

**VIRGINIA:**

At a recessed meeting of the Washington County Board of Supervisors held Tuesday, June 13, 2006, at 5:00 p.m., at the County Administration Building in Abingdon, Virginia the following were present:

**PRESENT:**

**Board of Supervisors:**

Kenneth O. Reynolds, Chairman  
Jack R. McCrady, Jr., Vice Chairman  
Phillip B. McCall  
Dulcie M. Mumpower  
Odell Owens  
Paul O. Price  
Anthony S. Rector

Mark K. Reeter, County Administrator  
Lucy E. Phillips, County Attorney  
Mark W. Seamon, Accounting Manager  
Naoma A. Mullins, Recording Clerk

**Industrial Development Authority:**

Russell U. Owens, Chairman  
David C. Counts  
Jack Hagy  
Clarence "C.B." Hale  
Henry S. Snodgrass  
Homer L. Wilson  
Curtis R. Woodward

**Consultants:**

Mark McDonald, Newton Oldacre McDonald  
Michael T. McGuffin, Newton Oldacre McDonald  
David Rose, Davenport & Company LLC  
Dan Siegel, Sands Anderson Marks & Miller

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**1. Call to Order**

**Board of Supervisors:**

Mr. Kenneth Reynolds, Chairman of the Board, called the meeting of the Board of Supervisors to order.

**Industrial Development Authority:**

Mr. Russell Owens, Chairman, called the Industrial Development Authority to order. Mr. Owens noted for the record that this was a special called meeting of the Industrial Development Authority.

**2. Welcome, Introductions and Opening Remarks**

County Administrator Mark Reeter provided welcoming remarks. Mr. Reeter introduced the following consultants that would be making presentations concerning *The Highlands* Project:

Project Developers

Mark McDonald, Newton Oldacre McDonald  
Michael T. McGuffin, Newton Oldacre McDonald

Financial Advisor to Washington County

David Rose, Davenport & Company LLC

Bond Counsel to Washington County

Dan Siegel, Sands Anderson Marks & Miller

In addition, Mr. Reeter introduced Mr. Mack Trammell who is in partnership with Newton Oldacre McDonald and has formed a company called, TRANOM for *The Highlands* Project.

Mr. Reeter explained that *The Highlands* is a unique commercial development project as far as the County and Industrial Development Authority's (IDA) participation and is the first commercial project for both boards. He further explained that the project is a watershed point in development for the County. The County is now viewing commercial development projects in the same way as they do industrial prospects. Mr. Reeter stated that *The Highlands* is an indication of the County's growth and development as both a good place for industry as well as commercial and retail development.

**3. Approval of Agenda**

**Board of Supervisors:**

*On motion of Mr. Rector, second by Mr. Owens, it was resolved to approve the agenda as presented.*

*The vote on this motion was as follows: (7-0)*

<i>Mr. McCall</i>	<i>Aye</i>
<i>Mr. McCrady</i>	<i>Aye</i>
<i>Mrs. Mumpower</i>	<i>Aye</i>
<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Price</i>	<i>Aye</i>
<i>Mr. Rector</i>	<i>Aye</i>
<i>Mr. Reynolds</i>	<i>Aye</i>

**Industrial Development Authority:**

*On motion of Mr. Snodgrass, second by Mr. Wilson, the IDA acted to approve the agenda as presented.*

*The vote on this motion was as follows: (7-0)*

<i>Mr. Counts</i>	<i>Aye</i>
<i>Mr. Hagy</i>	<i>Aye</i>
<i>Mr. Hale</i>	<i>Aye</i>
<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Snodgrass</i>	<i>Aye</i>
<i>Mr. Wilson</i>	<i>Aye</i>
<i>Mr. Woodward</i>	<i>Aye</i>

#### **4. Presentation of *The Highlands Commercial Development Project***

Mr. Mark McDonald, Principal, Newton Oldacre McDonald (NOM), expressed appreciation to County Administrator Mark Reeter and staff for their time and dedication to *The Highlands Project*. Mr. McDonald provided background information on NOM. He explained that NOM was formed in 1992 and has about 103 years of combined experience. Since 1992, NOM has completed about 200 projects with approximately 95% of those projects being retail development. NOM currently has about a million and a half square feet under development that is similar to *The Highlands Development Project*. *The Highlands Project* was identified approximately three years ago. Because of environmental issues on the initial property for the retail shopping center, NOM identified an alternate site and scaled back the project to fit on the alternate site. *The Highlands* will have a look similar to the *Johnson City Crossings* development in Johnson City, TN.

Mr. Mike McGuffin, Associate with NOM, provided the Board and IDA with a presentation *The Highlands Project*.

Mr. McGuffin explained that *The Highlands* development would be constructed on 45.17 acres of property located on Lee Highway across from the former Campbell Chapel Church (Exit 7 area). The property fronts US Highway 11 and abuts I-81 and is located entirely in Washington County. Mr. McGuffin reviewed the site plan for the development.

Mr. McGuffin explained that the development would be approximately 329,769 square feet with an estimated \$32 million in total investment. Mr. McGuffin further explained that NOM was very successful in getting tenants for the original Highlands Project and have been successful in convincing those tenants that the new property is a viable site for the development. He stated that the anchor tenants for the development includes one large discount department store and eight junior anchors. None of the tenants are in this market, but have stores in Johnson City and Kingsport. There will be seven out parcels suitable for retail and restaurants. The construction is scheduled to begin in August/September of this year with a projected grand opening of July/August 2007.

Mr. McGuffin provided a comparison between *The Highlands* and *Johnson City Crossings* in Johnson City, TN. Both retail development complexes are similar in size. He stated that it is anticipated that *The Highlands* will be a catalyst for further development along Lee Highway just as *Johnson City Crossings* was for State of Franklin Road in Johnson City, TN.

Mr. McGuffin reviewed the Washington County Incentive Package, which is approximately \$7 million and breaks down as follows:

- \$3 million paid by County upon 75% of the shopping center open to the public for business
- \$4 million to be received over a ten (10) year period of time by sales tax revenues generated by the shopping center
- Developer to pay the interest on debt incurred by Washington County

At this time Mr. McDonald discussed further the County's participation in *The Highlands* Project. He explained that about ten years ago localities learned that shopping centers provide economic benefits, substantial sales tax revenue growth and is good neighbors. The retail development sector began to approach the localities asking for incentive packages to be funded by the sales tax revenue growth from the shopping centers. Mr. McDonald stated that the Exit 7 area has a significant retail hub, but does not have unusual retailers. *The Highlands* offers the opportunity to provide a unique shopping center experience, as well as an opportunity to provide an engine for economic growth in Washington County.

Mr. McGuffin provided further justification for the financial incentive package. He explained that a revised economic package was offered to the anchor stores because *The Highlands* was competing with developers within the City of Bristol, Virginia for the same tenants. The anchor tenants requested that their rent be modified because the new development project was smaller in size compared to the original development proposal. Construction costs have increased since the time estimates were put together for the original development proposal and the increasing interest rate environment also contributes to the need for a financial incentive package.

Mr. McGuffin reviewed the sales tax analysis information for Washington County. He explained that the National Retailers Association tracks retail development in regions across the county. The Association provides a report on shopping centers in this region that are comparable in size to *The Highlands*. Based on the information in the report, it is projected that *The Highlands* will generate approximately \$1 million plus annually in sales tax revenue for the County's general fund, and \$1 million plus annually for the County school system.

Mr. McGuffin explained that *The Highlands* Project includes tenants with financial stability. Four of the tenants are traded on the NYSE and five of the tenants are traded on NASDAQ. Six of the nine tenants had annual sales in 2005 that exceeded \$3 billion including three that exceeded \$15 billion. The tenants are industry leaders with the primary anchor being the number two discount department store in the United States and two of the junior anchors are the number one and number two "off-price" retailers and another junior anchor is the number one linens and bath superstore.

In conclusion Mr. McGuffin reiterated the following reasons that *The Highlands* Project will be good for Washington County:

- Increase in Sales Tax Revenue (\$1 million annually to the County's General fund and \$1 million annually to the School System)
- Job Creation of 800-1000 jobs
- Catalyst for future growth along Lee Highway
- Capture Retail Sales in Washington County
- Creates a better quality of life for citizens and for business recruitment through shopping opportunities and restaurants.

At this time a question and answer period ensued.

**Scrivener's Note:** The NOM Presentation referenced above is included as Minutes Exhibits Item 2006-06-13-1-A.

##### **5. Presentation of Financial Analysis of County Participation in *The Highlands* Project**

Mr. David Rose, Senior Vice Present with Davenport and Company, provided a presentation on the financial cost and benefit summary of Washington County's financial participation package for *The Highlands* Project.

In providing introductory remarks, Mr. David Rose explained that he worked with Washington County on the Southwest Virginia Regional Jail Authority Project and looks forward to working with the County on *The Highlands* Project. Mr. Rose explained that the role of Davenport & Company would be to advise the County and the IDA.

Mr. Rose provided an overview of the financial cost and benefit summary for Washington County's financial participation package. He explained that Davenport & Company in the capacity as financial advisor to Washington County has evaluated the financial participation package for *The Highlands* Project and determined the cash flow cost/benefit to the County and funding assumptions in order to provide NOM with the agreed upon financial participation.

Mr. Rose reviewed the anticipated timing and key events for the project. He explained that it was Davenport & Company's role to provide the County assurance that the \$3 million upfront financial participation by the County after NOM reaches 75% tenant occupancy in *The Highlands* is a strong situation for the County. On June 27 it is anticipated that the Board of Supervisors and IDA will adopt a Joint Resolution of support that would authorize NOM to move forward with the project. Mr. Rose explained that TRANOM has to obtain construction funding and in order to do so they must demonstrate that the \$7 million financial incentive package is secure. In mid-July of 2007 if *The Highlands* Project has not reached 75% operational occupancy then the County does not have to be concerned with providing the \$3 million to NOM at that time. Within 90 days if *The Highlands* has reached the 75% operational occupancy the County would then provide the \$3 million upfront financial participation via the IDA. The County would expect copies of executed tenant lease/sales agreements and projected operational occupancy with expected opening dates for tenants.

In summary, the County and IDA will provide TRANOM a Joint Resolution outlining the financial participation package so that TRANOM can obtain and close on construction funding. The project can commence upon closing of construction funding. A formal agreement between the County, IDA and TRANOM outlining the financial participation package must be adopted. Upon commencement of construction the County expects to receive copies of executed tenant leases/sales agreements and projected operational occupancy with expected opening dates for tenants. A notice must be provided by TRANOM to the County of 75% operational occupancy in order that the County can facilitate financing of the upfront \$3 million financial participation via the IDA within 90 days.

Mr. Rose reviewed the following key assumptions:

**\$7 million financial participation package**

1. \$3 million provided at evidence of 75% operational occupancy of project;
2. Balance of \$4 million provided within 10 years of opening based upon a 45%/55% split between TRANOM LLC and Washington County, respectively; and
3. County is credited for the interest expense and cost of issuance of providing the \$3 million initial payment to TRANOM LLC.

**County's Obligations to the Project**

1. Guarantee \$3 million of cash funding via a debt financing through the appropriate legal conduit (e.g. IDA) at 75% operational occupancy of the project.
2. The \$3 million borrowing would occur with a six year repayment based on level annual debt service at an average interest rate of 4.75% over six years.

Mr. Rose explained that based upon the key assumptions the County would achieve the following:

1. Incremental (i.e. after all financial participation payments) funds of \$5,275,000 over 10 years;
2. Minimum annual net cash flow to the County of \$180,000 (Year 6) up to a minimum of \$1.25 million by year 10;
3. The sales tax return to the County after financial participation for Years 1-10 approximates 35% of total sales tax revenues; and
4. A small portion of the sales tax revenues is based upon four out parcel "fast food" restaurants. On average these account for roughly \$20,000 per restaurant per year in total sales tax revenues. As such, this component constitutes less than 8% of the total sales tax revenues for the project from the outset.

Mr. Rose stated there would be a positive cash flow in each of the ten years referenced above. Year six would have the least amount of cash flow because the debt payment is due. He reviewed a summary of all tax sources to the County and a draft cash flow summary that supports the \$7 million total financial participation by the County.

Mr. Rose completed his presentation by stating that *The Highlands* Project is a power project and as strong of a project that he has seen in some time. He further stated that the analysis completed by Davenport & Company does not take into account that the development has the potential to be a catalyst for other economic and retail growth. Also, property tax revenue was not considered in the analysis. Mr. Rose explained that the sales tax revenue that would be generated from *The Highlands* would be enough to pay for the project. He further explained there does not appear to be any risks with the project.

At this time substantial discussions ensued.

Responding to an inquiry from the Board, Mr. Reeter explained that interest and the fees for the financial advisor and bond counsel would be paid from revenue generated through the sale of bonds.

Mr. Reeter responding to another inquiry from the Board explained that the calculus for generating revenue on the out parcels was based on fast food restaurants and not on full service restaurants. He explained that the out parcels are in a zoning designation where liquor by the drink is permitted so most likely full service restaurants will be attracted to the out parcels.

**Scrivener's Note:** The Davenport & Company Presentation referenced above is included as Minutes Exhibits Item 2006-06-13-1-B.

## 6. Presentation of Proposed Industrial Revenue Bond Financing

Mr. Dan Siegel, Principal with Sands Anderson Marks & Miller made a presentation on the industrial bond financing. Mr. Siegel explained that he was involved with the Southwest Virginia Regional Jail Authority Project and has over the years worked with the IDA. He further explained that he is the chairman of the Local Government Group of Sands Anderson Marks and Miller which employs a total of 70 lawyers. Mr. Siegel stated that it is his responsibility to assure that all State and Internal Revenue Service laws are complied with concerning the bond financing for *The Highlands* Project.

Mr. Siegel reviewed in detail the proposed joint resolution between the Washington County Board of Supervisors and the IDA that outlines the financial assistance from the County for *The Highlands* Project.

Discussion ensued at this time.

Responding to an inquiry, Mr. Siegel explained that in paragraph three of the proposed Joint Resolution it should read that there would be a total \$32 million investment for *The Highlands* Project and not \$60 million. He further explained that the \$60 million figure was for the original proposal for *The Highlands* Project.

Mr. Russell Owens, IDA Chairman, requested information pertaining to average wages for the jobs that would be created. Mr. McGuffin with NOM stated that he would attempt to get the information from the tenants but could not promise that it would be reliable information.

Further discussions ensued.

In conclusion, Mr. Siegel asked that the Board of Supervisors and IDA to review the proposed Joint Resolution and advise him of any changes. Also the attorneys for NOM will need to review the proposed Joint Resolution.

**Scrivener's Note:** The Resolution referenced above is included as Minutes Exhibits Item 2006-06-13-1-C.

## 7. Final Questions, Comments and Closing Remarks

### a. Board of Supervisors

Chairman Kenneth Reynolds expressed appreciation on behalf of the Board to everyone participating in the joint meeting. Mr. Reynolds explained that if *The Highlands* Project is to become a reality the Board needs the support and participation of the IDA.

The Board members expressed their excitement and support for *The Highlands* Project and further expressed appreciation to Mack Trammell and NOM.

### b. Industrial Development Authority

Chairman Russell Owens stated that the IDA sees *The Highlands* Project as a challenge and pledges the support of the IDA.

**8. Adjourn to 7:00 PM Regular Meeting – Board of Supervisors**

*On motion of Mr. McCall, second by Mr. Rector, it was resolved to adjourn the meeting.*

*The vote on this motion was as follows: (7-0)*

<i>Mr. McCall</i>	<i>Aye</i>
<i>Mr. McCrady</i>	<i>Aye</i>
<i>Mrs. Mumpower</i>	<i>Aye</i>
<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Price</i>	<i>Aye</i>
<i>Mr. Rector</i>	<i>Aye</i>
<i>Mr. Reynolds</i>	<i>Aye</i>

**Adjourn or Recess – Industrial Development Authority**

*On motion of Mr. Hale, second by Mr. Woodard the IDA acted to adjourn the meeting.*

<i>Mr. Counts</i>	<i>Aye</i>
<i>Mr. Hagy</i>	<i>Aye</i>
<i>Mr. Hale</i>	<i>Aye</i>
<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Snodgrass</i>	<i>Aye</i>
<i>Mr. Wilson</i>	<i>Aye</i>
<i>Mr. Woodward</i>	<i>Aye</i>

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**Prepared by:**

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Naoma A. Mullins, Recording Clerk

**Approved by the Washington County Board of Supervisors:**

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Kenneth O. Reynolds, Chairman