

ECONOMIC DEVELOPMENT COMMITTEE

JULY 3, 2012

3:25 P.M.

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

Others present included Dan Johnson, Richard Beeland, Larry Zehnder, Greta Hayes, John Bridger, Daisy Madison, Simone White, John Van Winkle, Capt. Snyder, Ron Swafford, Vickie Haley, Chief Maffett, Chief Parker and Missy Crutchfield.

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

Chairman Benson stated that last week we took a comprehensive look at the TIF and today we are going to establish criteria and guidelines for future TIF's as to whether to approve or disapprove. He recognized the presence of Daisy Madison, John Bridger, and Rob Branum of the Chamber of Commerce. He also recognized developers present, Julian Bell being among them. He related that Mr. Bell was once the City Engineer but went into a wealthier field—homebuilding. He added that the developers were interested in our decision concerning TIF's. He stated that he would ask John Bridger to “chair” this discussion concerning the process for determination; that Rob Branum of the Chamber of Commerce would go over PILOTS fulfilling their obligations; that they were really monitored closely and PILOTS had been more successful in the last two years in meeting their obligations. He stated that we would first take up the TIF and then the Council could read about PILOTS from a handout they had been given and Mr. Branum would be here for questions.

Mr. Bridger gave a little background concerning TIFs, stating that he had had conversations with the City Attorney, Rob Branum, and Daisy Madison; that there were three different types—(1) the Economic Development TIF; (2) the Redevelopment TIF in urbanized areas; and (3) the Greenfield Development TIF in areas with limited urban services like the Back Creek Mountain TIF. He went on to talk about how they are used in Tennessee and the US and talked about what State Law requires, where he had worked with the City Attorney. He noted that it could be asked “What have we learned?” TIFs have been used in the Midwest, Wisconsin, and Illinois, and they looked at the “good, bad, and the ugly”, stating that he would explain this. He talked about how the financial environment has changed—that it is a different financial environment. He talked about risks and rewards; that every TIF is an agreement and that Daisy Madison will look into this. He went on to mention criteria that others have used such as publications; that they had assessed information and would be doing interviews; that this had been done in Nashville. He stated that the final report would be at the end of September.

Chairman Benson stated that he was glad there were people here to answer questions for developers and asked if the Report would be ready by mid-August? Mr. Bridger noted that it would be at the end of September, which is a couple of months. Chairman Benson asked if they were working in conjunction with the County? Mr. Bridger responded that it had been mentioned to the commissioners, but it would be their decision to make as to whether to “jump on board”. He stated that he would be glad to extend the invitation.

Attorney McMahan reminded that the City is also in the County and that this would not work unless we work together.

Councilwoman Scott asked if there were any in the audience interested in coming to the Council about a future TIF without further background? She wanted to know if we would entertain any others without criteria? She suggested that we not do this. Councilwoman Ladd totally agreed with Councilwoman Scott and suggested a moratorium—that she agreed. Councilwoman Berz also expressed her agreement and asked if this needed to be on the agenda tonight? Attorney McMahan responded that he would have a Resolution on next week’s agenda.

Chairman Benson asked if any were in a rush for a TIF? He noted that we would get this report back by the end of September; that there would be a moratorium on TIFs until October 1st. He asked if there were any other questions about TIFs?

Councilman McGary asked if he was to understand that this Report will make observations for all three types of TIFs? The answer was “yes”.

It was noted that it is important that the County carry one-half of the burden.

Chairman Benson suggest that anyone with questions to see Mr. Bridger and expressed his appreciation for the developers coming down.

Theresa Graves spoke next. She stated (Homebuilders) they were for TIFs; that they had given information to the State that had been sent to Nashville—that it was a program similar to TIF that had been adopted in southern states concerning financing. She stated that the State had done a lot of research concerning financing upfront—that Banks are limited in financing upfront, and this is a great option. Chairman Benson showed appreciation for her coming.

Councilman McGary asked her if she was aware of any other reports that are available, so that we don’t have to reinvent the wheel? She responded that “yes” there were several reports, and she would get them to Mr. Bridger.

Rob Branum of the Chamber spoke next. He thanked the Council for involving the Chamber concerning the TIF issue. He presented a copy of the latest Report with regards to PILOTS, which he stated was self-explanatory and that he would be glad to answer questions.

Councilwoman Scott stated that when a TIF is formulated, there is criteria and a final amount is awarded for the TIF. She stated that she guessed she was wondering why we could not use this formula in reverse when talking about PILOTS. Mr. Branum responded that all of the PILOTS that they administered were joint City and County; that the City program allows that all they work on have a “claw-back” and had the ability to require taxes.

Councilwoman Scott stated that she only knew of one where this had been used and wanted to know if there were several that had reached criteria? She stated that if we have a “claw-back”, there are still some that did not meet their goals.

Mr. Branum responded that there were five companies not meeting goals in 2008 and 2009; that in 2008, the world changed, and we had the largest recession we have had since the Great Depression; that they had been in contact with all companies, and they were proceeding towards meeting their goals. He questioned if it were worth penalizing them.

Councilwoman Scott asked the purpose of the claw-back? She questioned if we needed to take a loss just because the economy was bad?

Mr. Branum stated that they had allowed a slower timeframe in meeting their goals; that if the City wanted them to administer the claw-back, they would.

Chairman Benson pointed out that a number of companies were exceeding their goals. Mr. Branum stated that we had 23 PILOTS and five did not have a good record in the greatest recession in our lifetime. Chairman Benson pointed out that we have more jobs.

Councilwoman Berz thanked Mr. Branum and stated that she would like for Daisy Madison to approach the podium—that she was our capable Chief Financial Officer. She stated that there had been a lot of discussion about these sort of things and Ms. Madison had expressed an opinion about the risks—that she had solid information, and she would like her to comment on PILOTS.

Ms. Madison stated that she would offer another perspective; that the City of Chattanooga and the County for the last 10-15 years had done a fantastic job with infrastructure in place to attract businesses and development; that we had come through the recession was apparent, with a controlling interest in development. She mentioned the direct appropriation of dollars in Industrial Parks. She asked at what point the law of “Diminishing and Returns” happens; that the information is there that suggests if you have PILOTS, you have a diminished collection of taxes.

Ms. Madison went on to say that some say these are taxes we did not have in the first place; however there is a burden on the tax base. She stated that the question was “When do we re-look at PILOTS?” She stated that she was not saying to do away with PILOTS but to handle them methodically; that the primary source of revenue is property taxes, and the next step is reduction, which could be devastating.

Councilwoman Berz stated that maybe we needed to look at a different way of dealing with PILOTS; that we were reaching a “tipping” point and needed to reevaluate; that the Council in the past has not done this; that she was not suggesting doing away with PILOTS but take a different look at them and how they are administered. Chairman Benson stated that the Chamber was looking at this. Mr. Branum stated that if this was the direction of the Council, they would do this. Chairman Benson questioned what are weaknesses are?

Councilwoman Berz responded that she was not talking about weaknesses at all; that we were looking at a town that is growing by leaps and bounds, and the Chamber is doing a fabulous job—that there are no “bad guys”, but we need to take another look at how PILOTS are structured; that the County is getting the school tax portion, and it goes in their general pot.

Councilman McGary stated that we needed to think about the management of PILOTS; that the public wants us to be good stewards of their tax dollars; that because of the economic downturn, the companies can’t meet their expectations—that this is due to the economic downturn, but they are making progress towards meeting their goals. He mentioned TAG Manufacturing who promised 100 jobs, and in actuality it was 86. Another case in point was McKee with a ratio of 179 jobs to 175; that he thought this would all be reversed in future years. He asked the attorneys what the language for contingency is?

Attorney McMahan responded basic discretion in the “claw-back”; that there is no standard; that if they fall short of their goals, do we do a claw-back or not be too punitive—that we can’t let someone “walk over us”; that the City and County need to be on the same track.

Councilman McGary asked if there was no conversation with the companies about the 2008 downturn? He wanted to know what the Chamber’s conversation was to these companies in light of the downturn? Mr. Branum responded that Steve Hiatt handles these communications—that he could follow up with him. Councilman McGary stated that he thought the City had asked the Chamber to manage this and had left them in a bad position; that he hoped we as a Council have a thorough conversation on this, and he asked Mr. Branum if this would be helpful to them? Mr. Branum responded “absolutely”. He noted that TAG actually met their goal of 100 jobs in 2008; that they had 100 employees but had to fall back. Councilman McGary confirmed that they met their expectation and asked if there was a conversation about their having to lower their number of employees? Mr. Branum stated that that was the directive that they had—that no prudent business person would just get rid of employees.

Chairman Benson stated that he thought the average of all PILOTS exceeded their salary expectation, and the lower number of employees on the job is a reflection of 2008.

Councilwoman Robinson stated that she thought the handout that were provided by the Chamber should console the Council—that there were 25 PILOTS, and it seems that with a couple of exceptions, we have afforded companies an opportunity; that we can follow up and evaluate and assure that they are operating in good faith; that these are respected employers and some have been here for decades; that she would be willing to cut them some slack because the great recession has taken a toll on the entire world; that she would say “hold the course” and work with the companies that are struggling; that we have an ongoing work with PILOTS and not use the claw-back on those who have failed to reach their goal.

Councilman Rico noted that a lot of people were affected by the downturn in the economy in 2008; that people struggled; that his own business was worse than it has been in 28 years; that many do not understand how hard it is; that people have either had to go out of business or cut staff, and we need to use discretion on these companies that are providing jobs; that the business world is tough, and it is not that much better than in 2008 and getting worse.

Councilwoman Scott acknowledged that the economy has been terrible—that the companies that missed their goal by a little, should be adjusted by a little; that the purpose was to demonstrate the basis of their agreement in the first place. She went on to say that we are talking only about a portion that the economy has affected; that everyone has to pay taxes and are not able to get a PILOT, and if the taxpayer has a bad year, come March 1st, taxes are due and payable, and they will be fined on being late—that the same bill is due for everyone, and if they don't pay on time, they will pay a penalty on it—that right here in Chattanooga the economy has affected everyone; that we are saying “Get a PILOT with tax abatement—if there is a bad recession, we will give you a break”, but this is not extended to small companies without PILOTS nor is it extended to homeowners. We seem to be saying “your bills are due, but you are different”. She went on to say that we financially can't afford to give this same benefit to everyone and still function with our budgets, and to give special favors to some and not others is not fair and not a road we should continue to go down; that to calculate a formula in the beginning, with adjustments, sounded like a math problem to her. She stated she was not advocating the abolishment of PILOTS but to look at the criteria; that there needs to be commitments and to adjust accordingly to what is fair for all.

Councilman Gilbert stated that he liked what Councilwoman Scott was saying; that the Chamber needs to know the standards; to take into consideration what happened in 2008 and take another look at PILOTS; that we need some type of concrete standard so that we will know up front what we will do.

Councilman McGary questioned what the instructions were to the Chamber—should they “cut slack”—that things need to be made more clear; that there is no clear direction as to what we want the Chamber to do—that we are “all over the map”, and we need to give them clear instructions. He noted that one Councilmember had indicated that we don’t understand business, and he would not go there—that reality is the same, and we need to be clear.

Chairman Benson stated that we were all frustrated with the 2008 downturn.

Mr. Branum stated that they were just trying to help the companies get across the finishing line.

Chairman Benson thanked everyone for coming.

The meeting was adjourned at 4:05 P.M.