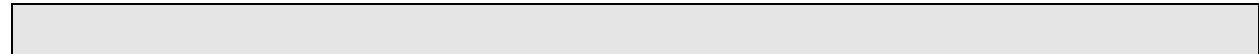




**INDUSTRIAL DEVELOPMENT BOARD
MONTHLY MEETING MINUTES
John P. Franklin Sr. City Council Building
Chattanooga, Tennessee
for
August 7, 2023
11:00 AM**

Present were Kerry Hayes (Chair), Althea Jones (Vice-Chair), Gordon Parker (Secretary), Ray Adkins, Jimmy F. Rodgers, Jr., and Nadia Kain. Absent was Jim Floyd.

Also Present were: Attorney for the Board, Phillip A. Noblett; Jermaine Freeman (Interim Chief of Staff and Senior Advisor for Economic Development); Helen Burns Sharp (ATM); Clay Oliver (CDOT); Audra Kelly (SETDD); Valerie Malueg (Office of the City Attorney); Mike Pare (Times-Free Press); Jason Payne, Bill Payne, and Dennis Malone (City Engineering); Kim Narramore (Economic Development); Eleanor Liu (City Finance); and Geoff Meldahl and Joe Patton (CALEB).



Chairman Hayes called the meeting to order, the meeting was duly advertised, and established that a quorum was present to conduct business. We had one member resign. Mr. Sharpley's family has moved out of the state, and he is no longer a member of the Board.



MONTHLY MEETING OF JULY 10, 2023 – MINUTES APPROVAL

On motion of Mr. Adkins, seconded by Mr. Rodgers, the minutes of the July 10, 2023, monthly meeting were unanimously approved.



There was no one present from the community to address the Board.



RESOLUTION

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

A RESOLUTION AUTHORIZING THE INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF CHATTANOOGA TO REIMBURSE THE CITY OF CHATTANOOGA USING TIF LOAN FUNDS FOR EXPENDITURES RELATED TO THE EAST CHATTANOOGA RISING TIF DISTRICT FOR EXPENDITURES OF NINETEEN THOUSAND NINE HUNDRED TWENTY-FIVE AND 25/100 DOLLARS (\$19,925.25) FOR ASA ENGINEERING FOR DESIGN AND RPR SERVICES RELATED TO THE HARDY STREET EXTENSION AND TWO HUNDRED NINETY-FIVE THOUSAND SIX HUNDRED TWENTY-EIGHT AND 22/100 DOLLARS (\$295,628.22) TO THOMAS BROTHERS CONSTRUCTION COMPANY FOR SERVICES RELATED TO THE CONSTRUCTION OF THE HARDY STREET EXTENSION, FOR THE TOTAL AMOUNT OF THREE HUNDRED FIFTEEN THOUSAND FIVE HUNDRED FIFTY-THREE AND 47/100 DOLLARS (\$315,553.47).

Mr. Clay Oliver (CDOT project manager) was present for any questions. Chair Hayes' only question was about timing and status of where this project is. Mr. Oliver stated that the 7R is actually the retainage invoice for Thomas Brothers. As the construction goes on, we qualify for good faith money and pay that as a lump sum at the end. We are done with construction.

The motion carried.

ADOPTED-8/7/2023

RESOLUTION

On motion of Mr. Rodgers, seconded by Mr. Adkins,

A RESOLUTION AUTHORIZING THE ADMINISTRATOR FOR THE DEPARTMENT OF ECONOMIC DEVELOPMENT TO ENTER INTO AN AGREEMENT WITH THE CHATTANOOGA AREA REGIONAL COUNCIL OF GOVERNMENTS (CARCOG) TO PROCESS APPLICATIONS AND RECOMMEND FUNDING TO THE INDUSTRIAL DEVELOPMENT BOARD (IDB) FOR SMALL BUSINESSES APPLYING FOR THE GROWING SMALL BUSINESS INCENTIVE GRANT PROGRAM, FOR A PERIOD OF FOUR (4) YEARS, FOR A FIXED FEE IN THE AMOUNT OF FIFTEEN THOUSAND DOLLARS (\$15,000.00)

PER YEAR, FOR A TOTAL AMOUNT OF SIXTY THOUSAND DOLLARS (\$60,000.00).

Mr. Jermaine Freeman stated that this resolution allows us to shape our capacity with regards to the administration of the City's oldest small business grant program now which is the Growing Small Business Incentive Grant. Mr. Freeman showed a couple of slides.

The Growing Small Business Incentive Program was created by the City of Chattanooga under the Berke Administration back in 2014 and was created by ordinance. When it was created in 2014, it basically created a grant program that awarded small businesses for the creation of at least five full-time jobs. At the time it was created, there was a multiplier that was put into effect that small businesses would receive approximately \$500 per job. As time passed, the City Council decided to increase the award amount which increased the multiplier from \$500 per job to \$1,000 per job and also extended the time period whereby small businesses could get credit for the jobs they created. The City Council also clarified that small businesses that met that employment threshold could also get some reimbursement for certain eligible expenses like equipment and inventory, and things of that nature.

It is only available to small businesses that have fewer than 100 full-time employees, the maximum award for the Growing Small Business Grant is \$10,000. Most of the small businesses that receive awards from this program, typically receive awards between \$4,000 and \$8,000. These are not big earth-shattering awards, however, they are very helpful for small businesses. As some of you know from your own business experience, running a small business is very tough and challenging. The ability of a small business to even create five full-time positions can be daunting for the small business, but you have to hire at least five full-time employees within an 18-month period to even be considered.

These are some of the small businesses that received awards in the past: Companies that specialize in inventory like the Athletic Shoppe, several early learning childcare centers which are Best Beginnings and First Step Christian Daycare. Also, you have Market Street Partners which is an accounting firm. You have the Conversing Group which is an IT security firm. Ready-to-Hang Art.com is an art dealer. Color Test, Jay Frost & Companies accounting, and Chattanooga Whiskey. There are a number of businesses in various stages of their growth that were able to receive a Growing Small Business Grant award. Bell Hop is another. It is a small business program that has been very popular.

The resolution today gives the ability to expand out of capacity so that we can outsource the processing of applications for the program over to a community partner. The Chattanooga Area Regional Council and Governments is the Southeast Tennessee Development District ("SETDD") which is a quasi-government agency also partners with the City on the administration of the programs we have. They administer the City's EPA Revolving Loan Fund, CBDG Section 108 Loan Fund, and the City's Neighborhood Reinvestment fund, which is a facade grant program for small businesses. This gives us the ability to outsource a lot of the application processing to them. This is also partnered with a City Council resolution that authorized the same action this Board is taking because the program was created City Council. The City Council adopted that resolution on July 25th, 2023. We hope to be able to get more money out the door to process more

applications and to identify more small businesses in our community that are eligible for this grant program and to provide more support to small businesses.

Chair Hayes had a couple of clarifying questions for the record and is curious to hear from his fellow board members. Chair Hayes has a high degree of respect and confidence in SETDD. Is this competitively bid or how were they procured? Mr. Freeman stated that because they are a quasi-governmental agency, we have the ability to work with them because of their history as an organization that partnered with the City on these other programs. This is an opportunity for us to continue to trust another quasi-governmental agency with this type of responsibility and to build more capacity around the process.

Chair Hayes said that the long list of businesses provided was really impressive and would be curious to know if Mr. Freeman will be able to come back or will they be able to provide updates in terms of how many are still in business and if no longer, not a penalty. Chair Hayes is curious what the overall rate is on the number of businesses supported.

Mr. Freeman stated the round numbers off the top of his head, he thinks there has been close to 40 small businesses that have received awards. There are probably three that he can think of off the top of his head that have gone out of business. Running small businesses is tough and all small businesses do not succeed. Of the 40 recipients that received awards, to Mr. Freeman's knowledge, there are probably three or four. Chair Hayes would like an annual report at this same time next year. Mr. Freeman wanted to clarify that even though SETDD would be stepping in to help administer the program, the awards themselves are still required to come before this body for approval. The SETDD will process the applications, make a recommendation for the award amount, but this Board will still see the resolution before awards are actually made.

Chair Hayes asked how is this funded? Mr. Freeman stated this was initially funded through appropriation from the City of Chattanooga General Fund. Over time, what we have looked at is using some of the excess funding that is created from the economic development fees that the economic development fees are a fee that if they are accessed to companies that receive PILOTs. When those companies receive PILOTs, one of the things that the previous administration did was to have an economic development fee that larger businesses have to pay and that economic development fee then creates a revenue stream for the IDB to be able to support small businesses. (inaudible)

Mr. Adkins asked what are the businesses that have gone out of business, do they have to repay any funds back to the City? Mr. Freeman stated no, they take a grant. They do not reimburse the City for those funds. As part of both this Administration and previous Administration's commitment to supporting small businesses, we have always been realistic about the fact that there are going to be small businesses that over the course of three, four, or five years, they may not make it. But if we can do anything we can to help them and give them a little more runway, that is a good thing especially to the extent they are creating jobs.

Mr. Parker asked, how is this advertised, and do you have an anticipated budget of what you would like to grant in a year in relation to a \$15,000 expense to maintain it? Mr. Freeman stated that right now we have \$170,000 in reserve funds that sits in an IDB account that has not

been touched in a while since last the grant award was made. Part of our work with the SETDD is to be able to also market the program and push the program out further so our staff can focus on the marketing, and the SETDD can focus on processing the applications. We can make the program more well-known. Right now, it is only advertised on the website, and we will periodically do some social media ads around it to increase the visibility of the program. This is an opportunity for us to have our staff focus on marketing and then have SETDD folks process the applications.

Mr. Rodgers asked, how is the Chattanooga Area Regional Council of Governments (“CARCOG”) compensated for their services? Mr. Freeman stated as part of this resolution, they would be compensated by the City \$15,000.00 which we made through an appropriation to the CARCOG. Mr. Rodgers asked, is the total cost going to be \$75,000 related to this resolution? Mr. Freeman stated yes. It is for \$60,000. Where does the extra \$15,000 to compensate the entity come from? Mr. Freeman stated it comes from the City General Fund.

Ms. Jones asked around the four years, what happens after four years? We would look back to see whether or not we wanted to renew that partnership with the CARCOG and decide. Mr. Parker asked the \$15,000 would not come out of the reserve funds, or would it? It would come from the City of Chattanooga’s General Fund.

Mr. Freeman introduced Audra Kelly from the SETDD. Audra has been super helpful with the City regarding the administration of the City’s EPA Revolving Loan Fund which helps to administer the Brownfields and also the City of Chattanooga’s CBDG Section 108 program which is also an economic development program. Both the Section 108 program and EPA Revolving Loan Fund are federal programs which SETDD have been very helpful in terms of managing our federal funds.

Ms. Kelly thanked the Board for the opportunity for considering SETDD. They are a long-term partner of the City of Chattanooga, Hamilton County, and cover ten counties in the southeast Tennessee and have been there now 18 years in that development in small business lending and are excited about the opportunity.

The motion carried.

ADOPTED-8/7/2023

PUBLIC HEARING ON
PILOT POLICIES AND PROCEDURES

Chair Hayes stated that we want to hear as much discussion as we possibly can. Based on that feedback and what the Administration is doing, we would like a presentation at our September meeting on the 11th and for the Board to vote at the October meeting. It is an adjustment of the timeline we discussed at the last meeting. In October, we will take a vote on what the Administration intends to recommend or not recommend to the City Council. We are limiting public comments to no more than three minutes, which is the same rule as the City Council.

GEOFF MELDAHL
(CALEB)

They have been lucky enough to be involved with Charles Wood, Jermaine Freeman, and the Board over the course of the last year discussing these policies, the need for having them, and the specific form they will take. The reason they got involved in the PILOT question in the first place was CALEB wanted to focus on making city decisions and city processes more accessible to the public and public's share in important decisions about what is being done with our resources, how we (inaudible) resources, and what sort of projects make sense to our community.

They have been going back and forth and hashed out what are a sensible framework from which to depart for any given PILOT. Their group is committed to having the maximum level of transparency, want to see meetings more accessible, want to see the policies be comprehensible and straightforward so that people can enter the conversation with a sense that on any given PILOT of – I know this crosses certain baseline criteria or it never would be considered in the first place, now we can consider this individual project on its merits in terms of our vision for the City, a long-term plan for City economic development, and just how the whole process be something that folks can enter into without having to do a pile of homework.

Mr. Meldahl knows the Board gets a packet for a given PILOT or TIF a week or so ahead of time and it takes a majority of your free time between when you get it and when the meeting is held to even understand what is going on. If we have some of these PILOT policies in place, the Board and public will know, when it's coming to him sort of baseline facts about it. Now I can decide and look at the nuances and to make a decision about his opinion based on votes. From CALEB's perspective, the process, as it is, is not accessible enough, and we do not want to see anything happen that makes it less accessible for members of the general public to weigh in.

HELEN BURNS SHARP
(ATM)

Attached to these minutes are Ms. Sharp's written comments. There are two topics Ms. Sharp would like to speak briefly about. The document the Board was given on the agenda references an economic development matrix as Appendix A, but there is no Appendix A. It is a critical addition in that the policy say that the terms and conditions of the incentives are based on the final score the matrix produces. The matrix is important. The matrix can be a useful tool in providing clear and objective standards. But what will be in the matrix when it sees the light of day? This concept has been around for a while and has been referred to as the Chamber's "black box" in the past.

How different will the new matrix be from its predecessor? Ms. Sharp believes while we need these clear standards, there is more to economic development decisions than just adding a bunch of numbers together. Ms. Sharp hopes we become more strategic in granting PILOTs, given that we are currently not collecting about \$25 million in property taxes each year due to PILOTs. This money could go to things like public safety, infrastructure, and protection of natural resources, all of which relate to economic development.

Let's look seriously at questions like "Is the project a game-changer? Is it a catalyst? Is it in a strategic industry sector? Do we really believe that the location or expansion would not happen without the tax break" (the but-for test)?

The other major policy Ms. Sharp wants to call the Board's attention to is the document on the IDB agenda contains wording that would eliminate the voices of City Councilors in the review process for most PILOTs. The proposed wording changed from fall 2022 when PILOT policies first appeared on the IDB agenda. Last year's draft echoed current practice by providing a role for Council to review a proposed PILOT and make a finding that it is the best interest of the City. Why the change? That is supposed to be changed for all PILOTs that meet the standards that are less than ten years. That is kind of a fundamental thing because it seems to Ms. Sharp that all PILOTs should go to the City Council and County Commission for consideration. They are elected officials and thus accountable, knowledgeable about projects in the districts, they vote on budgets, PILOTs related to the budget, and result in reduced revenues.

The Kordsa PILOT was the only one approved between fall and spring. That review process showed the value of the perspective of elected officials. Check out the YouTube video of the City Council April 18th committee meeting. Excellent questions on "but for," the greenway, apprentice programs, etc.

In a recent newspaper article about today's IDB meeting, city staff commented that "we have the same conversations over and over again on these PILOTs, and it almost turns into theater where the same people are asking the same questions."

Whose conversations was he referring to? It couldn't have been the public conversation. The IDB has never held public hearings on PILOTs. Kordsa was the first ever City Council PILOT public hearing. One person spoke for less than a minute in support of the PILOT and another thanked the Council for holding the hearing.

This draft document calls for a public hearing before the IDB and no review by Council or Commission if the proposed project does not exceed ten years and meets the matrix and other policies.

No one wants local government to be unnecessarily bureaucratic. But the current Chattanooga (and City of Knoxville) process where the City Councils consider PILOT requests is not bureaucratic. It is good government.

At the close of today's public hearing, ATM respectfully requests that the IDB postpone discussion of PILOT policies and procedures until staff provides a matrix and a red-lined version showing the changes since originally proposed and explaining why they recommend excluding the City Council from the review process for many PILOTs.

These PILOT policies and procedures need more time in the oven. We are making progress. The three PILOTs approved since Mayor Kelly has been in office are better than many previous PILOTs, some of which appeared to be more of a gift than an incentive.

JOE PATTON
(CALEB)

Mr. Patton appreciates the comments of his colleagues here and continue to appreciate the opportunity to engage with the City and the Chamber on this work. We are looking forward to having a little more discussion. There are places where we would like to get more specificity on some of the particular terms in the policy. The Board is more of a forum that has the authority to evaluate and make an independent judgment on whether a deeper PILOT would be approved or not.

CALEB's focus is to make sure the evaluation and analysis that the Board has and the information that comes before the Board gives you enough so that you can make a good decision on whether economically makes sense for our strategic needs for the City. Particularly, one of the pieces he would like to see emphasized is looking at workforce. The City had Ernst & Young study just done.

CALEB would appreciate knowing more about what conclusions it reaches for what does our local economy look like and how we are targeting the places that would best strengthen opportunities for our local workforce particularly right now when it is particularly a dynamic new world we are living in with technology and AI and a lot of important changes that are taking place. We hope the Board gets access to that information. The Board received last week's quotes and referred to some of the good fundamental basic things they are saying. Those are pieces to have included in this policy.

Mr. Rodgers wanted to clarify for the public, who are the authors on the draft in front of us? It is the draft that is attached to the agenda. The Chamber is the author of the draft. The City did provide some input, but it is mostly a document that was put together by the Chamber.

Chair Hayes is in complete agreement that everything we need to do from an incentive standpoint would be calibrated around strategic industry clusters of what we are really trying to focus on. The Ernst & Young presentation on the strategic plan of the Chamber has given us a pretty good map of where we need to be focusing our energies as a City, County, and certainly an IDB and hoping to see a lot of clarity around when we present it next month and it relates to some of the other comments about the transparency and making sure the public has a clear view of what we are contemplating which is something that needs to be really clearly articulated. Those are the things he personally is hoping to see a pretty robust presentation at our September meeting.

It is really important to keep reiterating that this is the City's first PILOT policy. This has not existed before. We are breaking some new ground, and we have had a lot of good examples.

The materials have been entered into the record and will be reviewed as we take another look next month.



DISCUSSION

The Board will have a work session before the September meeting at 9:30 a.m. to work with the Chamber. The public is welcome to attend.



After further discussion, a motion was made by Mr. Rodgers, seconded by Mr. Parker to adjourn the meeting at 11:35 AM.

GORDON PARKER, *Secretary*

APPROVED:

KERRY HAYES, *Chair*



Testimony about PILOT Policies at IDB Public Hearing

Helen Burns Sharp

August 7, 2023

The City IDB is holding its third public hearing on the important question of what the City's first written policies and procedures should be when a private company asks for property tax breaks under the Payment-in-Lieu-of-Tax (PILOT) program.

The document on the IDB agenda references an economic development matrix and refers you to the matrix, Appendix A. There is no appendix. This is a critical omission in that the policies say that the terms and conditions of the incentive are based on the final score the matrix produces.

A matrix can be a useful tool in providing clear and objective standards. But what will be in the matrix when it sees the light of day? This concept has been around for a while. It has been referred to as the Chamber's "black box."

How different will the new matrix be from its predecessor, one that apparently endorsed PILOTs for a call center, downtown movie theater, office parking garages, etc.? There is more to economic development decisions than just adding a bunch of numbers together.

I hope that we want to become more strategic in granting PILOTs, given that we are currently not collecting about \$25 million in property taxes each year due to PILOTs. This money could go to things like public safety, infrastructure, and protection of natural resources, all of which relate to economic development.

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