed to Althea R Jones (arjones@tva.gov) for signature
2021-03-01 - 8:31:15 PM GMT
-  Email viewed by Althea R Jones (arjones@tva.gov)
2021-03-01 - 8:46:49 PM GMT- IP address: 152.85.8.38
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Signature Date: 2021-03-01 - 8:51:22 PM GMT - Time Source: server- IP address: 152.85.8.38
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2021-03-01 - 8:51:24 PM GMT
-  Email viewed by H H Ireland III (sireland@cosonline.com)
2021-03-01 - 9:46:03 PM GMT- IP address: 73.107.32.118
-  Document e-signed by H H Ireland III (sireland@cosonline.com)
Signature Date: 2021-03-01 - 9:47:12 PM GMT - Time Source: server- IP address: 73.107.32.118
-  Agreement completed.
2021-03-01 - 9:47:12 PM GMT