



City of Broken Arrow

City Hall
220 S 1st Street
Broken Arrow OK
74012

Minutes Broken Arrow Economic Development Authority

Chairperson Craig Thurmond
Vice Chair Scott Eudey
Trustee Johnnie Parks
Trustee Debra Wimpee
Trustee Christi Gillespie

Monday, July 16, 2019

Council Chambers

1. Call to Order

Chairperson Craig Thurmond called the meeting to order at approximately 9:14 p.m.

2. Roll Call

Present: 5 - Christi Gillespie, Debra Wimpee, Johnnie Parks, Scott Eudey, Craig Thurmond

3. Consideration of Consent Agenda

- A. 19-61 **Approval of the Broken Arrow Economic Development Authority Meeting Minutes of June 17, 2019**
- B. 19-903 **Approval of and authorization to execute Budget Amendment Number 1 for Fiscal Year 2020**
- C. 18-1449 **Approval of the Broken Arrow Economic Development Authority Claims List for July 16, 2019**

Chairperson Thurmond asked if there were any items to be removed from the Consent Agenda. There were none.

MOTION: A motion was made by Scott Eudey, seconded by Christi Gillespie.

Move to approve the Consent Agenda

The motion carried by the following vote:

Aye: 5 - Christi Gillespie, Debra Wimpee, Johnnie Parks, Scott Eudey, Craig Thurmond

4. Consideration of Items Removed from Consent Agenda

There were no items removed from the Consent Agenda. No action was required or taken.

5. General Authority Business

- A. 19-907 **Presentation and consideration, discussion and possible direction regarding the Economic Development Agreement by and among Broken Arrow Economic Development Authority, an Oklahoma Public Trust and SoundMind Behavioral Health Hospital, LLC, an Oklahoma Limited Liability Company; and other provisions relating thereto**

Economic Development Manager Norm Stephens reported on December 19, 2017 the Authority approved the sale of 14 acres of Authority (BAEDA) owned land to SoundMind Behavioral Hospital for a cost of \$1.2 million dollars. He reported SoundMind agreed to build a 72 bed freestanding adult geriatric psychiatric hospital designed to serve patients 55 years and older. He stated SoundMind estimated they would employ no less than 150 skilled individuals with an annual payroll of \$5.4 million in 2019, increasing to \$8.1 million in 2021. He stated SoundMind believed it would invest in excess of \$18 million dollars into the property. He stated SoundMind had applied for three extensions during the process: the first was due to issues with the lending institution, the second due to extended negotiations with CenterPointe

to be hospital operator, and the third was due to negotiations with CenterPointe failing.

Mr. Stephens reported on March 12, 2019, he was contacted by Mr. Steve Easley who had been retained by SoundMind to assist with the behavioral hospital contract negotiations, to find a company to manage the hospital, and to review the investment numbers. He stated Mr. Easley indicated the previously agreed to price of \$1.2 million dollars was too high and he was going to ask for a cost reduction. He stated Mr. Easley, a few months later, indicated he had a Letter of Intent (LOI) signed by Signature Healthcare Services L.L.C on June 4, 2019 and requested the land price to be reduced to \$300,000 dollars. He indicated he attempted to negotiate the price with Mr. Easley; however, Mr. Easley indicated if the price could not be reduced to \$300,000 dollars the doctors at SoundMind would walk away from the deal. He stated at this point Mr. Easley and the doctors at SoundMind agreed Signature Healthcare Services would employ approximately 150 to 170 full time employees including contract labor doctors. He stated Mr. Easley estimated the cost for the construction of the hospital was approximately \$14 million dollars while annual payroll would be approximately \$4.17 million dollars in the first year and \$6.7 million dollars in the second year. He stated Signature Healthcare signed the LOI for a 20 year contract. He indicated according to the new contract SoundMind would reimburse BAEDA in the amount of \$500.00 per employee, if the workforce fell below 150 full time employees. He stated, additionally, SoundMind would be contractually obligated to construct an office building in excess of 10,000 square feet on a portion of the 14 acres within two years of opening SoundMind Behavioral Hospital. He explained if this did not happen SoundMind would reimburse the Authority in the amount of \$500,000 dollars. He noted BAEDA could agree to these terms or demand the \$1.2 million dollars, at which point he would begin the search for a new buyer. He commented he did not often receive calls expressing interest in this property. He stated Mr. Easley was present for questions.

Trustee Gillespie asked what the value of the property was. Mr. Stephens responded the low appraisal was \$701,000 dollars and the high appraisal was \$1 million dollars. Trustee Gillespie stated she worried if BAEDA settled it would set a poor precedent. Mr. Stephens commented if he had brought this new deal before the Authority originally he believed the Authority might have considered agreement.

Vice Chair Eudey asked why SoundMind required a 75% reduction in land purchase price. Mr. Stephens responded Mr. Easley would be better suited to answer this question.

Mr. Steve Easley reported he had many investments in Broken Arrow. He noted he was brought into this project in October of 2017 as an employee of Cowen Construction. He discussed the history of the project up to today. He reported the SoundMind doctors had invested over \$1 million dollars collectively in this project up to this point, including expenses spent obtaining the Certificate of Need. He stated he understood the need for jobs in South Broken Arrow and as a result decided to become more involved in this project. He stated he negotiated the (LOI) Letter of Intent with Signature Healthcare who had 16 freestanding behavioral health hospitals throughout the United States. He stated the doctors of SoundMind were required to release any profit potential on the operations side of the contract and now only had profit potential through the real estate. He noted he had a SoundMind lease agreement with Signature Healthcare prepared for signature. He noted SoundMind would own 51% of the building and Signature Healthcare would own 49% of the building. He stated the lease agreement indicated SoundMind would receive \$0 dollars in rent the first year and 50 cents on the dollar in the second year, which would be paid back in full in the 25th month of the lease. He explained this was the only deal he could negotiate. The SoundMind doctors were taking 51% of the risk and receiving 0% of the profit through the construction and until the 25th month of the project. He stated he was not a partner in this deal and he wished he had been able to negotiate a higher purchase price. He stated the project would bring 150 jobs to Broken Arrow, and Phase II would bring in additional jobs. He discussed the construction cost being \$14 million rather than \$15.5 million dollars. He stated he was prepared to fund Phase II of the

project if necessary; however, he believed there would be plenty of funds available for Phase II once Phase I was completed. He stated he understood this was large discount; however, he did not see another way to bring in 150 jobs to South Broken Arrow.

Trustee Wimpee stated these jobs were considered daytime jobs which were important. Vice Chair Eudey stated he had a trust issue at this point and he worried, if BAEDA agreed to the new terms, the project might not come to fruition. Discussion ensued regarding the deal with SoundMind, Signature Healthcare's involvement and reputation, the risk the doctors were taking compared to possible returns, SoundMind being under the constraints of the Certificate of Need, the full construction documents being required for submittal for the Certificate of Need, and SoundMind walking away if there was not a 75% reduction in purchase price (from \$1.2 million dollars to \$300,000 dollars).

City Manager Spurgeon stated he did not like the idea of the price cut; however, he spoke with the City Attorney and he felt comfortable the City could justify the agreement. He stated he believed Mr. Easley could bring this project to fruition and 150 new jobs would come to South Broken Arrow. He asked the Authority to consider approval.

Discussion ensued regarding the land being worth more than \$300,000 dollars, the precedent which would be set, the project increasing land value in the surrounding area, and reticence not being with Mr. Easley, but with the project. Vice Chair Eudey asked what guarantee there was for success. Trustee Gillespie concurred and worried the investors had lost confidence in the project. Mr. Easley indicated Signature Healthcare had full confidence in its ability to manage the hospital successfully; however, the doctors of SoundMind were fatigued. He stated this project had been essentially dead until he had stepped in.

Trustee Parks asked what Mr. Easley's role would be if this deal was made. Mr. Easley stated Cowen Construction would develop the property; however, he would be involved only until construction began. Trustee Parks noted the purchase price should be considered as the difference between \$700,000 dollars (appraisal value) and \$300,000 dollars. He stated the question came down to whether BAEDA was willing to forgo the \$400,000 dollars in exchange for 150 jobs. He stated he was willing to forgo the \$400,000 dollars; however, he had lost confidence in this project. Mr. Easley stated if BAEDA approved the new sale price, tomorrow he would obtain signatures of the lease and operating agreement, at which point the bank would move forward with construction financing, the construction plans would be completed within three months, the Certificate of Need would be met and construction would begin.

Chairperson Thurmond asked how binding the 20 year lease with Signature Healthcare was. Mr. Easley indicated more binding than the lease was the fact that Signature Healthcare would own 49% of the property. He reported Signature Healthcare was established in 2001, operated 16 similar facilities, had never closed a facility and was only expanding. Vice Chair Eudey asked if the (LOI) Letter of Intent was binding. Mr. Easley stated no (LOI) Letter of Intent was truly binding; however, the lease was binding and the operating agreement was binding.

Vice Chair Eudey stated while he was uncomfortable with this deal, if he approved it would be due to his faith in the City Manager's word, Mr. Stephen's word and Mr. Easley's word as a well known investor and business person in Broken Arrow. He explained BAEDA was steward of this property for the benefit of tax payers and residents; BAEDA would be taking a risk in agreeing to the \$400,000 dollar price reduction for the property. Mr. Easley stated he understood.

City Manager Spurgeon asked if the decision could be contingent upon seeing the executed agreements. City Attorney Trevor Dennis responded in the affirmative. He explained based upon the representations Mr. Easley made SoundMind was in breach of contract. He stated he wished to see in writing SoundMind indicating the project was dead at which point the

Authority could opt to do an incentivized Economic Development Agreement in which BAEDA was subsidizing the project. He explained BAEDA acquired this property in 2009 and paid \$1.25 dollars per square foot for 25.48 acres (about \$1.3 million dollars). He stated this portion of the property was 14.15 acres, 616,674 square feet, and SoundMind had agreed to a purchase price of \$1.94 dollars per square foot which would have yielded a profit. He explained this new deal would reduce the price to \$0.48 cents per square foot which would be a loss. He stated the City could expend public funds for economic development. He reported Oklahoma Supreme Court repeatedly recognized the need for communities to retain economic business and jobs, and as long as economic development agreements met constitutional requirements such agreements were valid. He stated he was not saying BAEDA should or should not pursue this; however, from a legal perspective it was acceptable to sell property at a loss for the purpose of economic development. He stated Mr. Bob Ball, an economist from Tulsa Chamber of Commerce, reviewed the economic impacts of this project which included 150 jobs, up to 208 jobs including indirect and induced jobs, extension of the Norfolk Road to be dedicated to the City, construction of the 72 bed psychiatric hospital, training for the Broken Arrow Police Department, work with community nonprofit organizations to help indigent individuals, as well as collaboration with schools and other local entities to assist the underserved adults in Broken Arrow.

Mr. Stephens explained Mr. Bob Ball was the Economist for the Tulsa Chamber of Commerce. He reported Mr. Ball estimated the 150 jobs at the specialty hospital would support 58 more jobs throughout the specialty hospital economy, meaning every 10 jobs at the specialty hospital supported 3.8 more jobs in the Broken Arrow economy; economic activity of 150 jobs at the hospital supported \$11.2 million dollars in income earned at the hospital and elsewhere in the Broken Arrow economy; economic activity of 150 jobs at the specialty hospital supported the production of \$14 million dollars in goods and services throughout the Broken Arrow economy, of which 70% was contributed directly by the specialty hospital; the 150 jobs supported the collection of \$119,671 dollars in local sales tax and \$95,426 dollars in property taxes; and due to this being a specialty hospital it was considered a destination location.

City Attorney Dennis asked the Authority to consider if the above projections were enough of an economic influence on Broken Arrow's economy to move forward with this project. He stated he believed legally it was defensible; meaning, he did not feel the court would find it manifestly arbitrary, capricious or unreasonable.

Vice Mayor Eudey asked if the proposed Phase II office building would support the hospital. Mr. Easley responded in the negative; it would be opened up to retail or medical or office. He stated he believed it would be medical which would provide a medical type complex in the area, especially with Endicott Dental nearby.

Vice Chair Eudey stated he was a bit "deal fatigued" at this point as well, but would make the motion to move forward; however, if this Agreement fell through the Authority would look elsewhere for property investment and purchase. Trustee Parks noted he had been prepared to vote against this Item; he expected Mr. Easley to stay the course and see this Agreement through.

MOTION: A motion was made by Scott Eudey, seconded by Johnnie Parks.

Move to direct Staff, Mr. Easley and appropriate individuals to negotiate an agreement consistent with what was presented subject to final approval by City Council

The motion carried by the following vote:

Aye: 5 - Christi Gillespie, Debra Wimpee, Johnnie Parks, Scott Eudey, Craig Thurmond

6. Remarks and Updates by City Manager and Staff

City Manager Michael Spurgeon stated Staff and the Broken Arrow Economic Development Corporation (BAEDC) were working to put together a prospectus as the Rose District had been

designated an “opportunity zone” within the State of Oklahoma. He stated with regard to South Broken Arrow he believed it was time to consider a sealed proposal for development of the property across the street from SoundMind. He noted a sealed proposal brought Broken Arrow the MileStone project. He stated he asked the BAEDC to assist with the sealed proposal.

7. Executive Session

There was no Executive Session.

8. Adjournment

The meeting adjourned at approximately 10:01 p.m.

MOTION: A motion was made by Johnnie Parks, seconded by Debra Wimpee.

Move to adjourn

The motion carried by the following vote:

Aye: 5 - Christi Gillespie, Debra Wimpee, Johnnie Parks, Scott Eudey, Craig Thurmond

Attest:

Chairperson

Secretary