

**INDUSTRIAL DEVELOPMENT BOARD**

**Monday, January 29, 2018**

**Klein Conference Room**

**1920 South Germantown Road**

The Germantown Industrial Development Board met on Monday, January 29, 2018, in the Klein Conference Room. Henry Evans called the meeting to order at 1:00 p.m. A quorum was established with the following members present.

PRESENT: Henry Evans, Dick Vosburg, Michael McLaughlin, Julie Klein, Janet Geyer, Steven Levy, and Mike Harless

ABSENT: None

GUESTS: George Hernandez, CEO and Daniel Shumate, CFO with Campbell Clinic; Larry Jensen, Luke Jensen, Max Aldrich, with Cushman & Wakefield Commercial Advisors; Patrick Lantrip with Memphis Daily News, and Jacob Steimer with Memphis Business Journal

STAFF: Cameron Ross, Economic Community Development Director; Marie Lisco, Economic Development Manager; and Andy Jones, Industrial Development Board Attorney

MINUTES

Mr. Evans stated that the next order of business is the approval of the minutes for the December 15, 2017, meeting. If there are no additions, corrections or deletions to the minutes of the December 15, 2017, meeting of the Industrial Development Board, he would entertain a motion for approval.

Mr. Harless moved to approve the Industrial Development Board minutes for December 15, 2017, seconded by Mr. Vosburg. The motion passed.

Mr. Evans asked for a roll call.

Roll Call: Evans; – yes; Vosburg – yes; McLaughlin – abstain; Klein – yes; Levy – abstain; Harless – yes. The motion passed.

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Mr. Evans stated that we have new board members: Michael McLaughlin and Steven Levy. We would like to welcome them both to the IDB.

Mr. Evans stated the floor is now open for nomination for the office of Chairman.

Mr. Harless nominated Mr. Evans for Chairman. Mr. Vosburg seconded the motion. Chairman Evans asked if there were other nominations. There were none.

The Commission members voted unanimously to elect Mr. Evans as Chairman.

Chairman Evans stated the floor is now open for nomination for the Vice Chairman.

Mr. Vosburg nominated Mr. Harless for Vice Chairman. Ms. Klein seconded the motion. Chairman Evans asked if there were other nominations. There were none.

The Commission members voted unanimously to elect Mr. Harless as Vice Chairman.

Chairman Evans then asked for nominations for Secretary.

Ms. Klein nominated Mr. Vosburg for Secretary. Mr. Harless seconded the motion.

Chairman Evans asked if there were other nominations. There were none.

Chairman Evans moved that the nominations cease and that Mr. Vosburg be elected. Since there were no objections, Chairman Evans asked for a roll call.

The Commission members voted unanimously to elect Mr. Vosburg as Secretary.

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Chairman Evans stated the next item on the agenda is consideration of Campbell Clinic's Retention PILOT application.

Marie Lisco made a presentation on the Retention PILOT Application for Campbell Clinic P. C.

**BACKGROUND:**

Campbell Clinic, P.C., an innovative world leader in orthopedics and a major employer in our region, has requested from the City's Industrial Development Board ("IDB") a Retention Payment-in-lieu-of-Tax ("PILOT") of eleven (11) years, with 75% of real and personal property taxes abated. Since 1909, Campbell Clinic has advanced Orthopaedic medicine and even publishes the industry's "Bible of Orthopaedic surgery" textbook, *Campbell's Operative Orthopedics*, used worldwide. In addition to specializing in Orthopaedic treatment and surgery, the practice provides training, research, and faculty appointments with its surgeons through the University of Tennessee – Campbell Clinic Department of Orthopaedic Surgery. Started in Memphis by Dr. Willis C. Campbell, Campbell Clinic relocated to Germantown in 1992, constructing a 57,751 SF Orthopaedic clinic/physical therapy building and added a 12,222 SF surgery center in 2002. The institution has been credited as being the catalyst for growing the Wolf River Node in Germantown into the diverse and specialized regional medical destination that it is today. The clinic treats more than 175,000 patients annually, employs 500 people, has 51 physicians, and has 7 locations in the region. Campbell Clinic has demonstrated a commitment to philanthropy through The Campbell Foundation established in 1939. The scientific and charitable trust operates from Germantown and supports a pediatric outreach program for disadvantaged children, an adult outreach program for people with disabilities, charitable community healthcare, surgeon education, a residency program through UT, and a fellowship program for physicians. In its 100+ year history, Campbell Clinic has made a tremendous impact on Orthopaedic medicine and the local economy, and is positioning itself to build on this momentum for the future.

**ANALYSIS:**

Campbell Clinic, P.C. and Wolf River Medical Center LTD L.P., own the real property on which Campbell Clinic will have its 120,000 square foot new medical office as well as planned renovations to the existing Orthopaedic clinic/physical therapy building and existing surgery center, and have requested from the IDB a Retention PILOT of eleven (11) years, with 75% of the real and personal property taxes to be abated. This project has been reviewed using the following information provided by Campbell Clinic:

JOBS RETAINED: 280 Total

JOBS CREATED: 185 Total

AVERAGE WAGE: \$67,468.67 (125% of PCI)

REAL PROPERTY: \$35,000,000 (Buildings)  
\$3,000,000 (Site improvements)

TANGIBLE PERSONAL  
PROPERTY: \$9,300,000

*TOTAL INVESTMENT: \$47,300,000*

CAMPUS LOCATION: City of Germantown, Wolf River Node  
1400 S. Germantown Rd (G0220 00269)  
1410 Brierbrook Rd (G0220 00456)  
Wolf River Blvd (G0220 00457)

REQUESTED TERMS: Eleven years, 75% abatement of City and County's annual real and tangible personal property taxes.

Campbell Clinic, P.C. and Wolf River Medical Center LTD L.P. request PILOT treatment of the real and personal property to expand their medical office campus as outlined in their application. Mayor Palazzolo will request County support of the Retention PILOT, for a term equal to that decided by the Germantown IDB – if approved by the IDB, from Shelby County Mayor Mark Luttrell regarding County real and personal property taxes.

Staff has reviewed the application, and based on the information submitted and utilizing the Retention PILOT matrix, Campbell Clinic has exceeded the minimum points for a potential 8 year Retention PILOT.

Mr. Levy noted regarding the existing parcels, you have as part of the application packet, existing property tax assessment for each of the two facilities. If the PILOT is granted as applied for, to what extent would it affect the current real estate taxes on each of the two facilities? Is it limited to the just the million dollars that they are proposing for each of the two facilities? For example, looking at one of these it's showing a total assessment of \$4.7 million, if the PILOT was granted, what would be the effect on that assessment?

Mr. Jones they would receive a PILOT. They would have a reduction in property taxes of 75%.

Ms. Lisco stated the application is for consideration of existing and proposed real property taxes.

Mr. Vosburg asked is it fair to estimate the annual give up of property tax revenue of \$140,000 a year?

Mr. Jones said the abatement would be about \$105,000 of the existing property.

Ms. Klein stated that I assume at the original time the building was built, the PILOT's did not exist in Germantown. So this would not be a second PILOT?

Chairman Evans answered no; our first PILOT was issued in 2002.

Ms. Geyer asked if staff has looked at cost/benefit of the project?

Mr. Jones answered it was 2 to 1. The City benefit was a little over \$800,000, and the City cost was \$370,000 per year.

George Hernandez, CEO with Campbell Clinic made a presentation about the history of Campbell Clinic. Campbell Clinic was founded in 1909 by Dr. Willis Campbell. Dr. Campbell's accomplishments included: Organized the Department of Orthopaedic Surgery at the University of Tennessee-Memphis in 1910, and co-founded the American Academy of Orthopaedic Surgeons (AAOS) and served as its first president. In 1917 co-founded the Hospital for Crippled Children in downtown Memphis, companies such as Smith & Nephew got their start in Memphis because of Campbell Clinic. The Campbell Foundation was established in 1946 based on Three Pillars: Education - 40 Residents and 5-7 fellows at all times. Community Outreach – Regional One Health and LeBonheur Children's Hospital, Soul for Souls, and Footprints in Motion. Research – Multiple clinic trials and research studies in progress. There are 5 office locations, 2 surgery centers 51 Physicians, more than 500 employees, more than 12,000 surgeries and

procedures performed annually, exclusive Orthopaedic Surgeons at LeBonheur and Regional One Medical Center. In 1993, Campbell Clinic moved the main office to Germantown Road, serving as the catalyst for the current day medical district on Germantown Road and Wolf River Boulevard. U.S. Census data from 2015 sites a growth in healthcare and healthcare related organizations in Germantown from 101 in 1997 to 230 in 2015. Campbell Clinic has been very involved in the community, especially through the Campbell Foundation, and does a high volume of business with Germantown. The project overview is 5 acre vacant parcel located adjacent to its existing Germantown offices, and Shelby County vendors. With a 120,000 square foot four-story building. The state of the art surgery center with 8 operating rooms, and 2 procedure rooms, with a Clinic, Physical Therapy and Sports performance space, and refurbishing existing properties and purchase additional furniture, fixtures and equipment. Anticipated \$47,000,000 Capital Investment with 185 New Jobs, and retaining 280 Jobs, over \$34 million paid in annual base wages to Germantown employees with 140 construction jobs. With Campbell Clinic's long history in Germantown, the high level of quality jobs retained, and the high level of new job creation and capital investment, the Clinic is requesting consideration be given to the following: Retention PILOT term of eleven (11) years for both existing and new real and tangible personal property, and a 3 year ramp up period for jobs and capital investment due to the extended timeframe for completion of the project.

Daniel Shumate, CFO with Campbell Clinic made a presentation. We work and live in Germantown. Campbell Clinic was founded in 1909 by Dr. Willis Campbell and he was a Jackson, Mississippi native went to medical school in Virginia and trained in Vienna. Companies such as Smith & Nephew got their start here in Memphis because of Campbell Clinic. The Campbell Foundation was established in 1946 based on Three Pillars: Education - 40 Residents and 5-7 fellows at all times. Community Outreach – Regional One Health and LeBonheur Children's Hospital, Soul for Souls, and Footprints in Motion. Research – Multiple clinic trials and research studies in progress. There are 5 office locations, 2 surgery centers 51 Physicians, more than 500 employees, more than 12,000 surgeries and procedures performed annually, exclusive Orthopaedic Surgeons at LeBonheur and Regional One Medical Center. We see over 175,000 patients a year from 27 states across the country. In 1993, Campbell Clinic moved the main office to Germantown Road, serving as the catalyst for the current day medical district on Germantown Road and Wolf River Boulevard. U.S. Census data from 2015 sites a growth in healthcare and healthcare related organizations in Germantown from 101 in 1997 to 230 in 2015. Campbell Clinic has been very involved in the community, especially through the Campbell Foundation; we give a million dollar a year to Germantown. We do a tremendous amount of business with Germantown suppliers; over the past three years of 3 million dollars. We are going to take the 5 acre vacant parcel and put a 120,000 square foot four story building on it, and a state of the art surgery center at the top with eight operating rooms, and two procedure rooms. We will have clinic, physical therapy, and sport performance space. We will take some additional structure dollars and reinvest back into the two existing properties and bring them up to the 2018 standards. Overall, we are looking at \$47,000,000 Capital Investment, and roughly \$9.3 in equipment. We are looking at creating 185 new jobs over the first three years.

Mr. Levy asked if you could give some perspective of \$34 million in wages; how that fits within the overall operating budget of the Germantown facility.

Mr. Shumate answered it will be in excess of \$100,000 million dollars. It's about 40%. We do a lot of bonuses; around \$8 million dollars.

Mr. Harless asked is your bonus number included in your annual wage average?

Mr. Shumate answered it is not. It is supposed to be your base salary. We would like a three year ramp up for jobs and capital investment. Due to the process; we will build the new building first. It takes about three years to hire all those employees.

Mr. McLaughlin asked once you move your Cordova operation to Germantown, will you have any overhead outside of Germantown at your other campuses? Will your corporate offices still be in Germantown? Of the \$34 million in wages, what percentage of that is made of your 51 doctors?

Mr. Hernandez answered we will still maintain our Southaven office. Yes, the corporate offices will remain in Germantown. It's a fair amount. We don't have all our physicals based there; it's about 25 at this location.

Ms. Geyer asked about the 30,000 square foot reserve space in the new building. Is that going to remain roughed in? Are you planning to lease that out to any tenants? What are your plans?

Mr. Hernandez answered we are actually entertaining both. It was initially constructed as shell space. We do have at least one prospective tenant that might be interested in that space. Our long term plan is for it to become an expansion of Campbell Clinic.

Ms. Geyer requested for Mr. Jones to address that from a policy standpoint. I believe if it's leased out to a tenant, it would not qualify for a PILOT.

Mr. Hernandez stated the only element included is the shell space itself.

Mr. Jones stated that any square footage leased by a tenant won't be in the PILOT.

Ms. Geyer noted it would have to be prorated on the construction cost.

Mr. Vosburg asked is this building going to be primarily administrative, or is it going to have patient clinic operations in it as well?

Mr. Hernandez stated the way we have it programmed at this point is the 4<sup>th</sup> floor is 100% Ambulatory Surgery Center. The 3<sup>rd</sup> floor is 100% clinical space for patient's visits, and the 2<sup>nd</sup> floor is vacant or shell space. The 1<sup>st</sup> floor is physical therapy. We will also be expanding some of the administrative space.

Mr. Levy asked why did you decided to locate in Germantown in 1992? I'm curious as to how you reached the conclusion this is the site where you need to expand?

Larry Jensen answered that they were located on Madison Avenue where it was hard to turn into the parking lot. The reason for Germantown is we would be near Methodist and Baptist hospitals, and the population. I think getting that rezoning was the key.

Mr. Harless asked Mr. Hernandez to address the parking issue with 175 jobs. How many employees would be on the 2nd floor?

Mr. Hernandez noted those are accounted for in parking. We ended up with 736 parking spaces on the entire campus. It would be 57.

Ms. Geyer stated you mention in the justification section that you are asking for three years ramp up for both (job creation and capital investment). She directed to Mr. Jones that I believe the time the PILOT starts, the capital investment has to be fully invested or amendment at the time of the CO. Is that correct?

Mr. Jones answered yes that is correct.

Mr. Levy asked staff how does this area fit into Smart Growth? Was there ever any contemplation by the applicant or by the City for mixed use with residential?

Mr. Ross stated he started in February 2014. Yes, it has been contemplated several times. The decision is in the hands of the stakeholders, and the doctors at Campbell Clinic. That is one of five key commercial areas both within the Economic Development Strategic Plan and the Forward 2030 Plan.

Chairman Evans asked if I could get somebody to make the motion, let's get it on the floor, and then we can open it for discussion.

Chairman Evans stated we have a motion and a second, but before we open the floor for discussion: The motion on the table is for an 8 year Retention PILOT. That is the maximum allowed by the City policy on Retention PILOT's. This Board spend a lot of time a few years ago looking at the whole concept of Retention PILOT's. We would rather not open that door here in Germantown, but we did and created the policy that goes to 8 years. If you look at the matrix, we actually understood that there may be applicants that would come to us and exceed the matrix maximum in any or all categories. That policy has been approved by the administration and the Board of Mayor Aldermen. Mr. Jensen noted that we went above that a year or two ago for the MAA. They did not come to us as a single applicant asking for additional time above what we previous approved on PILOT's. We appreciate this presentation, and what you are doing in our community. We are not closing the door today on going above 8 years. If in fact that's all we approve, because the Retention policy allows for companies to come back again for additional Retention PILOT sometime down the road.

Mr. Vosburg added, particularly if you are leaving the second floor open, the completion of that could be a good application in due time.

Ms. Geyer suggested possibly looking at the capital investment in two separate buckets. One or more for a retention for the existing buildings, and that the PILOT period be separate from the new structure. Also the PILOT over the existing structures, the \$3 million dollars would be separated from its existing assessed value, and they would continue to pay based upon the current assessed value.

Mr. McLaughlin stated he agrees with Ms. Geyer on them getting a savings of roughly \$15,000 on the entire project based on their new building. It shouldn't go back and be discounted.

Mr. Levy stated if they build this structure, the current value you have is \$35 million. A 75% reduction in current value would be roughly \$300,000 a year, which is .3 percent. I'm just trying to understand why Germantown is giving you \$300,000 out of a \$100 million dollar budget?

Mr. Jones stated that he came up with the total being \$494,525 for everything.

Mr. Harless stated that Campbell got the policy, and they are taking advantage of it.

Mr. Vosburg asked does it make more sense to consider a new PILOT? Forget the retention and the existing facility and just consider the new facility?

Ms. Geyer stated she is in agreement with what Mr. Shumate said that it is more of a hybrid scenario; they are almost two separate things.

Chairman Evans stated let's keep one thing before us, and that is what they have submitted in the application. We as a Board cannot amend that plan one way or another. We can vote it up or down.

Mr. Harless stated that from my perspective, Campbell Clinic has been an outstanding corporate citizen of Germantown. Since arriving in 1992, they have added to their campus, buildings, and high paying employees. The last thing we should consider doing is losing them as a corporate citizen of Germantown. It was about two years we had another corporate headquarters here that we thought was here forever (Orgill Brothers), and they left to go to Collierville because we didn't have a retention policy at the time.

Chairman Evans noted we had a retention policy, but it would not give them as much as the new PILOT gave them in Collierville.

Ms. Geyer asked if in calculating the retention portion, the \$3 million dollars for the existing two structures would normally be included with the existing value?

Mr. Jones answered yes because it's a retention PILOT. The thought was if you vote it down, they could pull out and leave. Including the structures, right now they pay \$140,122 in taxes to the City. Once you add in the new building and new personal property, their payment to the City is going to be \$123,631. So the negative loss to the City is \$16,000 a year for 8 years, which is \$131,000. The moment they come back on, two years later, you've made that money up.

Ms. Klein stated that we have two of their employees who have made an investment in homes in Germantown. I think of the employees already working there, plus new employees who will come, due to the size of the investment their company is making. Perhaps we will find a lot more of their employees living here. We could certainly more than make up these taxes.

Mr. Jones stated when we did ThyssenKrupp Elevator Manufacturing Retention PILOT, we included the entire building as they did some remodeling and restructuring. We gave them a whole building Retention PILOT. With Campbell, we looked at the number of jobs coming in, estimated sales tax that will be generated, and compared that to the estimated property tax collection. The estimated cost to the City for one year is \$370,893 and the benefits to the City are approximately \$802,894.

Chairman Evans stated that normally when we are approving PILOT, we already have the approval from Shelby County for their share of the PILOT. However, we do not have that here today.

Mr. Jones stated if Shelby County rejects the application, then ours is rejected too. It also states, that benefits are reduced down to whatever Shelby County awards.

Chairman Evans stated a motion was made by Mr. Vosburg, seconded by Mr. Harless to approve a Retention PILOT for Campbell Clinic: 8 years with a ramp up period as to jobs, and wages of 3 years, as to all buildings and new personal property only. However, in the event Shelby County shall not award a PILOT, ours would be deemed revoked. Or, if Shelby County awards lesser benefits, our benefits would be reduced to the amount awarded by Shelby County, and Chairman Evans can execute all the documents. The motion passed.

Chairman Evans asked for a roll call.

Roll Call: Evans; – yes; Vosburg – yes; McLaughlin – yes; Klein – yes; Levy – abstain; Harless – yes. The motion passed.

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Chairman Evans stated our next IDB meeting will be February 15, 2018 at 3:00 p.m.

Chairman Evans asked if there was any other business to come before us. There was none.

ADJOURNMENT