

**INDUSTRIAL DEVELOPMENT BOARD**  
**Monday, June 20, 2016**  
**Administration Conference Room – 5:30 p.m.**  
**Department of Economic and Community Development**  
**1930 S. Germantown Road**

The Germantown Industrial Development Board met on Monday, June 20, 2016 in the Administration Conference Room. Chairman Henry Evans called the meeting to order at 5:30 p.m. A quorum was established with the following members present.

**PRESENT:** Chairman Henry Evans, Dick Vosburg, Keith Saunders, Greg Marcom, Julie Klein, and Daniel Dent

**ABSENT:** Mike Harless

**GUESTS:** Jonathan Lindsey w/Martin Tate, Harry Skefos w/Martin Tate, McKenzie Reed w/Martin Tate, Jane Roberts w/Commercial Appeal, Doug Apelt w/ThyssenKrupp, and Jeremy Prather w/ThyssenKrupp

**STAFF:** Marie Lisco, Economic Development Manager, Cameron Ross, Economic Community Development Services Director, and Andy Jones, PILOT Attorney

**MINUTES**

A motion was made by Greg Marcom, seconded by Keith Saunders to approve the November 19, 2015 minutes. The motion passed.

Mr. Evans stated that we have a new board member, Daniel Dent and Andy Jones, PILOT Attorney; both have joined us as of January 2016. We would like to welcome them both to the IDB.

Mr. Evans explained that the meeting this evening is to consider a retention PILOT application submitted by ThyssenKrupp Elevator Manufacturing Incorporated. Those of you who are on the Board know that we have had a PILOT with ThyssenKrupp almost 10 years, and it expires in 2016. They are here this evening to present their application for a retention PILOT.

Harry Skefos explained that he and Jonathan Lindsey were there on behalf of the applicant, and as mentioned, Doug Apelt, the President of Manufacturing, and Jeremy Prather, the Vice President of Finance, is with them on the phone due to travel commitments in place long before this meeting. As was mentioned, we were here in 2005 and are happy to be here today because the PILOT incentive was important to the company's decision to establish its headquarters facility 10 years ago, and it is important to their decision going forward for making its plans as Mr. Apelt and Mr. Prather will give you in more detail. ThyssenKrupp, as I think you know, is the largest elevator company in the United States, and it is the third largest elevator company in the world. I would also like to point out in regards to what it has done here in Germantown, TN pursuant to the project that the Board approved 10 years ago. It established a pattern of under promising and over performing which is a good thing. The required jobs according to its 2005 PILOT project with 21, it actually created 81 which are 4 times of what they promised to do and received benefits for. The median wages for most jobs was estimated to be a little bit over \$78,000.00 and turned out to be almost \$86,000.00 which is another favorable variance you might say. Total jobs were estimated to be 226 but actually ended up being 286. If you look at the total jobs instead of the \$51,600.00 estimated, they ended up paying \$63,512.00. So it is always a pleasure to represent a company that over performs. Of course, all of that over performance in terms of job numbers and payroll are important because if you think of it as a benefit cost analysis, the cost being the taxes you are giving up and the benefits being the wages and payroll being brought into the community as well as a lot of indirect benefits they bring in. They bring a lot of people from out of town every year here which they will talk about. This all factors in so at this time I think it would be appropriate and most helpful for Mr. Apelt and Mr. Prather explain to you directly why this PILOT is important to their decision making process. After that, we will be more than happy to respond to any questions the staff may have.

Mr. Evans thanked Mr. Skefos for his presentation and welcomed Mr. Jeremy Prather w/ThyssenKrupp to speak.

Mr. Doug Apelt w/ThyssenKrupp thanked the Board for taking time to meet with them this evening and they appreciated their time as well as the healthy partnership that they have had with the City of Germantown over the past several years. As Harry stated, we are at a point of having a crossroad in our journey whereby we need to make some decisions. It is because of the PILOT program that we are requesting approval from the Board. This PILOT is a critical decision making factor for us as an overall organization. We definitely do appreciate the time and now I'm going to turn it over to Mr. Jeremy Prather to explain the crossroad where they are at this time and then he will come back to give an overview for each of the Board members.

Mr. Jeremy Prather w/ThyssenKrupp said what has happened over the last 30-40 years is we have had a lot of consolidations. We have moved the Horn Lake operation, the Cincinnati plant operation, Middleton TN and then added on the world's largest automated operation. From there we consolidated Walnut, New Jersey, and now we are in the middle of consolidating Northern operations, a manufacturing facility that is located in Toronto Canada. While those jobs are hourly, those jobs are going into Middleton, the corporate side consolidating here in our location in Germantown. So we are in the process now of moving CNC which is our customer service center in Dallas, TX and we are actually going to bring that operation here to Germantown along with the headquarters side of the manufacturing for northern. The way the billing is structured, it is just not big enough to withstand the growth we are seeing not only in the US market but also in all of the foundations we have done for our manufacturing footprint. So we are going to have to redevelop or rearrange the corporate office meaning new cubicles, new offices, new conference rooms, and full blown renovations roughly worth \$1.5 million dollars that will start pretty quick. We will start these renovations following the PILOT approval within 30-45 days or we will continue with the search for re-location which ThyssenKrupp Real Estate is currently looking at with locations for the corporate headquarters. Obviously, this PILOT is very critical for us and the negotiated PILOT would be for another 7 year lease. We will either need to re-invest or we need to relocate.

Mr. Skefos explained that ThyssenKrupp is a German diversified industrial. Most people think ThyssenKrupp is a steel company. Most of our revenue comes outside of the steel business. ThyssenKrupp sales are worth about 43 billion euro, 150,000 employees in 80 countries. Basically, 6 business areas from ThyssenKrupp and the most profitable business area is the elevator which we are a part of. From a manufacturing perspective, ThyssenKrupp Elevator manufacturing we do about 500 million in sales and have over 1500 employees, primarily a lot of those being the factory employees in Middleton. We have close to 300 employees here in the headquarters and are growing. Looking at our growth over the last two years because of the North American Market, the US economy has grown over 10% from an annual growth rate on our revenue side and we are looking at close to 19% growth with the restructuring that will be coming out of Canada because of the northern factory closure and moving that into our facility here. When you look at total lines of business for ThyssenKrupp Elevator within the US we do have the number 1 market share across all lines of business and that will be the new installation market, the modulation market, and the service and repair business and we hold the number 1 share. We are proud of some of the iconic buildings that we have - one being the Bass Pro in Memphis which has the largest elevator that was actually designed by the engineering group here in Germantown and was produced out of Middleton. When you look at what the future holds for us, I have talked about the revenue and the business growth rating but we are also excited about one of the things we pride ourselves on is our innovative solutions so our product in the future in fact we marketed several of them. One would be what we refer to is MAX which really when you think about an elevator and all of the components, to help with service we are going to connect digitally and use digitalization in order to take components and feed data into the cloud in order to tell and to actually predict from a maintenance perspective when things need to be repaired. So this is a great product for us. We are also looking at what we refer to as a multi. The multi is really going to redesign and redevelop our cities. When we think about the elevator,

we think of just vertical transportation but this product is going to allow horizontal transportation so no longer will these buildings need to just go up when you talk about our metropolitan or central business district but you can actually have them to go vertically as well so our construction managers are really excited about that product that we will be launching in the near future as well and it will be produced here in our manufacturing facility. So that is a little bit about our background of ThyssenKrupp in general and about manufacturing. If you look at some of the history that we have had here, again I want to say that we do appreciate the partnership. Clearly as Harry said it was one of the primary factors of locating where we did and one of the key primary factors that are going to get your approval to allow us to stay here within Germantown. When you look at some other things that we do for the city in our location, we are within the manufacturing and within this building we are referred to as a learning center for our employees. The other thing besides the innovative products, we also pride ourselves in our employees and we have several global visitors that come and participate on products and services through our learning center that is located in Germantown. Because of this training that we have been doing, it has obviously brought more business to the hotels, local restaurants; bring considerable revenue to the local businesses as well. The impact is close to \$700,000.00 that we have brought in over the last couple of years. The other things that our employees do is support local charities through donations. November is what we refer to as charity month here but we do this throughout the year. So our employees nominate the charities that we want to support and then we pick the ones that most represent the employee's choices then we vote on it and then we do different fundraisers throughout the month of November in order to support the local charities. In the past it has been LeBonheur, Veteran Services, and Saint Jude Hospital so again our employees really do participate a lot in charities. With all of that being said, the partnership we have with the city has been great and we don't want to underestimate the impact and importance of this PILOT decision for our future. We do face challenges when it comes to locating here. We face questions from our Board on why we want to locate in Germantown. A few years ago it was a lot easier to get in and out of the airport in Memphis but now in order to get to Memphis you have to go through Atlanta, Chicago, and Dallas. Particularly hard for international travel so we get challenged on that. We are constantly faced with challenges on our P&L so come August when our PILOT program stops, I am immediately faced with the P&L impact and in our current company in Germany is not going to take this well and we will have to find a way to offset that. So unless we get this 7 year PILOT approved, then we will need to reduce costs somewhere else to offset this increase in the short term and in the long term we will have to decide if this is where we want to be. So there are challenges that we do face in Germantown and in the county and the other thing that is a little difficult for us is also on the employee side. Attracting and retaining talent in this area. ThyssenKrupp within the US, we have over 115 branch locations and when you look at the length of time it takes for us to hire, this area is one of the longest. This is one of our metrics on how long it takes to bring in talent especially during this growth period. This is another reason of why we are being challenged as to why we want to move here. This project is critical to us and we want to maintain this facility and do not want to relocate. The office is easier to relocate than a manufacturing center. We are willing to do that and we already have people out looking from our ThyssenKrupp Real Estate to see what our other options are. We don't want to do that. We want to stay with a healthy partnership but that is the decision in the crossroads of where we are right now.

Mr. Evans stated that we need to get through the Staff presentation before we opened it up for questions and asked if they would stay on the line with them until we can move forward. Just before I ask Cameron to give us the staff overview, those of you that have been on the Board are aware a few years ago that we started looking at retention PILOTs because the county had already established a retention PILOT and it actually began to issue retention PILOTs. We felt like since the county was already do it and because we knew that the Orgill PILOT would be expiring at that point in time about two years down the road and ThyssenKrupp would follow within another couple of years, that we had to be prepared in Germantown to either say yes we are going to consider retention PILOTs or no we are not. We spent quite a bit of time putting together our policy and metrics for how we would evaluate eligibility for retention PILOTs. Now for those who are new, let me refresh everyone on the process. Once we vote at this Board level, then our actions will go to the Board of Mayor and Aldermen. If we should approve this tonight, it is now the plan that the Board of Mayor and Aldermen will consider this request from us in next Monday night's meeting

which is June 27, 2016. So this is on a fast track to help accommodate the needs of ThyssenKrupp. We have emphasized to them in the original PILOT and emphasized to them during this application process that they are a valued corporate member of our community and we want to do everything we can to prove to them that we are in their corner and hopefully they are in our corner. So once we have taken our action tonight it will go to the Board of Mayor and Alderman for their approval. Now you will also remember, we also administer the total PILOT which includes Shelby County's portion of the PILOT and so we have already contacted through the EDGE organization the Mayor of Shelby County to secure his approval in the event our Board tonight should approve the PILOT to make sure the county is on board with the various requests that are coming to you this evening. We have received the letter from Mayor Luttrell confirming that the county PILOT will be approved contingent upon our Board's action and the action of the Board of Mayor and Aldermen next Monday night. So the process is playing out and we are a vital part of it tonight and you are probably wondering why we are having 2 meetings tonight. The reason is that we have been advised by legal counsel that somewhere buried in the documents there is a reference to "meetings" in order to approve. In order to make sure that we satisfy everybody, we are going to have 2 meetings tonight. We will answer questions, we will ask questions, and hopefully get answers to questions. Then we make sure that got the motion on the floor so that we can discuss it. Then at the appropriate time around 6:15 p.m. we will call an end to this meeting. We will then reconvene at 6:30 p.m. for the final steps that we need to take tonight. I know it is unusual but we are doing it for that reason. Cameron will you please walk us through the staff report?

Mr. Cameron Ross explained that as indicated in the staff report, ThyssenKrupp is coming up to the end of their current PILOT which will expire at the end of this year so they brought forward a retention PILOT application which is summarized within your staff report as well as on the screen behind Chairman Evans. In and of itself it is a simple retention PILOT application. The jobs they are retaining are part of it which is a total of 286 and they are creating 12 new jobs and the average wage will be \$77,355.00 which is 155 percent of the Germantown PCI. With their real property improvements, it will be \$674,000.00, their tangible property as part of the retention application, is \$6,398,000.00 and that includes IT Assets and other tangible personal property. They have also asked for a 12 million dollar intangible personal property investment which was outlined in the application and that is for organizational software that is integral to do the day to day business that will be part of the retention PILOT program. ThyssenKrupp's continued North American Operations based here out of the Germantown office. So this is for a total investment to be considered as part of the retention PILOT application of \$19,072,000.00. This would be for a 7 year term and 75 percent abatement of the city's annual real and tangible personal property tax as part of this application.

Chairman Evans asked if anyone had any questions for staff.

Mrs. Marie Lisco pointed out that they will see ThyssenKrupp is talking about a 4 year ramp up period to accomplish the goals that are on the report that Cameron gave you.

Chairman Evans addressed that point by saying that normally on our PILOTs we have looked at a 2 year ramp up period. In this case we have a 7 year PILOT request and a 4 year requested ramp up period which takes us well beyond the half way point of the PILOT. If you look at the resolution that was part of your package, you will see that we are approving or asking approval for a 7 year PILOT but in the event that ThyssenKrupp fails to meet the investment goals that they have set during the 4 years, then and only then, would it revert back to the 6 year PILOT. You are being asked to approve a 7 year PILOT tonight. We believe that ThyssenKrupp is going to meet these goals but in the event that they do not, both the county and the City of Germantown have said there needs to be a what if.

Mr. Harry Skefos explained that they were somewhat familiar with any company that projects out a number of years on a business plan frequently doesn't hit the numbers exactly. Case in point, ThyssenKrupp over performed in several categories as I have mention at the outset. In the case, if the capital number is not met, and we expect it to be hit, but the mechanism that seems to be in your policy

and procedures in the case of performance including the performance regarding capital investments is that when you fall short you look at your total performance, jobs, latest capital investment and then rescore. I imagine you leave it to the discretion of the Board, but it is an interesting question unlike any other project I have ever handled actually. If for instance, ThyssenKrupp falls short of the goal, even by a few dollars, they would like the resolution changed to provide flexibility for such circumstances.

Chairman Evans explained that in order to get to the 7 year approval then they will need the investment number that was presented. It is the number that you provided and we believe you are going to make it.

Mr. Doug Apelt w/ThyssenKrupp commented that prior to discussion a few weeks ago that they appreciated the Board moving this forward quickly. Jeremy and I will be in Germany next week and on the agenda for our Board is to have a discussion on this so we may not be at the point to have a decision by then but we will have to provide an update so moving if forward quickly is appreciated. Our Board is asking questions as to what we are going to do come August when our costs start to escalate.

Chairman Evans explained that ThyssenKrupp would have a decision by no later than Monday night. Based on this Board's decision tonight that the BMA would probably support his recommendation and have on all of the other PILOTs that they have submitted in the past. It is obviously not firm until they vote on it Monday night but we will have a vote from them on Monday night as well.

Mr. Greg Marcom asked if repurposing the current building, new offices, new cubicles, and things like that meet your growth needs for the next 7 years?

Mr. Doug Apelt answered "Yes it does, we are going to add some conference rooms from a construction perspective and obviously the new cubicles will be such a size that we are able to house all of the growth of the employees that we anticipate."

Mr. Greg Marcom asked when their leadership asks why Germantown, what do you tell them? Why Germantown?

Mr. Doug Apelt answered that clearly the partnership that they have had over the last several years meaning the PILOT extension is one of them. The other is the proximity to the manufacturing facility in Middleton which is an hour away and the test tower in Horn Lake, MS which is only 30 minutes from this headquarters as well. This general area works well and allows us to partner with the Memphis branch that is located here as well. The PILOT is critical. One of the things that is really nice is when we get our global visitors they love staying and shopping in Germantown.

Chairman Evans called for a motion to adopt the resolution approving the PILOT request from ThyssenKrupp.

A motion was made by Julie Klein, seconded by Daniel Dent.

Chairman Evans opened the floor for discussion before we adjourn this meeting.

Mr. Dick Vosburg asked if we had calculated the matrix values and if the numbers were between 26 and 30 points.

Chairman Evans answered yes, the staff has done that and the staff has confirmed that it applies to a 7 year retention PILOT. That comes back to the critical comments we made earlier about the investment amounts. It needs that total investment amount in order to get us there.

Mr. Dick Vosburg said the intangible personal property investment seems to me to be a soft number because it's very transportable.

Industrial Development Board

June 20, 2016

Page 6

Chairman Evans said "Good Point". In the interest of time we have a motion on the floor. We will give everybody 15 minutes to see if they have any other comments they would like to make. But we will adjourn the meeting at this time and reconvene at 25 minutes after the hour.

**ADJOURNMENT**

There being no further business to come before the Board, the meeting was adjourned.