

MINUTES
STATE BUILDING COMMISSION
Executive Subcommittee
December 17, 2018

The State Building Commission Executive Subcommittee met this day at 11:00 a.m. in House Hearing Room III of the Cordell Hull State Office Building, Nashville, Tennessee, with the following members and Departments present. Commissioner Martin called the meeting to order at 11:01 a.m. and requested action on the following matters as presented by State Architect Ann McGauran.

MEMBERS PRESENT

Larry Martin, Commissioner, Department of Finance and Administration
Tre Hargett, Secretary of State
David Lillard, State Treasurer

MEMBERS ABSENT

Justin Wilson, Comptroller of the Treasury

ORGANIZATION

- University of Memphis
- Department of General Services
- Department of Finance & Administration
- State Building Commission

PRESENTER

Tony Poteet
John Hull
Eugene Neubert
Ann McGauran

OTHER PARTICIPANTS

Carole Briggs, Briggs & Associates
Jim Strickland, Mayor, City of Memphis
Doug McGowen, City of Memphis
Matt Ricotta, Loews Hotel
Arlene Maidman, Townhouse Management
Tom Lee, Schulte Hospitality Group & Starwood Capital Group
Ash Kapur, Senior Vice President and Chief Revenue Officer
James Raved, Counsel for Starwood Capital/Sheraton Management
Kevin Gallagher, President, Schulte Hospitality Management
Eric Schwartz, Chief Investment Officer, Schulte Hospitality Group
Jay Baribeau, General Counsel, Schulte Hospitality Group
James McLaren, Adams and Reese LLP
Jennifer Oswald, President, Downtown Memphis Commission

Commissioner Martin pointed out to the other members of the Commission and the audience that Carole Briggs with Briggs & Associates is a court reporter who is present today to make sure that there are accurate minutes of the Commission's discussion.

CONSENT AGENDA

Approved the following real property transactions and capital projects which have been reviewed and recommended for approval by Subcommittee staff:

- A. Agency: **University of Tennessee – Health Science Center**
Transaction: Acquisition – Lease Amendment
Provision(s): Waiver of advertisement

- B. Agency: **University of Tennessee**
Transaction: Disposal – Lease Amendment
Provision(s): Waiver of advertisement

- C. Agency: **Tennessee Board of Regents – Dyersburg State Community College**
Project Title: Doors and Hardware Updates
SBC Project No: 166/017-02-2017
Requested Action: Approval of a revision in project budget in order to award a contract

- D. Agency: **University of Memphis**
Transaction: Acquisition – Fee (Purchase)
Provision(s): Waiver of advertisement and one appraisal

- E. Agency: **University of Memphis**
Transaction: Disposal – Lease Amendment (Space)
Provision(s): Waiver of advertisement

- F. Agency: **Department of Agriculture**
Transaction: Disposal – Easement (Access)
Provision(s): Waiver of advertisement and one appraisal

- G. Agency: **Tennessee Wildlife Resources Agency**
Transaction: Acquisition – Fee (Purchase)
Provision(s): Waiver of advertisement and one appraisal

- H. Agency: **Department of Transportation**
Transaction: Disposal – Controlled Access
Provision(s): Waiver of advertisement and one appraisal

- I. Agency: **Department of Environment & Conservation**
Transaction: Acquisition – Easement (Conservation)
Provision(s): Waiver of advertisement and one appraisal

- J. Agency: **Department of General Services**
Transaction: Acquisition – Lease (Space)
Provision(s): n/a

- K. Agency: **Department of General Services**
Transaction: Acquisition – Lease Amendment
Provision(s): Waiver of advertisement

UNIVERSITY OF MEMPHIS

Acquisition – Fee (Purchase)

Requested Action: Approval of acquisition in fee with waiver of advertisement and one appraisal

Transaction Description: Transaction No. 18-06-006
• **Location:** University of Memphis
Shelby County – 0.36 acres +/- 250 Deloach, Memphis, TN
• **Owner(s):** Estate of Etha P. Stanley
• **Estimated Purchase Price:** \$230,000.00
• **Source of Funding:** Plant Funds (Non-Aux) (A)

Comment: The University of Memphis would like to acquire the property located at 250 Deloach, Memphis, TN for the expansion of the University of Memphis campus, and the house on the property is intended to be demolished. This property is in the University of Memphis' 2015 Master Plan. This is the last property on the block not owned by the University. The University has pursued this property for almost ten years and reached an agreement with the executor of the estate for the former owner for an amount that is within 2% of the appraised value.

Date of Last Transfer: Unknown
Purchase Price: Unknown
Property Assessor's Value: \$269,300.00
Square Footage Improvements: 2,826

Minutes: 12/17/2018 Approved acquisition in fee with waiver of advertisement and one appraisal

DEPARTMENT OF GENERAL SERVICES

Disposal – Lease (Space)

Requested Action: Approval of disposal by lease with waiver of advertisement and appraisals

Transaction Description: Transaction No. 18-11-002

- **Proposed Lease:**

- **Term:** February 1, 2019 – January 31, 2020

- **Current Lease**

- **Location:** Tennessee Preparatory School
Davidson County – 22,800 sf - 1280 & 1282 Foster Avenue, Nashville, TN
- **Tenant:** 4:13 Strong, Inc.
- **Term:** February 1, 2018 – January 31, 2019
- **Area / Costs:** 6 units for \$8,550 per month total

Comment: 4:13 Strong is the current tenant and a nonprofit organization. 4:13 Strong is a residential program providing training, skills and job placement for at-risk men. They or their predecessor, Y-Build, has been in occupancy at Tennessee Preparatory School (TPS) since 2009 under various agreements. Waiver of advertisement is requested because of the program's mission and tenure at this location.

The proposed rate of \$4.50/sf was set previously based on market analysis. This proposed lease will not negatively impact the State's operations.

Date of Last Transfer:	July 15, 1921
Purchase Price:	N/A
Square Footage of Improvements:	22,800 sf

Minutes: 12/17/2018 Approved disposal by lease with waiver of advertisement and appraisals

DEPARTMENT OF GENERAL SERVICES

Acquisition – Lease (Space)

Requested Action: Approval of a lease

Transaction Description: Transaction No. 18-01-900

• **Proposed Lease**

- **Location:** Madison County – 1625 Hollywood Drive, Jackson, TN
- **Landlord:** C. Dwight Hawks
- **Term:** 5 years with one 2 year renewal option
- **Area / Costs:** 18,000 Square Feet

Annual Contract Rent (Office - 16,800 sf)	\$113,904.00	\$6.78/sf
Annual Contract Rent (Storage – 1,200 sf)	4,068.00	3.39/sf
Total Average Annual Contract Rent	\$117,972.00	\$6.55/sf

Estimated Annual Utility Cost (18,000 sf)	\$ 31,500.00	\$1.75/sf
Estimated Annual Janitorial Cost (18,000 sf)	19,800.00	1.10/sf
Total Annual Effective Cost (18,000 sf)	\$169,272.00	\$9.40/sf

• **Current Lease**

- **Location:** Madison County – 1625 Hollywood Drive, Jackson, TN
- **Landlord:** C. Dwight Hawks & Kathryn Tyler
- **Term:** January 1, 2006 to December 31, 2016 - Holdover
- **Area / Costs:** 19,985 Square Feet

Annual Contract Rent	\$125,000.00	\$6.25/sf
Estimated Utilities Cost	27,979.00	1.40/sf
Estimated Janitorial Cost	21,983.50	1.10/sf
Total Annual Effective Cost	\$174,962.50	\$8.75/sf

- **Source of Funding:** FRF Operating Funds
- **Procurement Method:** LPR on template
- **FRF Rate:** \$18.00

Comment: This lease will provide office/warehouse space for the Department of Environment and Conservation. Four proposals were received, and the proposed lease is the lowest cost proposer.

The rental rate will remain the same for the renewal option, if exercised.

The tenant may not terminate this lease during the initial five year base term.

Based on a review of the financial aspects, occupancy requirements, and market indicators, this lease is deemed to be the State's best interest at this time.

Minutes: 12/17/2018 Approved lease

DEPARTMENT OF GENERAL SERVICES

Acquisition - Lease Amendment

Requested Action: Approval of a lease amendment with waiver of advertisement

Transaction Description: Transaction No. 17-10-941

- **Proposed Amendment**

- **Term:** 24 months (February 1, 2018 – January 31, 2020)

- **Current Lease**

- **Location 1:** Shelby County – 2003 Corporate Avenue, Memphis, TN

- **Landlord:** Olymbec USA, LLC

- **Term:** 18 months (February 1, 2018 – July 31, 2019)

- **Area / Costs:** 63,444 Square Feet

Annual Contract Rent	\$986,554.20	\$15.55/sf
Estimated Annual Utility Cost	111,027.00	1.75/sf
Estimated Annual Janitorial Cost	69,788.40	1.10/sf
Total Annual Effective Cost	\$1,167,369.60	\$18.40/sf

- **Source of Funding:** FRF Operating Funds

- **FRF Rate:** \$18.00

Comment:

This amendment will provide office space for Department of Human Services and adds two additional renewal options of three months each and allows the ability to reduce size of leased premises as each DHS field office completes construction and commences rent.

This request for waiver of advertisement and this amendment are in the best interest of the State to prevent a lease holdover while allowing additional time to evaluate how to best meet programmatic needs in support of the Agency's real estate strategy.

Based on review of the financial aspects, occupancy requirements and market indicators, this amendment is deemed to be in the State's best interest at this time.

Previous Action: 11/20/2017 Approved lease with waiver of advertisement

Minutes: 12/17/2018 Approved lease amendment with waiver of advertisement

DEPARTMENT OF GENERAL SERVICES

Acquisition - Lease Amendment

Requested Action: Approval of a lease amendment with waiver of advertisement

Transaction Description: Transaction No. 17-04-905

- **Proposed Amendment**

- **Location:** Shelby County – 2003 Corporate Avenue, Memphis, TN

- **Current Lease**

- **Location:** Shelby County – 1991 Corporate Avenue, Memphis, TN

- **Landlord:** Olymbec USA, LLC

- **Term:** 10 years

- **Area / Costs:** 18,680 Square Feet

First Year Contract Rent: (including Utilities & Janitorial)	\$336,240.00	\$18.00/sf
Average Annual Contract Rent	340,910.00	18.25/sf
Total Average Annual Effective Cost	\$340,910.00	\$18.25/sf

- **Source of Funding:** FRF Operating Funds

- **FRF Rate:** \$18.00

Comment:

This amendment will provide office space for Department of Human Services and serves south Memphis. The amendment will change the address, parcel information, and estimated commencement date, and includes additional tenant improvements at no cost to the state.

This request for waiver of advertisement and this amendment are in the best interest of the State because the current location is already being utilized by the department and remaining at this location will cause less public disruption and allow the State to save relocation expenses.

Based on review of the financial aspects, occupancy requirements and market indicators, this amendment is deemed to be in the State's best interest at this time.

Previous Action: 10/23/2017 Approved lease

Minutes: 12/17/2018 Approved lease amendment with waiver of advertisement

DEPARTMENT OF FINANCE & ADMINISTRATION

Memphis Tourism Development Zone, Memphis, Shelby County, Tennessee

Requested Action: Approval of a modification to the Memphis Tourism Development Zone

Comment: This action will modify the application of the Memphis Tourism Development Zone (TDZ) approved on December 18, 2000, as modified on April 19, 2010 and again on May 22, 2018, to add a hotel as an additional Qualified Public Use Facility (QPUF) in the TDZ. This modification would allow the City of Memphis (the "City") to spend its portion of the incremental increase in the local sales and use tax revenue to develop a hotel etc. This modification would not increase the size of the TDZ. It is the position of the Department of Revenue and the State Attorney General's Office that the City would not receive any portion of the state sales and use tax revenue generated by the hotel and related retail, parking and commercial uses. However, in accordance with T.C.A. § 7-88-106(a)(2) as amended by Chapter 1058 of the Public Acts of 2018, the City will be allowed to continue to receive the incremental local sales and use tax revenue for a period up to 30 years from the date the hotel opens if placed into service by December 31, 2022. This is in accordance with the Convention Center and Tourist Development Act of 1998. If the modification is approved, the Department of Revenue will make a final determination based on the applicable statute concerning the apportionment and payment of the state sales and use tax revenue generated by the hotel at the time such revenue is to be first paid (approximately 2023). In accordance with T.C.A. § 7-88-106(a)(2)(A), the Comptroller has reviewed this modification and also recommends for approval.

Previous Action:

12/14/2000	SBC	Referred to Executive Subcommittee with authority to act
12/18/2000	ESC	Approved the application for Cook Convention Center as a QPUF and Memphis TDZ
04/19/2010	ESC	Approved the inclusion of the Pinch District and the Pyramid as a QPUF in the Memphis TDZ
04/13/2017	SBC	Referred to Executive Subcommittee with authority to act
04/24/2017	ESC	Approved the final agreement between the City of Memphis and the State of Tennessee per the application approved on April 19, 2010 for the TDZ Revenue Agreement
12/14/2017	SBC	Referred to the January Executive Subcommittee with authority to act
01/22/2018	ESC	Deferred to a future ESC meeting
05/22/2018	ESC	Approved modification to Memphis Tourism Development Zone
10/11/2018	SBC	Referred to ESC with authority to act
10/29/2018	ESC	Deferred to a future meeting

Minutes: 12/17/2018 ESC Deputy Commissioner Neubert presented the request and stated that Mayor Jim Strickland from the City of Memphis and others were here to provide more detail about the request. Commissioner Martin stated that Mayor Strickland will speak, to be followed possibly by Representative White, and a final group. Secretary Hargett asked what would be an appropriate amount of time for each group to speak and it was decided that ten minutes per group would be a reasonable amount of time.

Mayor Strickland stated that Memphis would be splitting its time up among three speakers. He thanked the Subcommittee for the opportunity to bring this item and stated that Memphis has momentum with \$13 billion dollars in recently completed or ongoing development in the City; 16,000 more Memphians working now than just two years ago; and companies are moving their headquarters to Memphis and adding jobs. Mayor Strickland

stated that the hospitality industry is very important to Memphis. The Convention Center renovation contract they just signed will be paid for by hotel/motel tax and the TDZ. However, they have known for a long time that there was a need for a second convention center hotel with approximately 600 rooms. This action will achieve that dream with the Commission's assistance.

Mayor Strickland stated that Memphis has a \$1.1 billion tourism industry, but has fallen behind among the mid-tier cities because its convention center hasn't been updated and it does not have a second convention center hotel. Mayor Strickland stated that 42% of the convention business Memphis loses can be attributed to the lack of a second convention center hotel. Mayor Strickland thanked Representative White and Senator Tate for sponsoring the bill that made this request to the Commission possible. Mayor Strickland also thanked the staff of the Commission members, Finance & Administration, and the Treasurer's and Comptroller's offices for their work and review of this opportunity for Memphis.

Mayor Strickland introduced Doug McGowen, Chief Operating Officer for the City of Memphis. Mr. McGowen stated that about two years ago the City and its partners in the Downtown Memphis Commission and Memphis Tourism started the process of exploring opportunities for another convention center hotel at the same time they were looking at renovating the convention center. A 2010 study showed Memphis was at least 2,000 rooms short in having capacity to serve the existing convention center. To update that 2010 study, Memphis commissioned another economic study that showed that a second convention center hotel was warranted. The consultant, Johnson Consulting, determined that even moderate expansion and renovation of the current convention center would generate between 48,000 and 96,000 additional room nights. Mr. McGowen stated that while the study was underway several other things happened. The first being two unsolicited independent parties, The Hyatt Group and Loews Hotel with Townhouse Management, came to the City with proposals for a second convention center hotel. The second being that the current convention center hotel, the Sheraton, underwent a change in ownership to Schulte Hospitality and Starwood Capital Group and the effects of that change in ownership needed to be evaluated as well. The City engaged with the new Sheraton ownership resulting in a third proposal that expanded the number of room nights available.

In making its decision on whether a second convention center hotel should be pursued and which proposal would be best, Mr. McGowen stated that Memphis utilized Public Financial Management and Hotel AVE as consultants. In addition, Memphis had: studies that showed that additional hotel rooms were economically in the best interest of the City and the State; three very good hotel proposals to consider; plans to renovate the convention center that were moving forward; and evidence of the momentum and increased tourism that the Mayor mentioned through documented increases in the tourism market and airport arrivals. Mr. McGowen stated that after completing a comprehensive process and taking into account all of the above; Memphis agreed to enter into a letter of intent with Loews and Townhouse Management who are in attendance today for

this proposed Loews hotel. Mr. McGowen stated that there is still a lot of work to do, but this approval is an important step forward.

Mr. McGowen then introduced Matt Ricotta with Loews Hotels to provide additional detail on the development proposal. Mr. Ricotta stated that he represents Loews Hotels and, together with Arlene Maidman of Townhouse Management, they represent the development partnership for the proposed convention center hotel and associated commercial, residential and retail developments in Memphis. Mr. Ricotta thanked the Subcommittee for their time; expressed the development team's excitement for this project; and stated that the development team believes it has great potential and will serve as a real cornerstone in the continued growth and revitalization of downtown Memphis. Mr. Ricotta walked the commission through a presentation that had been provided to the Members for a 550 room convention center hotel. The plan showed a newly constructed 24 story guest room tower and 55,000 sq ft of meeting space, including a 17,500 sq ft grand ballroom, one of the largest in the City. Mr. Ricotta stated that the development group feels that a hotel at this size and stature would be critical to supporting the renovation of the convention center by supplying both the rooms and the meeting space, as well as the amenities at 100 and 80 North Main, to support the quality and size of groups that the convention center renovation intends to attract. Mr. Ricotta stated that the hotel would be located along North Main Street across from Memphis City Hall on a city owned plaza and the mixed-used development would be one block south at 80 and 100 North Main Street.

Mr. Ricotta stated that Townhouse Management Co. is a third generation owner and developer of residential, commercial and retail properties based in New York and founded in 1933. Loews Hotel is also based in New York and is a hotel owner and operator with 24 properties in the United States and Canada. Loews is a privately held subsidiary of Loews Corporation, a publicly traded company owned and run by the Tisch family. Loews is an investor and developer of real estate and takes deep pride in partnering strongly with local communities. They choose their partners carefully and like to hold their real estate for long periods of time. Mr. Ricotta gave a brief description of how the development team envisions the capitalization of the entire project. They are estimating \$411 million to construct the hotel, residential, retail, commercial and parking facilities and this includes \$220 million specifically for the hotel.

Commissioner Martin asked Mr. Tom Lee to come forward to speak. Mr. Lee stated that he was speaking on behalf of Schulte Hospitality and Starwood Capital Group, and that they take the TDZ modification and second convention center hotel matter seriously. Mr. Lee stated that he wanted to frame this issue appropriately and recognized that Memphis has taken the admonitions of the General Assembly and the Comptroller and all on the Commission to heart, and realigned the City's finances in the way that the City has been asked to do. So in that spirit, Mr. Lee pointed out a couple of items in the chronology of this project. On May 21, 2018, Governor Haslam signed into law Public Chapter 1058, the enabling statute that allows for a hotel project that is designated as a Qualified Public Use Facility to receive the benefit of the reapportionment of local sales taxes if that project is approved by the Building Commission prior to the end of this year. On

August 28, 2018, the Memphis City Council passed a resolution requesting that this Building Commission take this action. Mr. Lee read a paragraph from that resolution, from page 2, "Whereas it is proposed that the City allocate the TDZ revenues from the hotel to the tourist development zone to pay debt service on indebtedness incurred pursuant to the TDZ Act to finance or refinance the hotel, including, without limitation, the State and local option portions of such revenues through June 30, 2030."

Mr. Lee stated that, as the agenda rightly points out, both the Attorney General and the Department of Revenue have opined that the State cannot, pursuant to Public Chapter 1058, reallocate the State dollars. There is litigation in Shelby County on the question of whether the Memphis City Council acted pursuant to the authority that it had to request the reapportionment of those State dollars. Mr. Lee stated that he knew that the Department of Finance & Administration had communicated to the City that the statute does not permit the reapportionment of the State dollars. He added that, as a result of the actions of the City, the Building Commission has been placed in the untenable position of approving a request without an economic feasibility plan that addresses the difference between what is authorized by statute and what has been requested by the Council. The recommended action invites Legislative action, and, in fact, the recommended action outlined in the agenda invites the Department of Revenue to make a ruling, if at some point the statute is amended, to allow the reallocation of State dollars. Mr. Lee stated that the General Assembly is a tough place to debate the feasibility of the hotel project, however, the recommended action does just that because there has been no finding or evidence to suggest the project could go forward with local financing only. Finally, approval of the request without resolution of this financing issue places the future of the hotel in doubt because the General Assembly could decide not to amend the statute to add the State portion of the revenues to the funding stream. Mr. Lee introduced Mr. Ash Kapur, Senior Vice President and Chief Revenue Officer; James Raved, Counsel for Starwood Capital; Kevin Gallagher, President, Schulte Hospitality Management; Eric Schwartz, Chief Investment Officer, Schulte Hospitality Group; and Jay Baribeau, General Counsel, Schulte Hospitality Group.

Mr. Lee acknowledged that the renovation to the Convention Center is welcome and overdue. He added that the renovation, however, will actually shrink the size of the exhibit space from 230,000 sq ft to almost 205,000 sq ft.

Mr. Lee stated that the question of whether this project goes forward is one that requires an economic analysis by the Council and then further review of the analysis by the Department of Finance & Administration. Mr. Lee stated that this matter is not yet ripe before the Commission for approval unless an economic analysis would show that this project is feasible with just the local dollars. However, that is not what the Council has asked the Subcommittee to approve and that makes this matter not ripe for review by the Commission. Mr. Lee asked that the Commission not approve the request.

Mr. Lee added that the Members have been given a copy of the economic analysis that Schulte commissioned by the independent consultant Horwath

HTL. Mr. Lee acknowledged that, as the Mayor pointed out, Memphis does have momentum. There are 1,300 Class A luxury hotel rooms coming online because of the momentum the Mayor described and without the tax subsidies that are requested here.

The members of the Subcommittee invited Memphis to respond to the issues Mr. Lee raised and expressed a desire to keep the proceedings as fair as possible without turning this into a point, counterpoint event.

Commissioner Martin asked Deputy Commissioner Neubert to clarify the request in front of the Subcommittee and what might be the next step. Deputy Commissioner Neubert stated the request is for approval of a modification to the Tourist Development Zone to allow a new hotel to be constructed and be considered a qualified public use facility in accordance with the new subsection of the law.

Mayor Strickland was recognized and deferred to Mr. McLaren on any legal questions. Jennifer Oswald, President of the Downtown Memphis Commission, stated that the development team has agreed to move forward with some work, like utility relocation and the like, while the statutory issue on funding is addressed with the Legislature. Ms. Oswald stated that Memphis is adding meeting space square footage for its convention center business through the meeting space within the Loews Hotel and is contemplating additional space in 100 North Main which is right next door. Ms. Oswald stated that the hotel rooms that were mentioned as being in progress are limited service, smaller hotels which don't attract the convention center business because of the inability to place large groups in those hotels.

Mr. James McLaren with Adams and Reese representing the Downtown Memphis Commission said he would address a couple of points that were made. First, Mr. McLaren stated that the City did address the feasibility. It was not dealt with directly in the resolution, but it is not required that the City Council address the feasibility itself. The City did do investigations of the feasibility of the addition of a hotel and the need for additional meeting space and hotel rooms in downtown Memphis adjacent to the convention center. Second, Mr. McLaren stated he understood the position that the Attorney General's Office has taken regarding the statute, but that it does not reflect the legislative intent and Memphis will proceed to get the statute amended. However, Mr. McLaren stated that the flow of the State portion of the revenues is an issue to be addressed when the time comes for the money to be allocated and not today. Mr. McLaren stated that the issue before the Subcommittee today is not what dollars will be received from the Tourism Development Zone for the project, but whether the hotel is a qualified public use facility.

Mr. Lee stated that Deputy Commissioner Neubert correctly stated the question before the Commission. T.C.A. § 7-88-114(e)(1) says "The state building commission has the authority to approve or disapprove any modification to a tourism development zone in whole or in part. The state building commission has the authority to deny a modification relative to the use of the tourism development zone funds if it determines that any proposed use is not economically feasible or not in the best interest of the

state." Mr. Lee stated that the statute places the feasibility question before the Building Commission. It does not compel a finding but it does place the question before the Commission as to whether the Members find a purposed use of these funds is economically feasible. He added that given the difference between the language in the statute and the language of the resolution, and further given the difference between the way the City of Memphis reads the statute and the way the Attorney General reads the statute, there will be a long and bruising court fight if the Loews project goes forward.

Secretary Hargett stated that he had prepared some remarks on this item and would then have a motion.

Secretary Hargett stated the issue before us today is whether the addition of a new 500+ room hotel to the Memphis TDZ and a modification in the distribution of sales and use taxes generated from the proposed hotel is economically feasible or in the best interest of the State.

If the Subcommittee approves the application for a new hotel to be added as a qualified public use facility, Memphis will receive the local portion of the sales and use taxes (including the Shelby County portion of such taxes) ("Local Sales Taxes") generated by the proposed hotel until, at the latest, 2052. This change applies solely to the Local Sales Taxes generated by the proposed hotel and its related retail, parking and commercial uses and extends the payment of such Local Sales Taxes past the term of the existing TDZ. The change in the payment of local sales and use taxes was established by an amendment to the statute adding Tenn. Code Ann. § 7-88-106(a)(2)(A) (the "Amendment"). Although this Subcommittee is not taking a position on the matter, Secretary Hargett noted that it is the view of both the Department of Revenue and the State Attorney General's Office that if the application for a proposed hotel is approved under the Amendment, Memphis will not receive any State sales and use taxes generated by the hotel.

If the proposed hotel is not approved under the Amendment, Tenn. Code Ann. § 7-88-106(a)(l), a different section, will control and the use of the TDZ funds will not change, whether a new hotel is built or not. Both State and Local Sales Taxes will continue to go to Memphis until, at the latest, 2031, which is the longest possible remaining term of the existing TDZ.

Of course, the flow of funds will not be an issue unless and until the hotel is completed and open for business. The terms of the statute then in effect will determine the apportionment and distribution of any revenues generated by the hotel.

Based on the recommendation of the Comptroller, past conversations had at Subcommittee meetings, consultations with the State's attorneys, review of the applicable statutes, and review of the request by Memphis to modify the TDZ to add a 500+ room hotel, Secretary Hargett moved that the Subcommittee approve the modification relative to the use of the TDZ funds

in accordance with the Amendment and based on the following factors that support a new 500+ room hotel in the TDZ:

1. the need for a new downtown hotel of this size, type, and quality with the ability to attract large business groups that cannot be accommodated at this time;
2. the potential for additional job creation, tourism, and business in the TDZ if a new hotel is added; and
3. the increase in sales and use taxes in the TDZ if a new hotel is added.

These factors support the modification to the use of the TDZ funds because it is economically feasible and in the best interest of both the State and Memphis.

Further, under the Amendment, the State will not be giving up any revenues since the State would not receive any of the Local Sales Taxes generated by the proposed hotel. In addition, if the Department of Revenue and the State Attorney General's Office are correct, and the controlling statute remains unchanged, then all of the State portion of sales and use taxes generated by the hotel will flow to the State immediately after the hotel opens. Treasurer Lillard seconded the motion.

Commissioner Martin asked Secretary Hargett to share the thought process behind his motion. Secretary Hargett stated that his thought process is that at the end of the day the money is still flowing regardless if the hotel is built or not and there are no State dollars being committed to the project. Secretary Hargett stated that he believes, for the reasons given earlier, that the City has outlined a great case for how the State and the City will both benefit from the hotel being built and has laid out a case of why it is economically feasible. Commissioner Martin asked whether the question of State dollars and intent to pursue legislative action on this statute affected the Secretary's' motion. Secretary Hargett stated that did not play a role in his decision today.

The Subcommittee approved a modification to the Memphis Tourism Development Zone

STATE BUILDING COMMISSION

Minutes of Executive Subcommittee Meeting

- 1) Approved the Minutes of the Executive Subcommittee meeting held on November 19, 2018.

Report of Items Submitted to the ESC

- 1) Status Update Reports from the State Procurement Agencies in accordance with SBC Policy & Procedures Item 2.03.

Report of Items Approved by Office of the State Architect

Initial Approvals of Capital Projects

- Reported the following two capital projects with total project cost of \$100,000 - \$500,000 in accordance with Item 2.04(A)(2) of the *SBC By-Laws, Policy & Procedures*:
 - 1) **State Procurement Agency:** STREAM / Department of Environment & Conservation
Location: Lebanon, Tennessee
Project Title: Cedars of Lebanon S.P. Trail System Renovation
Project Description: Construct trail improvements, new modular bridge and all required related work.
SBC Project No. 126/015-02-2018
Total Project Budget: \$218,750
Source of Funding: \$ 43,750 18/19 TDEC Op-Funds (A)
\$175,000 Federal Funds (F)
Approval: Approved project utilizing an Agency Consultant for design and Agency Resources for construction
Approval Date: 12/13/2018
 - 2) **State Procurement Agency:** STREAM / Department of General Services
Location: Nashville, Tennessee
Project Title: TN Residence – Carriage House Paver Installation
Project Description: Concrete work for installation of owner provided pavers at the Carriage House drive, and all required related work.
SBC Project No. 529/028-01-2018
Total Project Budget: \$134,258
Source of Funding: Gift-in-Place (O)
Approval: Approved accepting gift-in-place construction, with plans and specifications to be approved by the State Architect.
Approval Date: 11/30/2018

Designer Selections

1) Reported the following four designer selections for capital projects as delegated to the State Architect in accordance with Items 2.04(A)(1) and 2.04(A)(2) of the *SBC By-Laws, Policy & Procedures*:

- 1) **State Procurement Agency:** Tennessee State University
Location: Nashville, Tennessee
Project Title: Residence Centers System Upgrades
SBC Project No. 166/001-02-2018
Total Project Budget: \$480,000
Designer: Edmonds Engineering, Inc.
Approval Date: 11/28/2018
- 2) **State Procurement Agency:** East Tennessee State University
Location: Johnson City, Tennessee
Project Title: Buc Ridge Buildings P & Q HVAC Upgrades Phase I
SBC Project No. 369/005-13-2018
Total Project Budget: \$480,000
Designer: Michael Brady, Inc.
Approval Date: 11/19/2018
- 3) **State Procurement Agency:** East Tennessee State University
Location: Johnson City, Tennessee
Project Title: Nave Center Renovation
SBC Project No. 369/005-14-2018
Total Project Budget: \$492,750
Designer: Reedy & Sykes Architecture and Design
Approval Date: 11/15/2018
- 4) **State Procurement Agency:** East Tennessee State University
Location: Johnson City, Tennessee
Project Title: Millennium Centre Computer Science Renovation
SBC Project No. 369/005-15-2018
Total Project Budget: \$450,000
Designer: Community Tectonics Architects, Inc.
Approval Date: 11/15/2018

2) Reported a designer name change from “Hart Freeland Roberts, Inc.” and “HFR Design, Inc.” to “HFR, Inc.” on all State projects.

3) The following designer selections represent projects approved by the State Building Commission and recommended by the State Procurement Agencies. Secretary Hargett stated that, while they used the normal criteria in determining final selections including maintaining the geographical balance, current work capacity, and quality and quantity of workload over past several years, it was still primarily a process driven by the individual agencies.

1) **University of Tennessee – Martin**
(ADA Compliance – UTM & UTHSC)
Total Project Budget: \$2,219,879.20
SBC Project No. 540/000-02-2017
Designer: **LYLE COOK MARTIN ARCHITECTS INC**

2) **University of Tennessee – Chattanooga**
(Boling Roof Replacement)
Total Project Budget: \$470,000
SBC Project No. 540/005-07-2018
Designer: **WORKSHOP ARCHITECTURE LLC**

3) **Statewide**
(TCAT Improvements - Morristown)
Total Project Budget: \$15,270,000
SBC Project No. 166/000-04-2013
Designer: TUCK HINTON ARCHITECTS PLC

5) **TCAT Knoxville**
(Blount County Campus Training Facility)
Total Project Budget: \$14,850,000
SBC Project No. 166/060-01-2017
Designer: BARBER MCMURRY ARCHITECTS

4) **TCAT Athens**
(McMinn County Higher Education Training Facility)
Total Project Budget: \$17,750,000
SBC Project No. 166/040-01-2018
Designer: GOODWYN MILLS & CAWOOD

6) **Department of Correction**
(Various Facilities – Statewide Arc Flash Repairs)
Total Project Budget: \$950,000
SBC Project No. 140/001-02-2018
Designer: WIN ENGINEERING LLC

Other Business

Treasurer Lillard recognized Commissioner Martin for his fine work as Chairman of the Executive Subcommittee of the State Building Commission and the many contributions made during his term as Commissioner of Finance & Administration. Commissioner Martin thanked Treasurer Lillard and Secretary Hargett and stated that it has been an honor and pleasure to work with them both and thanked them for the work they do on behalf of the State of Tennessee. Commissioner Martin stated that he has enjoyed working with everyone and it's been a great pleasure.

There being no further business, the meeting adjourned at 11:44 a.m.

* * * * *

UNIVERSITY OF TENNESSEEAcquisition - Lease Amendment

Requested Action:	Approval of a lease amendment with waiver of advertisement		
Transaction Description:	Transaction No. 11-02-912		
• Proposed Amendment			
○ Area / Costs:	<u>3,999 Square Feet</u>		
	Annual Contract Rent (inc. util. & jan.)	\$79,980.00	\$20.00/sf
• Current Lease			
○ Location:	University of Tennessee Health Science Center Shelby County - 756 Ridge Lake Boulevard, Memphis, TN		
○ Landlord:	Couch Realty, LLC		
○ Term:	March 20, 2011- March 19, 2021		
○ Area / Costs:	<u>2,931 Square Feet</u>		
	Annual Contract Rent (inc. util. & jan.)	\$58,620.00	\$20.00/sf
• Source of Funding:	Existing Appropriations and Grants		
• FRF Rate:	\$18.00 (for reference only)		
Comment:	This space has been used for diabetes research, serving participants in the east Memphis area. The original lease was for 4,931 square feet but was previously reduced because of changes in grant funding. Additional space is needed to support ancillary funded studies in areas such as smoking cessation and the impact of environmental influences on child health outcomes. As a result, waiver of advertisement is requested.		
Previous Action:	03/21/2011	Approved lease agreement and waiver of advertisement	
Minutes:	12/17/2018	Approved a lease amendment with waiver of advertisement	

UNIVERSITY OF TENNESSEEDisposal - Lease Amendment

Requested Action: Approval of a lease amendment with waiver of advertisement

Transaction Description: Transaction No. 10-10-022

- **Proposed Amendment**

- **Term:** Exercises renewal option for 50 years through 2099
- **Area / Costs:** See comment below.

- **Current Lease**

- **Location:** Formerly UT Medical Center, 1520 Cherokee Trail, Knoxville, TN
- **Tenant:** University Health System, Inc. (UHS)
- **Term:** 50 years (July 30,1999 thru July 29, 2049) with one 50 year option
- **Area / Costs:** Approximately 90 +/- acres and 2.5M sf / \$25M cash, \$149M debt defeasance, and \$50M annual lease payments

- **FRF Rate:** \$18.00 (for reference only)

Comment:

Under the Lease and Transfer Agreement (LTA), UHS made annual lease payments based on the lesser of 1) a percentage of net operating profit or 2) an annual cap of \$3M or the greater amount resulting from the application of an index. \$50M in lease payments were to be made by March 15, 2021 and the current balance is \$14.1M. Under the proposed amendment, UHS would be given the option to pay in full on or before March 15, 2021 or amortize the balance over no more than five years at an interest rate equivalent to the University's interest rate on operating cash in the University's Consolidated Investment Pool for the preceding twelve months. Under the amortization option, UHS may at any time prepay the remaining balance plus accrued but unpaid interest without penalty.

The amendment also requires UHS to make future lease payments for years 2021-2049 when it achieves a bond rating from Standard and Poors or equivalent rating by Moody's Corporation or Fitch Ratings of no less than A- or the then equivalent credit rating grade. If a bond rating of A- is not reached, a lease payment will not be due for that year. For years that a payment is due, it will be 20% of UHS operating margin for a calendar year in excess of the financial metric required by the rating agency to maintain the bond rating. Consistent with the LTA, the University and UHS shall maintain an Affiliation Agreement and Employee Services Agreement for the term of the lease.

The amendment also exercises the renewal option in the Original LTA for 50 years from 2049-2099. The parties agree to meet in July 2044 to review the consideration due beginning in calendar year 2050 in light of the financial conditions then applicable to UHS.

Previous Action: 07/08/1999 ESC Approved a Lease and Transfer Agreement
11/20/2010 ESC Approved lease amendment with waiver of advertisement and appraisals

Minutes: 12/17/2018 ESC Approved a lease amendment with waiver of advertisement

TENNESSEE BOARD OF REGENTS

Dyersburg State Community College, Dyersburg, Dyer County, Tennessee

Requested Action: Approval of a revision in project budget in order to award a contract

Project Title: Doors and Hardware Updates

Project Description: Replace metal doors and hardware throughout the campus.

SBC Number: 166/017-02-2017

Total Project Budget: \$386,000.00

Source of Funding:	<u>Original</u>	<u>Change</u>	<u>Revised</u>			
	\$320,000.00	\$ 0.00	\$320,000.00	17/18	CurrFunds-CapMaint (MP)	(A)
	0.00	10,000.00	10,000.00		Plant Funds (Non-Aux)	(A)
	0.00	56,000.00	56,000.00	2006	GO Bond-CapMaint	(R)
Original Project Budget:	\$320,000.00					
Change in Funding:		\$66,000.00				
Revised Project Budget:			\$386,000.00			

Comment: Two bids were received on November 28th. An increase in funding is needed to award a contract to Morris General Construction for base bid only. Additional funds are from reserves and the campus. The project ended up being more involved than was originally anticipated and estimated. There will be no additional designer fees.

Previous Action:

07/13/2017	SBC	Approved project
09/28/2017	ESC	Selected designer (McGehee Nicholson Burke Architects)
12/13/2018	SBC	Referred to ESC with authority to act

Minutes: 12/17/2018 ESC Approved a revision in project budget in order to award a contract

UNIVERSITY OF MEMPHIS

Acquisition – Fee (Purchase)

Requested Action: Approval of acquisition in fee with waiver of advertisement and one appraisal

Transaction Description: Transaction No. 18-06-005

- **Location:** University of Memphis
Shelby County – 0.32 acres +/- 3605 Norriswood, Memphis, TN
- **Owner(s):** James and Laura Crone
- **Estimated Purchase Price:** Fair Market Value
- **Source of Funding:** 2007 G. O. Bonds

Comment: The University of Memphis would like to acquire the property located at 3605 Norriswood, Memphis, TN, demolish the structure and use the land for parking. This property is one of the "101" University of Memphis properties that were approved in the July 2007 SBC Executive Subcommittee Master Plan. This property is in the University of Memphis' 2015 Master Plan and is adjacent to other University property.

Date of Last Transfer: April 20, 2007
 Purchase Price: \$34,500.00
 Property Assessor's Value: \$155,200.00
 Square Footage Improvements: 1,288

Minutes: 12/17/2018 ESC Approved acquisition in fee with waiver of advertisement and one appraisal

UNIVERSITY OF MEMPHISDisposal - Lease Amendment (Space)

Requested Action:	Approval of a lease amendment with waiver of advertisement		
Transaction Description:	Transaction No. 18-01-905		
• Proposed Amendment			
○ Term:	Three years		
○ Area / Costs:	7,130 Square Feet/\$195,504 per year (\$27.42/sf), plus 3% annual increases		
• Current Lease	University of Memphis – Defense Audit Building		
○ Location:	4075 Park Avenue, 1 st Floor, Memphis, TN		
○ Landlord:	UMRF Ventures, Inc.		
○ Term:	June 1, 2018 thru March 31, 2021		
○ Area / Costs:	14,130.29 Square Feet/\$282,606 per year (\$20.00/sf), plus 3% annual increases		
• FRF Rate:	\$18.00 (for reference only)		
Comment:	This Amendment reduces space to the Customer Service Center and changes the term of the lease as a result of other University initiatives in the Defense Audit Building. It is anticipated that the lease will commence in the spring.		
Previous Action:	02/26/2018	Approved disposal by lease with waiver of advertisement and appraisal	
Minutes:	12/17/2018	ESC	Approved a lease amendment with waiver of advertisement

DEPARTMENT OF AGRICULTURE

Disposal – Easement (Access)

Requested Action: Approval of disposal by easement with waiver of advertisement and one appraisal

Transaction Description: Transaction No. 18-11-001
 • **Location:** Standing Stone State Forest
 Clay County – 0.04 +/- acres – 178 Billie Hill Road Hilham, TN
 • **Grantee:** Edward and Martha Dickson
 • **Estimated Sale Price:** Fair Market Value

Comment: This request is to resolve encroachment onto state property by the adjoining land owners. The easement to the new owners will not negatively impact Standing Stone State Forest.

Date of Last Transfer: 08/12/1955
 Original Cost to State \$0.00

Minutes: 12/17/2018 ESC Approved disposal by easement with waiver of advertisement and one appraisal

TENNESSEE WILDLIFE RESOURCES AGENCYAcquisition – Fee (Purchase)

Requested Action: Approval of acquisition in fee with waiver of advertisement and one appraisal

Transaction Description: Transaction No. 17-08-001

- **Location:** Buffalo Ridge Refuge
Humphreys County – 3.42 +/- acres – 650 Cuba Landing Road, Hurricane Mills, TN
- **Owner(s):** E. Scott Hatcher
J. Keith Hatcher
Mark W. Hatcher
Margaret Hatcher
- **Estimated Purchase Price:** Fair Market Value
- **Source of Funding:** 18/19 Wetlands Acquisition Fund (A)

Comment: This property is on the wetlands priority list and has been approved for purchase by the Commissioner of Agriculture and the Executive Director of Tennessee Wildlife Resources per TCA §11-14-402. Due to the time-sensitive nature of this acquisition, STREAM authorized using an option for the property prior to ESC approval of this acquisition pursuant to policy 8.01.A.3.

This property is an in-holding at Buffalo Ridge Refuge along the Buffalo River. This acquisition will protect and preserve wetlands while allowing better river access for boaters and canoers from the Buffalo Ridge Refuge.

TWRA has determined the cabin is in usable condition and plans to use it for canoe storage and to host educational events; TWRA will address any future management expenses for their property from within existing resources.

Date of Last Transfer:	12/11/2014
Purchase Price:	\$9,870.00
Property Assessor's Value:	\$55,200.00
Square Footage Improvements:	832 sf (cabin, 1997)

Minutes: 12/17/2018 ESC Approved acquisition in fee with waiver of advertisement and one appraisal

DEPARTMENT OF TRANSPORTATION

Disposal – Controlled Access

Requested Action: Approval of disposal of controlled access rights with waiver of advertisement and one appraisal

Transaction Description 1: Transaction No. 18-05-009

- **Location:** Knox County – 75’ opening – 7621 Kingston Pike, Knoxville, TN
- **Grantee:** NLA Kingston LLC
- **Estimated Sale Price:** Fair Market Value

Transaction Description 2: Transaction No. 18-11-010

- **Location:** Knox County – 75’ opening – 7727 Kingston Pike, Knoxville, TN
- **Grantee:** Lillie Mae Cain Testamentary Trust
- **Estimated Sale Price:** Fair Market Value

Comment: TDOT has determined that permitting access from the property to Leonard Rogers Street will not hamper future State operation or the safety of the Interstate that the property abuts. The Grantees are the property owners who intend to develop the properties.

Date of Last Transfer: July 20, 1966
 Original Cost to State \$81,855.00

Minutes: 12/17/2018 ESC Approved disposal of controlled access rights with waiver of advertisement and one appraisal

DEPARTMENT OF ENVIRONMENT AND CONSERVATION

Acquisition – Easement (Conservation)

Requested Action: Approval of acquisition by easement with waiver of advertisement and one appraisal

Transaction Description: Transaction No. 18-10-008

- **Location:** Taylor Hollow State Natural Area
Sumner County – 5 +/- acres – 0 Bear Carr Road, Taylor Hollow, TN
- **Owner(s):** Russell Ward, Jr.
- **Estimated Purchase Price:** Gift
- **Source of Funding:** 18/19 State Lands Acquisition Fund (REM Fees) (A)

Comment: This property is on the state lands acquisition priority list and has been approved for acquisition by the Commissioner of Environment and Conservation, the Commissioner of Agriculture and the Executive Director of Tennessee Wildlife Resources Agency per T.C.A. §67-4-409.

This donation will secure a boundary adjacent to Taylor Hollow State Natural Area.

No additional management costs are anticipated with this acquisition.

Minutes: 12/17/2018 ESC Approved acquisition by easement with waiver of advertisement and one appraisal

DEPARTMENT OF GENERAL SERVICESAcquisition – Lease (Space)

Requested Action: Approval of a lease

Transaction Description: Transaction No. 17-06-932

- Proposed Lease

- Location: Sevier County – 815 Dolly Parton Parkway, Sevierville, TN
- Landlord: Eastgate Properties Partnership
- Term: 6 years with one 1-year renewal option
- Area / Costs: 6,753 Square Feet

Annual Contract Rent	\$94,542.00	\$14.00/sf
Estimated Annual Utility Cost	11,817.75	1.75/sf
Estimated Annual Janitorial Cost	7,428.30	1.10/sf
Total Annual Effective Cost	\$113,788.05	\$16.85/sf

- Current Lease

- Location: Sevier County – 815 Dolly Parton Parkway, Sevierville, TN
- Landlord: Eastgate Properties Partnership
- Term: 10 years (November 1, 2002 to October 31, 2012) - Holdover
- Area / Costs: 8,500 Square Feet

Annual Contract Rent	\$80,000.04	\$9.41/sf
Estimated Annual Utility Cost	11,900.00	1.40/sf
Estimated Annual Janitorial Cost	9,350.00	1.10/sf
Total Annual Effective Cost	\$101,250.04	\$11.91/sf

- Source of Funding: FRF Operating Funds
- Procurement Method: LPR on template
- FRF Rate: \$18.00

Comment: This lease will provide office space for the Department of Human Services. The reduction in space needs is a result of implementation of Alternative Work Solutions at this location. The proposed location will be renovated to meet the State's needs. Three proposals were received by three proposers, and the proposed lease is the lowest cost proposer.

Rent will remain the same if the renewal option is exercised.

Based on a review of the financial aspects, occupancy requirements, and market indicators, this lease is deemed to be in the state's best interest at this time.

Minutes: 12/17/2018 ESC Approved a lease

DEPARTMENT OF GENERAL SERVICESAcquisition - Lease Amendment

Requested Action: Approval of a lease amendment with waiver of advertisement

Transaction Description: Transaction No. 05-08-907

- **Proposed Amendment**

- **Term:** 12 years (February 1, 2009 to January 31, 2021)

- **Area / Costs:** 9,941 Square Feet

Average Annual Contract Rent (Years 11-12)	\$144,144.50	\$14.50/sf
Estimated Annual Utility Cost	17,396.75	1.75/sf
Estimated Annual Janitorial Cost	10,935.10	1.10/sf
Total Average Annual Effective Cost	\$172,476.35	\$17.35/sf

- **Current Lease**

- **Location:** Montgomery County – 100 Providence Blvd., Suite A, Clarksville, TN

- **Landlord:** Boot Hill Holding, LLC

- **Term:** 10 years (February 1, 2009 to January 31, 2019)

- **Area / Costs:** 9,941 Square Feet

Average Annual Contract Rent (Years 1-10)	\$118,217.00	\$11.89/sf
Estimated Annual Utility Cost	13,917.40	1.40/sf
Estimated Annual Janitorial Cost	10,935.10	1.10/sf
Total Average Annual Effective Cost	\$143,069.50	\$14.39/sf

- **Source of Funding:** FRF Operating Funds

- **FRF Rate:** \$18.00

Comment: This lease will provide office space for Department of Correction.

This request for waiver of advertisement and to amend the lease to add two additional years is in the best interest of the State to prevent a lease holdover while allowing additional time to evaluate how to best meet programmatic needs in support of the Agency's real estate strategy.

Based on a review of the financial aspects, occupancy requirements and market indicators, this lease is deemed to be in the State's best interest at this time.

Previous Action: 10/23/2006 ESC Approved lease
03/24/2008 ESC Approved lease amendment

Minutes: 12/17/2018 ESC Approved a lease amendment with waiver of advertisement

Approved:



Tre Hargett
Secretary, State Building Commission Executive Subcommittee
Secretary of State