HAMILTON COUNTY, TENNESSEE

INTERNAL AUDIT OFFICE

To: Weston Wamp, County Mayor
Tim Kelly, Chattanooga Mayor
Hamilton County Commissioners
Chattanooga City Council
Hamilton County Audit Committee
Chattanooga Industrial Development Board
Hamilton County Industrial Development Board

From: Chris McCollough, County Auditor

Date: October 9, 2025

Subject: Audit of the Tax Increment Financing (TIF) program

We audited the Tax Increment Financing (TIF) agreements initiated by the City of Chattanooga and Hamilton County since 2013. The audit was initiated to ensure that the interests of public and private stakeholders are protected and that controls are in place to confirm that agreements are used to fund community improvements by leveraging future tax revenues. While tax increment financing is a broad category, the term generally describes, in the context of Tennessee, the mechanism by which certain incremental local property tax revenues generated within a designated area are allocated to a tax increment agency for the payment of costs related to a specified project.

BACKGROUND

The Tennessee Industrial Development Corporation Act, found in Title 7, Chapter 53 of the Tennessee Code Annotated (T.C.A.), allows the creation of non-profit corporations with broad powers to acquire and develop buildings and sites for economic development, including funding projects through industrial revenue bonds.

Originally approved by the Tennessee General Assembly in 2004, the Tennessee Industrial Development Act allows industrial development corporations to initiate and administer tax abatement programs. The Tax Increment Financing (TIF) Program encourages economic development by providing the owner/developer with a tax benefit. This benefit allows certain incremental local property tax revenues generated within a designated area to be allocated to a tax increment agency for the payment of costs related to a specified project.

The Industrial Development Board (IDB) is a nonprofit public corporation that was created pursuant to the Tennessee Industrial Development Corporation Act, Tenn. Code Ann 7-53-101 et seq. The City of Chattanooga, Tennessee, created the Industrial Development Board of Chattanooga in 1967. Hamilton County, Tennessee, created its Industrial Development Board in 1981.

As of Fiscal Year 2025, the following projects have a Tax Increment Financing (TIF) Agreement with the City of Chattanooga and Hamilton County, Tennessee.

Company/Project Name	Beginning Year	Ending Year	TIF Amount	Company's Investment Commitment
Black Creek Mountain	2013	2032	$9 million	$500 million
Martin Luther King Extension	2018	2032	$3.5M plus $1.7M for interest, fees, etc.	$45 million
East Chattanooga Rising (Tubman)	2020	2040	$4 million	Projected $59 million
North River Commerce Center	2025	Pending Amendment	Up to $23.5 million	Projected $106 million
South Broad District	2025	2055	Primarily to pay debt service associated with the Sports Authority debt to be incurred for the construction of the Lookouts baseball stadium.	Projected investment of at least $350 million.
Bend Development Project	TBD	TBD	TIF proceeds used for Infrastructure improvements up to $100 million for the development of approximately 90 acres for mixed-use development, plus certain public projects in downtown Chattanooga	Projected Investment of at least $4 billion.

Tennessee Code Annotated, Section 9-23-101 et seq., the Uniformity in Tax Increment Financing Act of 2012, provides guidance to the taxing agency (county, city, town, metropolitan government, or other public entity that levies property taxes on property within a plan area and has approved the plan).

The following flowchart on page three (3) outlines the process for establishing a TIF agreement.

Applicant submits TIF application to the City's IDB.

The City's IDB reviews the application for completeness and then submits its acceptance of the Application and proposed Resolution of Intent to the City Council.

If the Resolution of Intent is approved and adopted, then it will instruct the IDB to prepare and submit to City Council an Economic Impact Plan.

If the TIF request will affect County property taxes, the Board will also submit the Application and a proposed Resolution of Intent to the County Mayor and County Commission.

The Applicant shall submit the proposed Economic Impact Plan to the IDB no later than ninety (90) days after the Plan is requested.

The Application Review Committee and IDB determine if the Application and Economic Impact Plan are qualified to be considered for submission to City Council and/or County Commission for approval.

The IDB will hold a public hearing.

(Notice must be circulated in Hamilton County newspaper 2 weeks prior to the public hearing date.)

After approval, City Council and, if applicable, County Commission shall provide a certified copy of the resolution providing such approval to the IDB.

If an Economic Impact Plan is approved by City Council and, if applicable, County Commission, the Applicant and the IDB will commence negotiation of the appropriate documents implementing the TIF authorized by the Economic Impact Plan.

These documents, once negotiated, will be presented to the IDB in final form for approval.

The Applicant will close the TIF transaction within a reasonable period of time after the City Council and, if applicable, County Commission, approve the Economic Impact Plan. (within 120 days after approval)

After receiving local approvals from City and County, the Economic Impact Plan and supporting resolutions should be submitted to the TN Dept of Economic & Comm Development , TN Comptroller of Treasury, and the TN Building Commission.

OBJECTIVES

Hamilton County and the City of Chattanooga currently have six (6) TIF Agreements, in which five (5) projects are receiving TIF tax dollars. The objectives of this audit were to:

- determine whether the TIF agreements have been fulfilled;
- evaluate the existence and effectiveness of internal controls, policies, and procedures;
- assess compliance with Tennessee Code Annotated (T.C.A.) guidelines and;
- review loan/financing documents for alignment with agreements.

AUDITORS' OPINION & FINDINGS

The TIF program appears to be accomplishing its primary goals:

(1) encouraging economic development and community improvements by utilizing future tax revenues generated by new development projects, and
(2) maintaining adequate internal controls over the TIF process.

However, our examination identified certain violations and areas for improvement in the TIF program.

These exceptions and our recommendations are as follows:

DEVELOPMENT AGREEMENTS

Black Creek TIF Observation – According to the City of Chattanooga Department of Public Works and Hamilton County's Wastewater Treatment Authority (WWTA), the road and sewer infrastructure is complete. The City of Chattanooga and the developers are working together to maintain the road infrastructure. The commercial development has not yet begun, although the developers have stated that it is planned. It appears the infrastructure portion of this agreement is being fulfilled.

MLK Blvd. Development Area TIF Observation – The developer was required to build a new section of West MLK Blvd. that would provide connectivity from Riverfront Parkway, continuing west to the Blue Goose Hollow trailhead of the Tennessee Riverwalk. The public infrastructure was completed in 2020. The development agreement for this project was fulfilled.

East Chattanooga Rising TIF Observation – This TIF agreement is designed for economic development projects that provide improvements to public infrastructure in blighted and underutilized areas of the City of Chattanooga, as well as in other properties designated by the Hamilton County Commission and the City Council. This project was initiated by the City of Chattanooga, which served as the applicant to the TIF. The project provides public infrastructure to resurface Southern Street, build a new section of Hardy Street, which extends northwest from Roanoke Avenue, and further infrastructure development to allow an issuance of "Request-for-Proposals (RFP)" for an entity to redevelop the site. The resurfacing of Southern Street and the construction of the new section of Hardy Street are complete. Generally, the development agreement for this project has been satisfied.

North River Commerce Center – The TIF agreement involves constructing public infrastructure, which will realign the access road serving the development to connect with the traffic signal to be located on North Access Road. The proposed development of the Industrial Park Parcels by constructing a new industrial park with over 800,000 square feet of industrial space at a cost exceeding $100 million. It appears the infrastructure portion of the agreement has been fulfilled.

INTERNAL CONTROLS, POLICIES, AND PROCEDURES

Observation – The first TIF was established in 2013; five (5) other TIFs were created since then. On November 29, 2022, the Chattanooga City Council adopted a resolution establishing tax increment financing policies and procedures for the City of Chattanooga and the Industrial Development Board (IDB) of the City of Chattanooga. The Hamilton County Trustee's office created policies and procedures for handling TIF agreements once they are approved. However, Hamilton County and the IDB of Hamilton County lack formal written policies.

Recommendation: Hamilton County (Economic and Community Development) and the IDB of Hamilton County should implement formal policies and procedures for establishing and monitoring TIF agreements, particularly for projects located outside Chattanooga city limits.

TCA CODE GUIDELINE ADHERENCE

Observation – In general, each organization follows the Tennessee Annotated Codes. However, as discussed above, Hamilton County and the Industrial Development Board of Hamilton County do not have any policies and procedures required by Tenn. Code Ann. 9-23-107.

T.C.A. 9-23-107 states that policies and procedures shall not conflict with this chapter or any tax increment statute. In section 4.12. "Tax Increment Payment Dates" in the policies and procedures of the Industrial Development Board of the City of Chattanooga and the City of Chattanooga, it states that Tax Increment Revenues to be allocated to the Board for any Tax Increment Incentive shall be paid by the City and, if applicable, the County no later than sixty (60) days from the last day of each February.

Section 4.12 is in conflict with T.C.A. 9-23-103(e), which states: "*A plan may provide the date or dates in each year that each taxing agency shall be required to allocate tax increment revenues to the tax increment agency; and if a plan does not provide the dates for such allocations, tax increment revenues shall be allocated and distributed to each taxing agency no later than March 31 in each year with respect to taxes collected with respect to the prior tax year. Unless a plan provides to the contrary or the taxing agency and tax increment agency otherwise agree, tax increment revenues that are payable with respect to delinquent taxes shall be paid to the tax increment agency within thirty (30) days of receipt by the taxing agency. Partial payments collected prior to the delinquency date shall be allocated first to base and dedicated taxes.*"

Recommendation: After reviewing the current TIF agreements, we recommend that the taxing agencies (Hamilton County Trustee and the City of Chattanooga Treasurer) make tax increment revenue payments no later than March 31 each year with respect to taxes collected the prior tax year, unless plans in the development or financing agreement state a different due date with the developer.

Additionally, we recommended that the Hamilton County Trustee's Office, the IDB of Chattanooga, and the City of Chattanooga update their policies and procedures to reflect the T.C.A. 9-23-103(e).

PROJECT/LOAN AGREEMENT OVERSIGHT

Observation – Under section 5 of the policies and procedures established by the IDB of Chattanooga and the City of Chattanooga, it states that the Board requires the Applicant to annually certify compliance with the Development and Financing Agreement in writing. We determined that the Board is not receiving annual reports from the developer to certify compliance with the development and financing agreement. We found that the City of Chattanooga is monitoring the project's construction and has improved the process as more TIF Agreements have been initiated.

Regarding the monitoring of Financing Agreements with each of the TIF Agreements, the following was observed.

- The City of Chattanooga finances the **East Chattanooga Rising (Tubman)** TIF. The City provided an amortization schedule showing the loan amount of $4,000,000 and the total accumulated interest.

  Recommendation: The following information needs clarification.

  1. The Economic Impact Plan states incurred project costs of approximately $4.0 million plus interest and affirms the interest shall not exceed approximately $1.8 million; however;
  2. The loan agreement between the City of Chattanooga and IDB of Chattanooga states that the loan funding is up to $4.0 million with no cap on interest. A loan amortization schedule was provided, showing an interest amount of $1,942,897.15, which exceeds the approved Economic Impact Plan.

- The **Martin Luther King Extension** TIF is financed by a loan from Pinnacle Financial Partners, arranged by the developer 139 Partners d/b/a Evergreen Real Estate. In the Economic Impact Plan and development agreement, the loan amount is $3.5 million, plus interest, reserve accounts, fees, and expenses, which shall not exceed $1.7 million. A loan amortization schedule was not available upon request. We were informed that the IDB does not keep track of such information. It is the developer's responsibility to repay the loan. The IDB's responsibility is to remit the TIF payment annually to the developer or bank according to the TIF document.

  According to the Policies and Procedures in the IDB of Chattanooga and the City of Chattanooga in Section 5, the IDB requires the Applicant to report annually and certify compliance with the Development and Financial agreement.

Recommendation: The IDB of Chattanooga must receive financial information from the developer and Pinnacle Financial to ensure that the financial arrangements outlined in the Economic Impact Plan and the Development Agreement are followed, with the interest, reserve accounts, fees, and expenses limited to not exceed $1.7 million.

- The **Black Creek TIF** is financed by a loan from IDB Investor, LLC, which is a partner with the developer MBSC Black Creek LLC. According to the economic impact plan and the loan agreement, the loan amount was not to exceed $9.0 million, based on the prime rate plus 200 basis points, with interest calculated on a 365-day year.

  IDB Investors, LLC provided a loan amortization schedule and the annual report from Black Creek showing the outstanding loan amount financed through IDB Investors, LLC (See Exhibit A). As you can see from the exhibit, the loan amount was $9,089,044.77, which exceeded the contract amount of $9.0 million. We determined that the loan amount was overstated since December 2019. In addition to the overstated principal amount, the interest calculation for the loan amount was incorrect. IDB Investors, LLC was using a 360-day interest calculation, and the dates on which the prime rate changed were incorrect.

  As a result of this audit, we found the following amount of principal and interest was charged in error through April 30, 2024:

As of April 30, 2024	**Original Amount**	**Revise Amount**	**Difference**
Total Principal Loan	$ 9,089,044.77	$ 9,000,000.00	$ 89,044.77
Total Interest Charged	4,313,356.07	4,119,334.45	194,021.62
Total Principal and Interest charged in error			**$ 283,066.39**

  Thanks to Shana Slava, accountant with IDB Inventor, LLC, for working with our office to correct the calculations. As of April 30, 2025, the principal balance of the TIF loan is $8,111,030.48.

  Recommendation: Delegate an individual within the IDB of Chattanooga to review each contract and review financial reports to ensure compliance with the agreements.

  Additionally, we recommend that all TIF documents should reiterate the purpose of the TIF in general as well as the TIF's individual objectives. The objectives should clearly state the metrics of the TIF's success and the goals to hold the developer to their promises.

- In the **North River Commerce Center** TIF, it should be noted that in Section 7 on page 5 of the agreement, if the developer fails to complete the public infrastructure and the project within the construction period set forth within the agreement, the TIF maximum principal amount of the TIF financing shall be reduced proportionally by the amount completed.

  Recommendation: It is essential that the delegated individual from IDB of Chattanooga continuously monitors the project to ensure that the developer has completed the requirements as agreed upon.

Summary Recommendations

- Formalize policies and procedures for Hamilton County and its IDB.
- Align payment deadlines with T.C.A. § 9-23-103(e).
- Enforce annual compliance certifications from developers.
- Ensure transparency and alignment of loan terms with approved Economic Impact Plans.
- Verify goals are in line with objectives to ensure program success.

If you have any questions regarding this report or would like further information, please get in touch with me at 209-6212.

Chris McCollough

Chris McCollough, County Auditor

Staff Assigned to Audit
Austin Durall, Audit Manager
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Vonda Patrick, Deputy CFO
Bill Hullander, Trustee
Patricia Mitchell, Legislative Administrator
Weston Porter, City CFO
Stan Sewell, City Auditor
Charita Allen, Senior Advisor, Economic and Workforce Development

Exhibit A

BLACK CREEK
CHATTANOOGA

April 30,2024

City of Chattanooga
Department of Finance & Administration
Attn: Jamie Zurkiya, City Treasurer
101 E 11th Street
Chattanooga, TN 37402

Dear Ms. Zurkiya:

As requested, below please find the 4/30/24 annual report for the outstanding Industrial Development Board loan financed through IDB Investor, LLC. The purpose of this loan was to obtain tax increment financing for MBSC Black Creek to finance the development of Aetna Mountain Road and related infrastructure.

Name of Borrower	IDB Investor, LLC
Final Loan Draw	12/23/2019
Original Dollar Amount	$9,089,044.77
Maturity Date of Loan	12/31/2032 with final payment(s) to be made in 2033
Financing Company	Pinnacle Bank 801 Broad St, 5th Floor Chattanooga, TN 37402 423-386-3430 David.shamblin@pnfp.com
5/1/23 Beginning Balance	$8,782,354.92
Payments received current fiscal year	$1,121,738.06
Principal paid current fiscal year	$163,022.69
Interest paid current fiscal year	$958,715.37
Principal outstanding 4/30/24	$8,619,332.23
Contact Information	Andrew Stone Managing Partner 4700 Cummings Cove Dr. Chattanooga, TN 37419 518-331-2124

Please reach out if you need additional information.

Thank you

Andrew Stone
Managing Partner