



METROPOLITAN COUNCIL

Metro Council Office

MEMORANDUM TO: All Members of the Metropolitan Council

FROM: Jon Cooper, Director
Metropolitan Council Office

DATE: **February 18, 2014**

RE: **Analysis Report**

Unaudited Fund Balances as of 2/12/14:

| | |
|---------------------------------------|---------------|
| 4% Reserve Fund | \$22,292,406* |
| Metro Self Insured Liability Claims | \$4,824,234 |
| Judgments & Losses | \$2,334,196 |
| Schools Self Insured Liability Claims | \$2,441,014 |
| Self-Insured Property Loss Aggregate | \$6,283,581 |
| Employee Blanket Bond Claims | \$637,059 |
| Police Professional Liability Claims | \$2,853,716 |
| Death Benefit | \$774,428 |

* Assumes unrealized estimated revenues in fiscal year 2014 of \$15,651,644

– RESOLUTIONS –

RESOLUTION NO. RS2014-948 (MITCHELL) – This resolution appropriates \$13,100,000 from the undesignated fund balance of the general fund of the general services district (GSD) to Metro Schools. On November 12, 2013, the Metro board of education voted to authorize the use of \$19,100,000 of the schools undesignated fund balance to fund a teacher retirement incentive and for technology to implement the Common Core standards. On December 17, 2013, the council appropriated \$4,300,000 from the schools undesignated fund balance to Metro Nashville public schools (MNPS) for the teacher retirement buyout incentive, but legislation was not submitted to address the school board's other requests. The Metro schools chief financial officer, Chris Henson, informed the council budget and finance committee on December 16, 2013 that MNPS had decided to pursue other sources of funding for this equipment in the current fiscal year, as opposed to the use of fund balance.

This resolution would appropriate \$13,100,000 that could fund the purchase of laptop computers, teacher technology training, and a universal screener assessment for the implementation of the Common Core testing.

The undesignated fund balance for Metro schools at the end of the fiscal year is estimated to be approximately \$60,600,000 after the recent appropriation for the retirement buyout, which represents roughly 8.2% of the total MNPS operating budget. This resolution would reduce the anticipated fund balance to approximately \$47,500,000, or 6.4%. The Metropolitan Government has established a policy of maintaining a minimum undesignated fund balance of 5% in all reserve funds.

The director of finance has refused to sign this resolution as to the availability of funds, opining that it would be fiscally irresponsible to spend a significant amount from the schools fund balance given the funding deficit projected by MNPS going into fiscal year 2014-2015.

Substitute Resolution No. RS2014-963, approved on February 4, 2014, authorized the issuance of bonds to provide \$6 million in capital funds to be used for the purchase of these laptop computers for Metro schools.

RESOLUTION NO. RS2014-988 (GILMORE & STEINE) – This resolution appropriates \$1,050,000 in urban development action grant (UDAG) funds to the metropolitan development and housing agency (MDHA) for the benefit of the HCA and its affiliates, and for job recruitment. A complete analysis of this resolution is included as part of the analysis for the HCA economic development incentives included at the end of the regular analysis.

RESOLUTION NO. RS2014-989 (GILMORE, STEINE & LANGSTER) – This resolution approves an economic and community development incentive grant to the industrial development board (IDB) for the benefit of HCA and its affiliates. A complete analysis of this resolution is included as part of the analysis for the HCA economic development incentives included at the end of the regular analysis.

RESOLUTION NO. RS2014-990 (STEINE & LANGSTER) – This resolution approves an application for a grant in the amount of \$29,866 from the Tennessee arts commission to the Metro arts commission for the Arts Build Communities program. These funds would be used to make grants to non-profit organizations for community arts projects. There would be a required local match in the amount of \$29,866 to be provided from the Metro arts commission budget.

RESOLUTION NO. RS2014-991 (STEINE) – This resolution approves a memorandum of understanding for a grant in the amount of \$30,000 from the Fund for Cities of Services, Inc. to the mayor's office for a reading coach program. These funds, which will be sub-granted to the Martha O'Bryan Center, are to be used to train volunteer mentor coaches to work one-on-one with middle school students to improve reading skills. The amount of the base grant is \$25,000, with a possible \$5,000 bonus if at least 100 students are mentored. The term of the contract extends through December 31, 2014. This resolution approves both the agreement with Cities of Service and the sub-grant agreement with Martha O'Bryan Center.

RESOLUTION NO. RS2014-992 (STEINE) – This resolution approves a sole source contract with CSS International for technology consulting services for the department of information technology services (ITS). Sole source contracts may be awarded under the Metro procurement code when it is determined that there is only one source for the supply or services rendered. The Metro Code was recently amended to require all sole source contracts having a total value in excess of \$250,000 to be approved by the council by resolution.

This is a continuation of a contract with CSS for consulting services associated with the Metro iProcurement purchasing system and the EBS (enterprise business systems) financial system. The term of the contract is for five years with a total contract amount of \$10 million. The justification for the sole source award is that only CSS has the unique expertise and knowledge regarding Metro's iProcurement and EBS systems to provide the services. CSS has been a consultant for the Metro EBS system since 2009.

RESOLUTION NO. RS2014-993 (STEINE & LANGSTER) – This resolution approves a grant in the amount of \$63,000 from the state department of labor and workforce development to the Nashville career advancement center (NCAC) for the incumbent worker training program. These federal funds will be used to train employees at Ozburn-Hessey Logistics, Insight Genetics, Inc., and INCA Modeled Products. The private businesses applied to the state to receive the training from NCAC. The term of the grant is from January 4, 2014 through December 31, 2014.

RESOLUTION NO. RS2014-994 (STEINE & MAYNARD) – This resolution approves a grant in the amount of \$12,000 from Boulevard Bolt, Inc. to the Metro social services commission to move the most vulnerable homeless persons in Nashville into permanent supportive housing. The Boulevard Bolt is a 5-mile race sponsored by three congregations of faith that is held on Belle Meade Boulevard each year on Thanksgiving. The proceeds of the race provide funding for a number of nonprofit organizations in Nashville that serve the homeless. These funds will be used by the Metro homelessness commission as part of the *How's Nashville* campaign, which is an effort to move 336 chronically homeless persons into permanent housing.

RESOLUTION NO. RS2014-995 (STEINE, TYGARD & LANGSTER) – This resolution approves an application for a grant in the amount of \$7,000 from the state arts commission to the Metropolitan board of parks and recreation to supplement the annual Big Band dance program in Centennial Park. This application is for continued funding of a program that provides twelve free big band dances to the public on Saturday nights. There will be a required in-kind match of \$7,000.

RESOLUTION NO. RS2014-996 (STEINE & TYGARD) – This resolution approves a grant in the amount of \$127,143 from the Friends of Warner Park to the Metropolitan parks department to provide continued funding for staff positions at the Warner parks. These funds will be used to pay the salaries of the following positions at the Warner park center and the nature center:

- Office support specialist \$45,588
- Parks police officer overtime \$10,000
- Seasonal maintenance staff \$49,855
- 2 part-time naturalists \$25,688
- 1 part-time office support \$6,012

There will be a required match of \$28,729.74 to be provided through the parks department's budget to cover the fringe benefit costs for the full-time employee.

RESOLUTION NO. RS2014-997 (STEINE & DOMINY) - This resolution approves a fifth amendment to a grant from the state emergency management agency to the Metropolitan Government for the reimbursement of flood-related expenses. This grant is for the receipt of federal funds to reimburse Metro for flood repairs and the replacement of equipment and facilities. This amendment de-obligates certain funds for projects that have changed in scope, and increases the amount of funding for other projects. The total amount of the increase is \$765,796.95, for a new total of \$54,043,914.83. The amendment also increases the amount of the local match by \$40,305.09 for a total match of \$2,844,416.39.

RESOLUTION NO. RS2014-998 (JOHNSON, STEINE & DOMINY) – This resolution approves a Safe Routes for Schools project grant application through the Tennessee department of transportation and the Metropolitan department of public works to construct sidewalks along Willowbranch Drive in the vicinity of Lakeview Design Center School. These federal pass-through grant funds are made available for the benefit of specific schools with infrastructure issues that act as an impediment to students safely walking and biking to school. This grant application is a joint effort between Metro Nashville public schools and Metro public works. The proposed infrastructure project would include constructing a sidewalk and crosswalks on Willowbranch Drive from Edge O' Lake Drive and Deerpath Drive, along with signage and pavement markings alerting motorists to the presence of pedestrians. The grant would include \$25,000 for safety and education programs to be provided by Walk/Bike Nashville.

RESOLUTION NO. RS2014-999 (STEINE & DOMINY) – This resolution approves a grant in the amount of \$40,000 from the Tennessee wildlife resources agency to Metro water services to construct and operate a boat dock at the Omohundro water plant. Metro will use these funds to construct a 10' x 31' covered boat slip at the Metro boat house located on the Cumberland River at the plant site. The state will have use of the boat slip as long as it is operational on the Cumberland River. The state will be responsible for covering any damages to the slip caused by the state's use, and will assist with the normal maintenance costs up to \$5,000 per year. The term of the agreement is from March 1, 2014 through February 28, 2019. The grant will provide \$15,000 to cover the initial construction costs for the slip, and \$5,000 per year through fiscal year 2018 for maintenance.

– BILLS ON SECOND READING –

ORDINANCE NO. BL2014-663 (BENNETT, STEINE & OTHERS) – This ordinance declares the former Jere Baxter Middle School property located at 3515 Gallatin Pike to be surplus and authorizes the director of public property administration to sell the property in accordance with the standard procedures for the disposition of surplus property. This property, totaling 3.41 acres and including a 47,580 square-foot school building, is currently being leased by the charter school Liberty Collegiate Academy for a lease term of ten years. Liberty Collegiate now desires to purchase the property, which first requires a surplus property declaration by the council.

The property is to be sold to Liberty Collegiate for \$1,272,000, which is the appraised value of the property as determined by an appraisal performed by Neiman-Ross Associates, Inc. at Metro's request. The proceeds of the sale will be credited to the unappropriated school fund. The school board has approved the declaration of this property as surplus and the sale of the property to Liberty Collegiate Academy.

This ordinance has been approved by the planning commission.

ORDINANCE NO. BL2014-665 (TYGARD) – This ordinance would submit a one-half percent local option sales and use tax increase to the public for a referendum vote for the purpose of funding mass transit and Metro Nashville public schools (MNPS). State law provides that the local option sales and use tax cannot exceed 2.75 percent. The current local option sales and use tax in Metro Nashville and Davidson County is 2.25 percent, for a combined state and local tax rate 9.25 percent. This would increase the total combined tax rate to 9.75 percent. The local option sales and use tax is applicable to the first \$1,600 on the sale or use of any one item of personal property. It is estimated that this sales tax increase would generate approximately \$60-65 million in additional revenue. Half of the increase would be dedicated for MNPS, with the remaining half used to provide a dedicated funding source for mass transit. By state law, at least 1/2 of all local option sales taxes must be used for public education. Metro currently allocates 2/3 for education.

The local option sales tax has been increased in Davidson County on two occasions: once in 1968 and again in 1980. A referendum was held in 1988 to increase the tax by 0.25 percent, but this increase failed to receive approval of the voters. Likewise, a 0.5 percent increase was proposed in 2005, with 80% to be used for MNPS and 20% for a tax relief program for the elderly. This proposal was also defeated at the ballot box.

Of the 95 counties in Tennessee, 46 have the maximum local option sales tax rate of 2.75 percent. In addition, 16 counties that have not maxed out the sales tax rate have cities within the respective counties that tax at a higher rate. For example, Cheatham County has a tax rate of 2.25 percent, but the cities of Ashland City, Kingston Springs, and Pegram in Cheatham County have a 2.75 percent rate.

Should this ordinance be enacted, a special election would be required by state law, which must take place between 45 and 60 days after the date of enactment.

ORDINANCE NO. BL2014-666 (TYGARD) – This ordinance amends the Metro code to increase the amount of the annual vehicle regulatory license fee, commonly referred to as the “wheel tax”, for both commercial and non-commercial motor vehicles. In 1991, the code was amended to delete the term “wheel tax” and use the term “vehicle regulatory license” instead. The 1991 amendment also increased the amount of the commercial vehicle license from \$36 to \$46, and the non-commercial vehicle license from \$25 to \$35. In June 2005, the council approved a \$20 increase in both fees in conjunction with the substitute budget and tax levy in order to reduce the mayor’s proposed property tax increase by six cents. The 2005 increase resulted in approximately \$9 million in revenue.

This ordinance would increase the vehicle regulatory license by another \$20 for both commercial and non-commercial vehicles for the purpose of providing a dedicated funding source for local mass transit. This would result in a fee of \$86 for commercial vehicles and \$75 for non-commercial vehicles. It is estimated that this ordinance would result in approximately \$9,560,000 in increased revenue to Metro.

As of 2013, 60 of the 95 counties impose some form of a wheel tax varying in range from \$10 to \$96.50, with an average amount of \$43. A list showing the wheel tax rates for all counties courtesy of the University of Tennessee County Technical Assistance Service (CTAS) is attached to this analysis.

An issue has been raised regarding whether this ordinance is inconsistent with the stated purpose of the motor vehicle regulatory license fee in the code, which is to “pay the costs of administration and enforcement of the provisions of this article, for the promotion of traffic safety and the installation of signs, signals, markings and other safety devices for regulating traffic on the streets, roads, alleys and thoroughfares of the metropolitan government.” To address this issue, the sponsor has requested the preparation of a substitute ordinance that modifies the purpose of the vehicle regulatory license fee to include public mass transit and adds a number of recitals to the ordinance stating the benefits mass transit would have regarding the regulation of vehicles, such as reducing the number of vehicles on the roadway, reducing air pollution, promoting traffic safety, and enhancing Metro’s ability to provide effective traffic regulation.

ORDINANCE NO. BL2014-667 (MOORE) – This ordinance amends the Metropolitan Code pertaining to the fairgrounds master plan and appropriates \$200,000 to the fair board for operational support. In February 2011, the council approved BL2011-820, as amended, to add specific duties for the board of fair commissioners pertaining to the operation of the fairgrounds and to require the fair board, working with the planning and parks departments, to develop a master plan for the future development and operation of the fairgrounds property. Conventions, Sports and Leisure International, in conjunction with Venue Solutions Group and Convergence Design, was retained by the Metropolitan Government to prepare phase 1 of the master plan, which report was presented to the Metropolitan Council on February 21, 2013. HDR Decision Economics, BNIM, Civil-Site Design Group, RPM Transportation and Connico, Inc., were retained by Metro to prepare Phase 2 of the master plan, which included a comparison between the Fairgrounds Best Practices model and the highest and best mixed-use development scenario. (continued on next page)

ORDINANCE NO. BL2014-667 (continued)

Phase 2 of the Master Plan was presented to the council on February 26, 2013. Implementation of either of the phases would require significant capital investment by Metro toward improvements to the fairgrounds property.

Prior to completion of the master plan, the voters in August 2011 approved an amendment to the Metro charter providing that all existing activities on the fairgrounds property "shall be continued on the same site". Further, the charter amendment now prohibits any demolition of the structures on the property unless approved by ordinance receiving 27 votes of the Council. Thus, the plain language of the charter essentially prohibits Metro from stopping any of the uses at the fairgrounds or redeveloping the property without a subsequent amendment to the charter.

As part of the fiscal year 2014 substitute operating budget, the council set aside \$200,000 for operating support of the fairgrounds to be appropriated pending council action on the master plan. Since the council is prohibited from implementing the master plan without substantial capital funds and/or an amendment to the charter, this ordinance would remove the master plan language from the code so that the fair board can go ahead and receive the \$200,000 operating subsidy. It is unlikely that the fair board will be able to operate the fairgrounds for the remainder of this fiscal year without a supplemental appropriation in the spring, even after this \$200,000 appropriation.

ORDINANCE NO. BL2014-668 (STEINE, PARDUE & ALLEN) – This ordinance approves a memorandum of understanding (MOU) between the office of emergency management (OEM) and Belmont University for a joint information center on Belmont's campus in the event of a major disaster. This is essentially an updated version of an almost identical MOU approved in 2009. The purpose of the MOU is to provide a broad framework to guarantee that a site will be available at Belmont to be used for the coordinated response and recovery efforts in a disaster situation. Belmont agrees to make space available on the campus for media to gather and press conferences to be held regarding the disaster. Belmont will provide work space for 30-40 people, a public address system, phones and internet access. OEM agrees to provide meals to public information officers at the site, portable generators, and IT support. The estimated time frame for activation of the joint information site will be 12 to 24 hours following the emergency, with a total duration of 5 to 10 days.

There is no cost to the Metropolitan Government for entering into this MOU.

ORDINANCE NO. BL2014-669 (GILMORE & STEINE) – This ordinance authorizes the industrial development board of the Metropolitan Government (IDB) to negotiate and accept payments in lieu of ad valorem taxes for the benefit of the proposed HCA development at the corner of 11th Avenue and Charlotte Avenue. A complete analysis of this ordinance is included as part of the larger analysis of the HCA economic development incentives, which is included at the end of this document.

ORDINANCE NO. BL2014-670 (GILMORE, STEINE & OTHERS) – This ordinance authorizes the acquisition and acceptance of right-of-way, easements, and other property rights for the proposed Gulch pedestrian bridge project. This includes acquiring property interests from Cummins Station, LLC, Metropolitan transit authority, CSX Transportation, Inc., Gulch Land condominiums, Pine Street Flats, and the Velocity residential condominiums. The estimated acquisition cost for the property interests necessary for the Gulch pedestrian bridge is \$1 million. This amount is to be paid out of the general capital funding for bridges.

The proposed Gulch pedestrian/bicycle bridge, which would be approximately 700 feet in length and span 300-400 feet over the CSX railroad tracks, is currently in the design and planning phase. The cost of building the bridge is estimated to be between \$15 and \$16 million. If approved, construction would begin in the summer of 2014 with a projected completion date in the fall of 2015.

The Gulch pedestrian bridge is not specifically identified in the capital improvements budget (CIB). The CIB includes a general \$20 million designation for the maintenance, repair, rehabilitation, and replacement of bridges for fiscal year 2014, and \$15 million for general right-of-way acquisition. Including the projects in the CIB makes them eligible for funding by the council. The mayor's capital spending plan approved last spring provides \$18 million in funding for bridge projects countywide. Presumably, this project would be submitted as a specific item for the fiscal year 2015 capital improvements budget to be considered in June.

This ordinance has been approved by the planning commission.

ORDINANCE NOS. BL2014-671 (GILMORE) – This ordinance abandons right-of-way and easements for portions of Gay Street, Shankland Street, and Alley No. 359. Specifically, this ordinance would close Gay Street from George L. Davis Boulevard to 11th Avenue North; Shankland Street from George L. Davis Boulevard to 11th Avenue North; and Alley No. 359 from Shankland Street to the dead end. This closure, requested by Barge, Waggoner, Sumner & Cannon, Inc., is necessary for the redevelopment of the Capitol View site, which is where HCA intends to build a new corporate headquarters for three of its affiliates. The ordinance also abandons all Metro easements, as the utilities are to be relocated. Consent of the affected property owners is on file with the public works department. This ordinance has been approved by the planning commission and the traffic and parking commission.

ORDINANCE NOS. BL2014-672 (GILMORE) – This ordinance abandons a portion of Alley No. 63 from Rosa L. Parks Boulevard eastward to its intersection with Polk Alley. This closure has been requested by Klin, Swinney and Associates on behalf of Metro Nashville public schools to allow for the construction of a new gymnasium at Hume-Fogg Academic High School. This ordinance retains the Metro utility easements. This ordinance has been approved by the planning commission.

A housekeeping amendment should be offered for this ordinance, as it refers to Polk Avenue instead of Polk Alley.

– BILLS ON THIRD READING –

ORDINANCE NO. BL2014-652 (HUNT) – This ordinance amends the Metro zoning code pertaining to animal hospitals, kennels/stables, veterinarians, and animal boarding facilities. The primary purpose of this ordinance is to allow animal boarding facilities near more densely populated residential areas. Such facilities are currently only allowed as a primary use in the downtown and industrial zoning areas, but are allowed as an ancillary use to veterinarians provided the boarding is done within a completely enclosed structure. This ordinance would allow animal boarding facilities to also be located in the mixed-use and commercial zoning districts (MUN, MUN-A, MUL, MUL-A, MUG, MUG-A, MUI, MUI-A, CL, CS, CF, SCC, and SCR districts) as a use permitted with conditions.

The ordinance would also modify some of the conditions applicable to animal boarding facilities. Such facilities, where permitted, currently cannot be located within 200 feet from a residence. This ordinance would delete the distance requirement from residential property. This ordinance would also add a requirement that the floors of buildings, runs, and walls be constructed out of an impervious material to permit proper cleaning and disinfecting.

Further, this bill would add a specific definition for "veterinarian", which would include animal hospitals, and allow animal boarding as an accessory use to a veterinarian's office. While veterinarian is currently a specific use in the zoning code, the term is not defined. Animal hospitals are currently only allowed with conditions in the industrial zoning districts. By incorporating animal hospital into the veterinarian use, this bill would allow animal hospitals in the mixed-use, office, commercial, shopping center, and industrial districts. Veterinarian offices would continue to be limited to 2,500 square feet, with no more than 30% of the floor area to be used as a boarding facility.

The ordinance has been approved by the planning commission.

ORDINANCE NO. BL2014-660 (BARRY) – This ordinance amends the Metro code provisions applicable to the public records commission to add the director of Metro information technology systems (ITS) as an ex-officio member of the commission in accordance with state law, and to enable the public officials on the commission to appoint a designee to serve on their behalf. The Davidson County public records commission is currently comprised of six members. The mayor appoints three members: one must be a member of the Metro council, one must be a judge of one of the courts of record, and one must be a genealogist. In addition, the county clerk, county register, and county historian serve as ex-officio members of the commission.

State law allows the county clerk and county register to appoint a designee. However, the Metro code does not specifically authorize the appointment of a designee. This ordinance modifies this provision to mirror state law. Further, the state law was recently amended to allow counties having an information technology department to make the IT director or his/her designee an ex-officio member of the commission. This ordinance increases the number of the commission members to seven and adds the director of ITS or his designee as provided by state law.

ORDINANCE NO. BL2014-661 (STEINE) – This ordinance, as amended, approves a memorandum of understanding (MOU) between the United Way of Metropolitan Nashville and the mayor's office pertaining to the implementation of the Financial Empowerment Center. In January 2013, the council approved a Financial Empowerment Centers grant from Living Cities in the amount of \$435,000 to the mayor's office to implement a program designed to improve the financial stability of households. These funds were made available through Bloomberg Philanthropies and will be administered by the mayor's office of economic and community development. The program involves partnering with the United Way to provide financial counseling services at various locations including the Levy Place Center, the Casa Azafran Community Center, and the United Way family resources centers, as well as Metro action commission and social services facilities. United Way also received a Financial Empowerment Center grant in the amount of \$1,524,000 for the program.

Both the grant to Metro and the grant to United Way require the two parties to enter into a MOU that defines each party's responsibilities regarding the implementation of the program. United Way is required to comply with Metro's direction regarding all aspects of the United Way's grant agreement and scope of services with the Cities for Financial Empowerment (CFE) Fund grant. All budgets must be submitted to and approved by Metro before being submitted by United Way to CFE. United Way must also submit all training materials to Metro for approval, and work with Metro to implement the client database software. Metro agrees to review all such documents and information submitted by United Way, and can request additional information from United Way as needed regarding compliance with the grant scope of services.

The term of the agreement is through December 31, 2015, but may be terminated by either party with 30 days written notice.

ORDINANCE NO. BL2014-662 (STEINE) – This ordinance accepts two donations from the estate of Patricia A. Harbaugh for the use and benefit of the police department K-9 unit and Metro animal control. Ms. Harbaugh's estate left 20% of her estate to the K-9 unit of the police department and 5% of her estate to Metro animal control. The 20% allocation for the police department, amounting to \$139,380, is to be used for the purchase and training of K-9 dogs. The 5% allocation for animal control amounts to \$34,845, with no specific purpose noted. In addition, Ms. Harbaugh designated Metro animal control as the beneficiary of two retirement accounts that were determined to contain \$24,710.38 and \$54,037.54, respectively.

This ordinance accepts these amounts from the estate and appropriates the funds to the police and health departments.

ORDINANCE NO. BL2014-664 (DOMINY & HUNT) – This ordinance abandons a water and sewer easement that was retained by Ordinance No. O86-1491 when a portion of Burtonwood Drive between Kinbark Drive and Galbraith Drive was abandoned. This easement to be abandoned measures 18 feet by 260 feet on property located at 2000 Galbraith Drive. This easement is no longer needed by the department of water and sewerage services. This ordinance has been approved by the planning commission.

HCA Economic Development Incentive Legislation

Resolution Nos. RS2014-988 and 989

Ordinance No. BL2014-669

This legislation approves the revised economic development incentives for the benefit of HCA to incentivize the construction of an office building for the corporate relocation of the following HCA affiliates: Parallon Business Solutions, LLC, Health Trust Purchasing Group, LP, and Sarah Cannon Research Institute, LLC. In December 2012, the council approved legislation to grant a property tax abatement for up to 20 years, a \$1 million one-time payment to cover relocation costs, and an annual payment of \$500 per employee for two office towers to be constructed at 1600 West End Avenue. The total value of the incentives to HCA was estimated to be \$65.9 million.

HCA was unable to reach an agreement regarding the development of the 1600 West End Avenue property, and thus has decided to build their own standalone office building on a 10.55 section of property currently comprised of 28 parcels located at the intersection of Charlotte Avenue and 11th Avenue. This legislation would approve an incentive package for the Charlotte Avenue site that is essentially the same as the incentives approved by the Council in 2012 for the West End property.

HCA plans to construct a 700,000 to 850,000 square foot office building to house the three affiliate companies. The building is also expected to include approximately 45,000 square feet of retail/restaurant space. The development will include a parking garage, and may include a future hotel on the property. The entire development (excluding the hotel) is to cost approximately \$200 million and is expected to be completed in 2016.

HCA was founded in Nashville in 1968 and is the largest non-governmental hospital operator in the United States. HCA operates 163 hospitals and 110 freestanding surgery centers in 20 states and England, and employs close to 200,000 people. HCA Holdings, Inc., recently reported annual revenue in 2013 of \$34 billion. Parallon is a wholly-owned subsidiary of HCA whose five business units provide revenue cycle and business process expertise, workforce management solutions, supply chain services, information technology services, and purchasing power for healthcare providers. Parallon is currently headquartered in Williamson County. Health Trust Purchasing Group is a partially-owned subsidiary of HCA that functions as a group purchasing organization utilized by hospitals and other healthcare providers. Health Trust Purchasing Group provides its services in connection with Parallon. Sarah Cannon Research Institute is also a partially-owned subsidiary of HCA headquartered in Davidson County that provides oncology research services and serves 75,000 new patients per year. Parallon will be relocating 750 existing jobs from Williamson County and Sarah Cannon will be moving 200 jobs from its existing Davidson County location. It is anticipated that the relocation and expansion of the HCA company entities will create over 1,000 additional jobs within five years of the relocation, with an average salary in the \$80,000 to \$85,000 range.

Resolution No. RS2014-988 (Gilmore & Steine) appropriates \$1,050,000 in urban development action grant (UDAG) funds to the metropolitan development and housing agency (MDHA) for the benefit of the HCA company entities and for job recruitment. Under the former federal UDAG program, funds were loaned to developers and repaid to MDHA instead of the

federal government. MDHA is required by federal law to use the UDAG loan repayments in the "pocket of poverty" areas of the Metropolitan Government. In 1990, the council, by ordinance, authorized the use of the Capitol Mall UDAG funds for affordable housing and economic development activities, "all to be of benefit to the residents of the UDAG Pocket of Poverty in accordance with federal regulations." Although this new Charlotte Avenue site is not within the Capitol Mall redevelopment district, MDHA has advised the council office that the property is within the designated pocket of poverty.

This resolution appropriating the funds to MDHA for the benefit of HCA expressly provides that many of the anticipated jobs resulting from the corporate relocation of the HCA company entities are likely to be filled by individuals residing in the pocket of poverty. \$50,000 of these funds are to be used for job recruitment and job fairs to promote and increase the employment opportunities at the project to benefit residents living within Nashville's designated pocket of poverty.

Resolution No. RS2014-989 (Gilmore, Steine & Langster) approves an economic and community development incentive grant to the industrial development board (IDB) for the benefit of HCA and its affiliates. The only real difference between this resolution and the resolution approved in December 2012 is the change in the project location. The amount of the grant will be \$500 per FTE position created as a result of the project. The agreement spells out the types of qualifying employees in the same manner as the PILOT ordinance (BL2014-669). The term of the contract is for seven years, and HCA has the right to specify the date on which the grant period commences. HCA will be required to submit annual settlement statements to the department of finance for the grant.

Both the resolution and the grant agreement provide that the grant is contingent upon the annual appropriation of funds for this purpose by the council. However, the grant agreement also provides that the payment of the grant is a "legal requirement of the Metropolitan Government" and that the promised grant operated as an inducement to the HCA company entities to construct the project and relocate their corporate headquarters to the project site.

If HCA meets its estimated hiring set forth in the PILOT agreement, the annual grant amount paid by Metro would be:

| | |
|-------------|------------------|
| 2017 | \$500,000 |
| 2018 | \$650,000 |
| 2019 | \$750,000 |
| 2020 | \$750,000 |
| 2021 | \$750,000 |
| 2022 | \$750,000 |
| <u>2022</u> | <u>\$750,000</u> |

Total \$4,900,000

Ordinance No. BL2014-669 (Steine) authorizes the industrial development board of the Metropolitan Government (IDB) to negotiate and accept payments in lieu of ad valorem taxes for the benefit of the HCA affiliates. This ordinance delegates the authority to the IDB to negotiate and accept payments in lieu of real property taxes for the development over a 15-20 year period. State law permits local governments to delegate the authority to industrial

development boards to enter into payment-in-lieu-of-tax (PILOT) agreements when they are in furtherance of the public purpose of the board. PILOT agreements essentially provide tax abatements for real and/or personal property taxes the company would otherwise be required to pay to the Metropolitan Government. PILOT programs have been used by Metro in the past to provide incentives to large employers to create more job opportunities, and are subject to approval by the council.

WCP Properties, LLC, which is another subsidiary of HCA, would enter into a lease with the IDB whereby the IDB would issue revenue bonds to finance the cost of the project. The actual title to the project would be transferred to the IDB for the term of the PILOT agreement. The agreement provides for a 100% real property tax abatement up to \$3 million per year for 15 years, with an additional five year extension as long as a company entity continues to occupy the office space. If extended for five years, the total potential amount of the tax abatement would be \$60 million over the life of the agreement. The tax abatement would take effect upon the execution of the PILOT lease with the IDB at the time the IDB issues bonds to finance the costs associated with the project. The justification for the \$3,000,000 annual abatement is that this is the additional amount required for the construction of the new parking garage that would not be required if the companies built a new headquarters in Williamson County.

The property in question currently generates approximately \$165,000 in annual property taxes. If left undeveloped, this property as-is would generate roughly \$3,300,000 in property taxes over the next 20 years (assuming the tax rates and property values remained the same). A new office building totaling 850,000 square feet at a value of \$200 per square foot (\$170 million) would generate \$3,070,880 annually at today's tax rates. Adding the parking garage at an estimated cost of \$45 million would generate an additional \$812,880 in property taxes for a total estimated annual tax bill of \$3,883,760, or \$77,675,200 over 20 years. Thus, Metro would still net approximately \$14.4 million in new real property taxes over the life of the PILOT after accounting for the \$60 million abatement, plus approximately \$2 million in additional personal property taxes. The council office has requested information from HCA regarding the amount of real and personal property taxes the company and its various subsidiaries paid to Metro last year. HCA is currently working to compile this information. If received prior to the February 18 council meeting, the council office will have an updated analysis at that meeting that includes this information.

If for some reason the property taxes that would otherwise be owed fall below \$3 million in a given year, HCA will have the ability to "bank" the difference and apply it against PILOT payments in future years. This means that HCA company entities would get the benefit of the full \$3 million abatement per year even if the property value falls or the tax rate is lowered.

The ordinance and agreement include provisions requiring that a certain number of employees work in Davidson County as a result of the project in order for the company entities to receive the full amount of the abatement. The job benchmarks are 1,000 FTEs (full-time equivalents) in 2017, 1,300 FTEs in 2018, and 1,500 FTEs in 2019 and subsequent years. Failure to meet these benchmarks would result in a \$300,000 reduction in the amount of the abatement for every shortfall of 100 incremental positions. Project-based employee positions and independent contract personnel of the company entities would count toward the benchmark as long as their exclusive responsibility is to work with and support the activities of the company entities. However, those company employees that are currently working in Davidson County would not count toward the benchmark.

This ordinance includes the same small, minority, and disadvantaged business (DBE) program requirements found in the prior 2012 HCA PILOT ordinance that would basically mirror the Music City Center DBE program. The program must have a DBE participation target of at least 20% of the project's hard construction costs. HCA will be required to make periodic reports regarding the DBE program to the council and the minority caucus. In addition, this ordinance includes a requirement enacted by the Council last summer that requires recipients of PILOTs to utilize Metro's workforce development program with the goal of ensuring that reasonable efforts are made to hire or utilize Davidson County residents for the construction of the project.