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Time Posted: \_\_\_\_\_  
Posted By: Evelyn Baker  
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**MINUTES OF A SPECIAL MEETING  
OF THE  
JACKSON COUNTY  
BOARD OF COMMISSIONERS  
HELD ON  
JANUARY 25, 2005**

The Jackson County Board of Commissioners met in a Special Meeting, Tuesday, January 25, 2005, at 6:00 p.m. in Room A201, Justice & Administration Building, 401 Grindstaff Cove Road, Sylva, North Carolina.

Present: K. Stacy Buchanan, Chairman  
Roberta Crawford, Vice Chair  
Joe Cowan, Commissioner  
Eddie Madden, Commissioner  
Brian McMahan, Commissioner  
Kenneth L. Westmoreland, County Manager  
W. Paul Holt, Jr., County Attorney  
Evelyn Baker, Clerk to Board

Chairman Buchanan called the meeting to order and stated the purpose of the meeting was to discuss the county's future position as it relates to the Economic Development Commission. This meeting is in preparation for a joint meeting with the Economic Development Commission Board of Directors.

Chairman Buchanan presented a brief review of what was discovered and learned by this Board as it relates to the Motion made by him and approved unanimously last week. Chairman Buchanan made the following statements:

- “(1) In no way as this matter a personal attack on Mr. Tom McClure.
- (2) Last Tuesday, January 18, 2005, after talking with Mr. Westmoreland, there was the need to go into closed session regarding personnel.”

Chairman Buchanan requested Mr. Westmoreland to review what was stated and why he brought the information he was given to the Board's attention. Mr. Westmoreland responded that on January 5<sup>th</sup>, the Economic Development Coordinator came to his office and indicated there was grave concern regarding some on-going operations of the EDC particularly as it applied to the application and monitoring of outstanding revolving loans. All of the loans were discussed in general and one was discussed in particular as to the degree of deficiencies regarding it and some additional entangling arrangements that were being put into place to try to extract the EDC or protect the EDC's position. The Coordinator was in a fairly subdued mood, very concerned and it was apparent that all of these matters were lying very heavily on the person. His last comment to the Coordinator was that by simply bringing this issue to him, he had no choice but to move forward and quite likely some action would have to be taken to get to the bottom of some of the statements and allegations that were made. He made those presentations in specificity to the Board of Commissioners in executive session involving this person. This person was requesting that the county look into these matters.

Chairman Buchanan stated that because of this information, the January 18<sup>th</sup> Regular Meeting was recessed until noon on January 19<sup>th</sup>. At the January 19<sup>th</sup> reconvened meeting this Board again went into closed session and discussed the matter as it related to personnel – a county employee. Because of the Agreement with EDC and the close working relationship it was impossible to discuss the county employee without discussing Mr. Tom McClure. They worked hand in hand on all the agreements and things were coming forward that this Board could not answer. Chairman Buchanan that when he made the January 12<sup>th</sup> Motion it could be considered too tough; however, the citizens of Jackson County elected him to do a job. There was a county employee who was concerned and he felt like the Board needed to act quickly before things got further out of control. The actions and motion he made also had a historical background. He stated he had served on this Board for 6 ½ years and talked to many, many people. He stated many comments he had heard from the general public have not been made known to the other Board members. These were private discussions with citizens, members of other boards, and even members of the EDC Board. Thus, he had to use a lot of the background that he had in his Motion. When he made the Motion, many things were considered, i.e., the county had a volunteer, not an employee of Jackson County, basically walking around with three checkbooks that contained public funds (even though the funds had been transferred to authorities who had the ability to vote and make appropriations as that board deemed necessary). The financial records over the years reflect that Jackson County taxpayers paid the majority of the funds. The county was asking a lot of a volunteer, it was asking a volunteer to be placed in a situation where, using EDC as an example, county funds were put into an account and no audit had been conducted. Approximately two years ago, this Board decided to hold EDC funds in an escrow type account that required EDC to come before this Board and justify an appropriation. However, there was in excess of one million dollars transferred to EDC from previous Boards; again, county taxpayer dollars.

Chairman Buchanan stated that issues were being reported to him and he requested Mr. Darrell Pruett to appear tonight and report on an incident that was also going on with Q. C. Apparel, Mr. McClure and his role in EDC.

**DARRELL PRUETT**: Mr. Darrell Pruett, owner of Smoky Mountain Gas Log & Propane, addressed the Board and stated he had been working with Mr. Tom McClure for two years trying to get a 5-year contract approved. About two years ago Mr. Clemmy Queen of Q. C. Apparel contacted him concerning the purchase of propane for the Tuckasee Mills Plant. At that time there was an 18,000 gallon tank at the plant site and Mr. Queen wanted Mr. Pruett to connect the plant to the tank which was done. A representative of the Department of Agriculture inspected the facility and stated the tank was out of date and must be upgraded. Mr. Pruett reported this to Mr. Queen who told him to talk with Mr. McClure. The agreement was for Mr. Pruett to do all the upgrades on the tank in order for both he and Mr. Queen to use the tank. Mr. McClure requested that Mr. Pruett draw up a long term contract. Mr. Pruett informed Mr. McClure that the estimated cost for upgrading the tank would be \$8,000 - \$10,000. Mr. Pruett stated the contract should state that Mr. Queen could use the tank for the next five years and at the end of the five year period Mr. Pruett would have the option of buying the tank and the small piece of property on which the tank is located. Mr. Pruett stated he and Ms. Crisp put all of this in writing and gave it to Mr. McClure. In approximately July, Mr. McClure reviewed the contract and said it looked good except for a couple of changes to make it legal and he would handle that. However, Mr. Pruett only had until August 31<sup>st</sup> to complete the upgrades. Mr. McClure assured him to go ahead and do the work and he (McClure) would work out the details.

Mr. Pruett stated he did complete the work by the deadline. Mr. Pruett said he again contacted Mr. McClure who said that he mentioned it at board meetings and that it was not that big a deal and was probably low on their agenda at the time. Mr. Pruett said he called Mr. McClure and Ms. Crisp several times and they assured him they would work out the details. Again, this has gone on for about two years. Mr. Pruett said he contacted Mr. McClure after the Dept of Agriculture representative inspected the upgrades to the tank. The Dept of Agriculture said it must be painted. Mr. Pruett and Mr. McClure agreed to share in the cost of painting the tank. Mr. Pruett said he talked to Mr. McClure who said everything looked good and in the long term would he (Pruett) be interested in buying the small piece of property where the tank was located. Mr. Pruett responded that he may be interested. Mr. McClure requested Mr. Pruett to measure the property which is about a 20'x80' area. Mr. McClure asked Mr. Pruett what he would pay for the tank. Mr. Pruett said that at that time used tanks (this was before he upgraded the tank) sold for approximately \$5,000. Mr. Pruett said he offered Mr. McClure \$5,000 for the tank and that was to be included in the contract stating that at the end of the 5-year period he could buy the tank at that price, plus the labor and land. Mr. McClure said the reason he was doing it this way was because it would then relieve the county of any liabilities, if anything were to happen, and in order to buy the tanks Mr. Pruett would need to own the property. This was the last contact he had with Mr. McClure. Mr. Pruett said he has invested a lot of money in the tank. He uses it almost every day and if there is any type of foreclosure it will devastate his business.

Chairman Buchanan requested Attorney Holt to brief the Board concerning possible foreclosure by Triple S. Mr. Holt stated that he received a telephone call from an attorney wanting to know what was going on because a partnership by the name of Triple S had a mortgage on the Tuckasegee Mills property and was going to foreclose and wanted to know since he was the county attorney what was going on. At that time Mr. Holt said he did not have any dealings with Jackson Development Corp. or the EDC. Subsequently and through an investigation of the Register of Deeds records, he discovered that Triple S is a partnership and has the first mortgage on the Tuckasegee Mills property. (Mr. Holt initially thought Triple S held a second mortgage.) The EDC has a second mortgage. He stated that the Triple S deed of trust was put on record approximately one month or six weeks prior to the recording of the EDC deed of trust. Mr. Westmoreland stated that it was his understanding that both mortgages were executed on the same date, but recorded separately. Mr. Holt stated he did not have copies with him, but he thinks the Triple S deed of trust was about \$250,000 and the EDC deed of trust approximately \$550,000. The total purchase for the building was a little over \$700,000. The EDC mortgage was binding between the parties but not to the public until it was recorded. If someone had purchased the building prior to the recording of the EDC deed of trust, the buyer would not have been required to pay the unrecorded deed of trust.

Mr. Holt was requested to explain the foreclosure procedure. Mr. Holt responded that the foreclosure by Triple S can proceed; however, he has been told that their attorney is trying to negotiate a loan to get refinancing. Mr. Holt stated he has called their attorney twice, but has not received a return call. If Triple S institutes foreclosure proceedings, all it has to do is bid in what is owed to it at the foreclosure sale and would own the building and EDC would be out unless a representative from EDC or someone from the county was present at the foreclosure sale and bid higher than Triple S. In order to protect EDC's security and if it was the highest bidder, Triple S would still have to be paid in full in order for EDC to keep the building. Commissioner Madden asked of those EDC funds used to purchase the Tuckasegee Mills building came directly from taxpayer dollars and Mr. Holt said "yes".

Chairman Buchanan stated that when business is being conducted by volunteers who the county has no control over, and within an organization that has never, to his knowledge, any routine annual or performance type audits, doesn't make sense. These are things he was considering when he made the Motion to temporarily suspend participation in the EDC. Further, Chairman Buchanan was sent a copy of a letter addressed to Mr. Tom McClure from the N. C. Dept. of State Treasurer concerning an auditing year for the Airport Authority. The letter stated in paragraph two: "We are extremely concerned about a serious statutory violation committed by the Authority. . . .financial statements disclose that the Authority did not adopt an annual budget". Mr. McClure had the checkbook with assets that had come from public funds. The Airport Authority was going through the audit at that time, but still had not complied with statutory requirements.

Chairman Buchanan commented on several questions that have been raised since the revolving loan fund issue was brought to the Board's attention. There is a problem with the revolving loans and the preliminary report from the auditor confirms this. He has talked with Ms. Fox, Finance Director, and she stated that the revolving loans must continue. He asked if when all the loans are paid if the revolving loan fund could be used for something else and disband that program. He was informed that the county can request a waiver and use the funds for infrastructure. He stated the first thing he thought of was the TWSA crisis. Assisting TWSA build its infrastructure, which in turn will be economic development, and is, in his opinion, probably not as risky as some of the loans on record.

Mr. Westmoreland was asked the status of the EDC audit. He responded that Mitch Crisp and a senior auditor from their Asheville Office worked two full days preparing the preliminary information. Mr. Crisp is out of town until Friday or Saturday of this week. Mr. Crisp has promised to continue work on the audit this weekend and would expedite it upon his return and hopefully have a final prepared audit by the end of next week. Commissioner McMahan suggested that the Commissioners not schedule a meeting with the EDC Board of Directors until the final audit is received.

Chairman Buchanan stated he received a letter from the Economic Development Commission yesterday. The letter asked for the immediate return of all EDC books that are being used for the audit, and that the Commissioners meet with the EDC as soon as possible to resolve any issues. Commissioner Crawford stated she was not inclined to release the books until the audit is completed. Commissioner McMahan recommended that the EDC records and books should be retained until the audit is complete because the audit will give everyone a good picture of what has transpired in the past, where it is presently and what the Board of Commissioners can possibly do in the future about the loans. When the audit is complete then a meeting be scheduled with EDC. There is no question about returning the books; it is just a matter of when. It is in the best interests of the county and EDC that the audit be completed. Mr. Westmoreland stated that Mr. Mitch Crisp recommended that the county retain the records if at all possible so he can do a thorough and complete evaluation. Without those records and books, it would be almost impossible for an accurate audit.

Mr. Westmoreland stated he had met individually with all the members of the EDC with the exception of Marty Jones who was out of town. Each expressed that in general the activities of the EDC were available to them, but the details of various transactions and operations as interrelated with Jackson Development Corporation, they were pretty much in the dark or so they

reported to him. One statement was: "If you give the EDC members a test, only one would pass it".

Commissioner Madden stated that it appears that the purpose of the audit is to conduct a fair and unbiased accounting of the day to day bookkeeping of an operation. He said he could not imagine anyone who would object to an audit being conducted and was certain that when all of this is sorted out even the members of the EDC will be glad that the audit was conducted. Commissioner Crawford stated that if she was a member of the EDC she would insist on an audit.

**MOTION:** Commissioner McMahan moved that the county hold the records and allow Dixon, Hughes to continue with the audit and upon completion of the audit, and after this Board has had the opportunity to thoroughly review the audit, and at that point, the EDC will be contacted and an appointment be made for the two Boards to meet and discuss the results of the audit. Commissioner Crawford seconded the Motion. Commissioner Cowan requested to offer an amendment to Commissioner McMahan's motion as follows: "In the event the EDC finds it necessary to see their records in order to meet previous commitments prior to completion of the audit, that may be allowed if that request is brought before this Board and could be honored immediately if there is an urgent need." Commissioner McMahan amended his Motion accordingly. Commissioner Crawford seconded the amended Motion. Motion carried by unanimous vote.

Commissioner Crawford stated she did not understand why the EDC Coordinator did not have the EDC records in her office. Mr. Westmoreland responded that was correct and in fact it was the very opposite of what one would expect, the EDC Coordinator, who is a county employee and under an agreement directly responsible for the affairs of the EDC, was managing and had custody of the Jackson Development Corp. books and records. Mr. McClure had in his possession the EDC records and that circumstance had been in existence for several years. Commissioner Crawford asked if the county had authorized and directed the EDC Coordinator to work on Jackson Development Corp. activities and was that part of the job description. Mr. Westmoreland stated that he reviewed the job description in detail and in fact it did state that the EDC Coordinator would be responsible for working for the Jackson Development Corp. as well as the EDC.

Chairman Buchanan stated that the EDC Coordinator was on the revolving loan committee and was concerned about the status of some of the loans and had called on Mr. Queen and visited other places at the Board's request trying to get a handle on them. One of the things that came to his attention is that when Mr. Mitch Crisp reported that some of the loans had been renegotiated, payment terms had been extended, Chairman Buchanan could not recall any of this coming before the Board of Commissioners. Mr. Crisp asked if the revolving loan program was set up in such a manner that once the Board of Commissioners approves a loan, that an individual or revolving loan committee can renegotiate the loans. It appears that changes have been made to loans that jeopardizes that loan even further. Extending a loan or making smaller payments does nothing more than add interest and creating a larger debt. Who has the authority to renegotiate those loans? Mr. Westmoreland responded that Mr. Holt could better answer, but it is certainly contradictory to what the Board of Commissioners authorized. It does not appear logical to alter a written legal document, which is a contractual agreement, for use of the funds.

Commissioner Madden asked if the report in last week's newspaper that the revolving loan committee did not assume any responsibility for the maintenance and day to day monitoring of these loans, yet the loans had been renegotiated on the Board's behalf without its approval? Mr. Westmoreland stated that is correct. Chairman Buchanan stated it appears there was monitoring going on because Mr. McClure again, in his capacity as EDC Chairman and member of the revolving loan committee, visited these places and renegotiated these loans. It is noted that he worked in hiring an individual from Western Carolina University with a grant given to the EDC which was disbursed as a salary to assist Q. C. Apparel, and try to do some strategic planning and marketing to better its position. This was a grant and not a loan. Chairman Buchanan stated he did not note any changes in the way the loan was being repaid and things are being done that jeopardizes the county's position on the loan. Mr. Mitch Crisp had discussed the factoring aspect, the revolving line of credit and even though that was conducted by Jackson Development Corp., when a businesses' debt is increased and it does not have the cash flow to make payments it already has incurred, it appears it would jeopardize the position the county has. Commissioner Madden asked if Jackson Development Corporation secured a line of credit for Q. C. Apparel for the purpose of purchasing invoices at a discounted rate to keep the cash flow coming in order for the borrower to make payments to the EDC and to Triple S. Were those payments being made? The purpose of the line of credit was to purchase the invoices from Q. C. Apparel so it would have the revenue to pay the mortgages. At this time the county has no assurances that those mortgages are being paid and all it has seen is an increasing debt to the revolving loan fund. Commissioner Madden stated that the Q. C. Apparel revolving loan, with the accumulated interest, has increased from \$300,000 to in excess of \$330,000. Mr. Westmoreland stated that the county has incomplete facts at this time; however, the circumstantial evidence indicates by virtue of the pending foreclosure by Triple S that those mortgages have not been paid. Commissioner Madden asked where the money went.

Commissioner Crawford stated she had reviewed all the reports that were given to her concerning the loans and in almost every report she has, EDC representatives did not make the Board of Commissioners aware of any impending crisis with the revolving loans.

Chairman Buchanan stated the EDC books were previously maintained by the county under the umbrella of the finance department and the audits were conducted; however, the EDC got away from that which led him back to his reasons for the Motion for temporary suspension from EDC. As these things come to light, his question is where does this Board go from here? Economic development is important to this county; however, as an elected official he cannot stand aside and watch a volunteer or group of volunteers misusing county assets and taxpayers' dollars. After completion of the audit the county must, as it relates to economic development activity, decide how it is going to get a handle on economic development in terms of the revolving loan program, what the goals are for using those funds, complying with statutory requirements, whether it be for building up infrastructure, or continue making loans as has been done in the past.

Chairman Crawford stated that the October 5, 2004 Minutes from the Joint Meeting with Municipalities, reflect that a WCU professor is also working with Q. C. Apparel as a consultant to assist in managing its finances. Q. C. Apparel is now paying rent to Jackson Development Corp. and repaying the revolving loan fund. Now this Board discovers this is not exactly what is happening. Commissioner Madden asked what the arrangements were with the consultant. Mr. Westmoreland responded that there are now two consultants, one with the staff at WCU and the

other is, or so he understands, a graduate student being compensated \$4,167 per month for his services to Q. C. Apparel by EDC.

Commissioner Madden asked Mr. Westmoreland if the revolving loan to Q. C. Apparel which is now approximately \$330,000, guaranteed or collateralized. Mr. Westmoreland responded that it was collateralized by a personal guarantee of the Queens involving their residence and the equipment in the plant itself. The collateral is less than one-half of the original loan amount. Mr. Queen's personal residence, after the current revaluation, is valued at \$120,000. The remaining collateral consists of sewing machines and various and sundry equipment which basically only has a salvage value. Commissioner Madden asked if the loan was under-collateralized and if the county should foreclose, there is no way to recoup \$330,000. Mr. Westmoreland responded that was correct.

Chairman Buchanan stated that he was trying to apprise the Board of his train of thinking and again it was not a personal attack on Mr. McClure, but for the record he wanted the Board to understand the things he was dealing with. He has received letters and calls from a Mr. Ed Riley concerning a situation at the airport, again being handled by a volunteer. These are the things that he has had to deal with and when the revolving loan situation was brought to the Board's attention by a county employee, action had to be taken.

Commissioner McMahan asked Attorney Holt if he had initiated any action concerning the Q. C. Apparel loan. Mr. Holt said he had not. Chairman Buchanan stated he has spoken with Mr. Queen and Mr. Queen is interested in not only renegotiating his loan, but he may be interested in some additional capital from the revolving loan fund. Chairman Buchanan told Mr. Queen that when the Board decided what it was going to do in relation to the revolving loan fund and EDC and everything cleaned up, that within 72 hours he would listen to Mr. Queen's proposal, put it together so it can come before the Board of Commissioners. This Board should become the revolving loan committee. Commissioner McMahan stated that it is clear that it is a no win situation concerning foreclosure. Not only would the county not be able to recoup its money, but there is the potential risk that people may lose their jobs. If Mr. Queen appears before this Board and shows that there is something he can do that will maybe salvage the situation and keep people employed and keep from losing all the investment, then he would at least like to review the proposal.

Chairman Buchanan asked Attorney Holt if the final audit report would be a public document. Mr. Holt responded "yes". Mr. Holt was also asked how the Chairman should respond to a 3-page letter sent via e-mail as to specific questions concerning EDC which the writer contends violates his rights. Mr. Holt responded that the Chairman can only state what he knows and cannot respond to something he has have no personal knowledge of. If he knows who to contact regarding requested information, advise the writer who to contact. EDC records are public information.

Chairman Buchanan stated that Ms. Lynn Hotaling of The Sylva Herald had requested copies of the letters that were sent to Mr. McClure. Chairman Buchanan stated he authorized the release of those letters to her. The reason a deputy from the Sheriff's Office was sent to retrieve the EDC records was simply for chain of custody and security of the documents. Those records were voluntarily given to the deputy. The deputy was given instructions, prior to leaving the Justice Center, if the records were not voluntarily given, then just return to the Sheriff's Office.

Mr. Westmoreland was instructed to convey to the EDC that as soon as the audit is complete the records will be returned.

Chairman Buchanan reported that Mr. McClure, Chairman of the Airport Authority, is getting close to entering into an approximate million dollar loan for hangars at the Jackson County Airport. He stated it was his opinion, that the present Airport Authority Board is the best the county has had since he has been a Commissioner. However, it appears the Board of Commissioners is deeply involved with the airport affairs even though it is not. In future years if the Airport Authority ceases to function, the county will be responsible for outstanding debts or lose the assets that the county has put into the airport over the years. Commissioner Crawford stated that the public, even though the county has no control over some of the boards, still holds the Commissioners accountable.

Chairman Buchanan stated it was his opinion that it may be time for the Commissioners to get more involved with some of the boards and committees because of the indirect consequences that could affect them.

Commissioner Cowan stated that “based on the preliminary report as presented by the auditor this Board was satisfied that a significant problem existed at the time the Motion was voted upon; there is already more than enough to rein in this three-headed monster, the taxpayers demand it. We did what was responsible and we had to commence an investigation.”

Attorney Holt requested that the Board go into Executive Session for a legal matter that pertains to the EDC and the purpose for which this meeting was called. Chairman Buchanan moved that the Board go into executive session pursuant to G. S. 143-318.11(a)(3) Legal upon the recommendation of the county attorney. Commissioner Crawford seconded the Motion. Motion carried.

Chairman Buchanan called the Open Session back to order and report no action or votes were taken in executive session.

There being no further business, Commissioner Crawford moved that the meeting be adjourned. Commissioner McMahan seconded the Motion. Motion carried by unanimous vote and the meeting adjourned at 7:15 p.m.

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Evelyn B. Baker, Clerk

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K. Stacy Buchanan, Chairman