Caroline County, Virginia
CEDA Nomination, 2011

Overview/Summary
The successful recruitment of McKesson Corporation Distribution Center, A Fortune 14 Company, by Caroline County was the largest private square footage recruitment (340,000 sq. ft.) in Virginia in 2010.[1] McKesson Corporation will hire 150-190 employees and invest over $50 Million upon completion of construction. The challenge for Caroline County was to win the McKesson recruitment for its community with few resources while facing time and infrastructure obstacles. Caroline by applying innovative techniques, utilizing partnerships in private and public spheres, and using time to the County's advantage, ultimately succeeded in recruiting McKesson Corporation.

Caroline County's budget for economic development is one of the smallest in Virginia where a professional developer is employed: $160,000 in FY 2011. To recruit a major industry when the competition has a far larger budget and no obvious disadvantages, Caroline had to be highly innovative, collaborative, and maintain focus over a three year period to obtain the investment.

Caroline's challenges were many: The subject property that was suitable for the recruitment was privately owned, so a high degree of cooperation and coordination had to be established between the County and the land owners. The property was viewed as being inadequately accessible by road. Utilities were near the property but not on the property. There was no industrial access road to the site, and timing during the final phases of recruitment made conventional financial resources for an access road impractical to use. The County had no specific economic development fund to provide incentives, and some of its business tax structure was non competitive. Solutions had to be found for all these problems.

Community Commitment and Leverage: Collaboration with Commonwealth and Private Land Owners

Though the location of the subject property was strong in itself, the above mentioned obstacles to achieving a commitment were deal killers and had to be solved. Fortunately, Caroline was able to stay a candidate community after the first site visit in 2007 (deal was closed in June 2010) on the basis that the County could solve the many challenges that seemed to eliminate the site from consideration. The following solutions, easily derived from the public record, are explicated here: The property, Caroline Commerce Center, is over 200 acres fronting Rt. 207, a dual highway. Direct access to the property from Rt. 207 was in question, and a more direct access point had to be created. Caroline had previously noted this problem and also the need to relieve truck traffic on Rt. 207. The County had won a construction decision from VDOT in 2006 to create a large highway loop that was to relieve the truck traffic that at times backed up on Interstate 95. The loop road bisected the subject property, thus enhancing its accessibility. Without the new road—completed on time—Caroline could not compete for the project.

Timing favored Caroline as the recruitment stalled over 2007, 2008 and much of 2009. During this interval, the construction of the loop road began and the County used this opportunity to keep McKesson updated as to the road construction's progress. Frequent calls and aerial photographs made the solution real and the prospect alert to the County's determination to meet the company's needs. By the time the recruitment process began to roll forward again in

[1] According to the informal survey conducted by the Virginia Economic Development Partnership for 2010.

December 2009, the new loop road was advanced enough to give credibility to the County's assertion that property access to Rt. 207 could be achieved. VDOT's partnership and the $7,000,000 federal funding of the road made the recruitment possible. The constant updating of the investor also created the basis of a collaborative relationship between the County and company.

The second critical road requirement was an industrial access road to the site. Though the project would likely qualify for Economic Development Access Road Funds, timing now swung from lassitude to extremely tight deadlines to demonstrate assured delivery of the access road. To secure the funds from the Commonwealth, a longer time frame for study of the site before awarding the funds was needed than could fit within the deadline to show on-time delivery of the access road. The County had to deliver a road, but without Commonwealth help.

The County saw the need to find the funds to assure payment for the access road immediately. The decision was made to employ proffer fund resources to make the access road payment and to guarantee those funds for the purpose. The recruitment justified the out of pocket expense of $250,000—knowing that a delay or merely a promise of future Commonwealth funds was insufficient to obtain an investment decision. Timing required the hard choice of eschewing the Commonwealth grant for local funds. The County financial commitment further reinforced Caroline's absolute dedication to the investor. These funds were located in the Proffer Fund that had been collected from other development projects of prior years.

Water and sewer also needed to be brought to the site. The County pledged whatever the cost to bring this infrastructure piece to the building, again, through its proffer fund (Actual value: $130,000). By working closely with the sellers of the property, this process was kept to a minimum cost and a high degree of cooperation as other parcels had to be affected by the infrastructure site work. The County assured the investor of the maintenance of the lines by assuming dedication of an easement for the sewer line. This also assisted the seller of the property in their separate negotiation with the investor.

Tax grants (abatements informally) were made possible due to the County's Technology Zone ordinance that targets all primary and secondary growth district in the County. The Technology Zone in Caroline is the largest in Virginia at 30,000 acres and includes almost every possible location a business may want to locate. As well, the Technology Zone benefits are both high in value and lengthy in application. BPOL reduction, as a part of the incentive relieving the company, is valued at $30,000,000 over twenty years (note Innovation section).

The Commonwealth is providing grants from the Virginia Jobs Incentives program. The project did not qualify for Governor's Opportunity Fund; and Caroline is not in a Tobacco Fund Region where that specific dedicated funding resource applies to only one region in one state.

As can be seen, the deal was packaged in a series of commitments involving the land owners, the company and the County involving Technology Zone incentives, road and access road construction involving VDOT (and specifically not VDOT when timing became critical), and infrastructure leverage. When this was not enough to close the deal, an additional layer of complexity and innovation was required as noted below:

Innovation

During recruitment, the County's open ended BPOL tax was sited as a costly levy that would drive the company's tax burden to an unacceptable level. The County pledged to **grant** to its

Industrial Development Authority these collected amounts (empowered to do so under Sections 15.2-953 and 15.2-1205 of the Code of Virginia), and the IDA to grant to the company the same amount as empowered under Sections 15.2-4905(12) and (13) of the Code of Virginia (as direct tax reimbursement powers are not allowed to Counties in similar instances--Virginia being a Dillon Rule State).

The lack of binding law on County incentives over multiple years proved a major challenge to securing the investment commitment. (Counties may not commit to incentives in multiple years with absolute contractual assurance). As a result, it was agreed upon to create an escrow account by the County to make the company whole should there ever be an occasion where some future County leadership not recognize the grant obligation of BPOL taxes collected. Unfortunately, the amount required to fill the escrow account far exceeded the resources of the County, and even exceeded the whole value of the County's physical property (which eliminated a possible lien solution).

Again, under tight deadline, a solution was crafted. The County would amend its BPOL ordinance to cap the maximum possible payment at $120,000 annually. This would commit the County to only raising $2.4 Million over a 20 year commitment while not affecting revenue from any other collection. Changing the County ordinance provided additional assurance to the investor. Caroline's change of ordinance to keep the investor's potential tax obligation to a manageable sum (a sum the County could realistically place into escrow), and also allowed the County's BPOL tax to come in line with some of its regional competitors.

Still, the funds needed to be raised and the County had no available resources at hand. By agreeing to dedicate the investor's annual real estate tax to the escrow account until the target escrow holding was met, the County further demonstrated commitment, and also allowed the investor the knowledge that their taxes were directly benefitting their own operations. This strong measure was acceptable as the majority of the revenues from the investment are to come from other taxable categories.

The length of the incentive is also innovative based on the County's inability to directly reimburse taxes to the Company. By using a grant procedure whereby the County can contribute directly to its Industrial Development Authority any amount it wishes, and for any length of time—and the IDA can grant to any entity at its discretion—the length of the incentive can be disconnected from limits of existing incentives recognized by the Commonwealth. Caroline thus doubled the length of time allowable for incentives in Virginia. (Multiple legal opinions upheld this innovation). The IDA was able to enter into an agreement with the Company.

Transferability

All the techniques and innovations described above are transferable to other communities in Virginia. In addition to the IDA being a granting source for incentive extensions, and changing ordinances to meet fiscal obligations, and establishing escrow accounts for added assurance for agreement compliance, another technique to accomplish these ends became feasible at a time too late to be utilized in the Caroline negotiation.

Towns in Virginia can enter into extended contractual agreements with companies. Towns and Counties can work together in the future so that Towns can in theory commit to an incoming business an incentive beyond recognized incentive limits that will allow the County to succeed in the recruitment of the industry. The County would have to commit in principle to make their annual grant to the Town (which is of no concern to the company that would have its assurance of incentive guaranteed by a contract with the Town) to reimburse the Town for providing an assured incentive to the company.

This procedure would likely require, first, that the Town had no facility sufficient for the business recruitment; second, that the Town would generally benefit in the employment and secondary investment generate by the County recruitment; and finally, that a strong bond of trust existed between the local entities. For the right company, this tactic is feasible.

The application of these innovations apply specifically to Virginia, however, there are 40 states with some variation of Dillon Rule[2] statutes affecting economic development. The concepts described here can have a broad transferability within the discipline of economic development throughout the Commonwealth and the United States, allowing for variation in applied law in each state.

Measured Objectives

The McKesson recruitment is one of the most valuable business recruitments in Caroline's history.

The 340,000 sq. ft. building will take over a year to construct and employ over 200 construction jobs at one time. The building is the largest private square footage investment in Virginia in 2010 based on data provided by the Virginia Economic Development Partnership.

Real estate taxes are to be approximately $145,000 annually, and business personal property will be approximately $500,000 annually and available to the general fund. Real estate taxes will be held in escrow.

Most critically, 150 to eventually 190 jobs will be created in Caroline during a period of high unemployment. A project payroll of over $5 Million dollars will have a strong impact on the local economy. Assuming a multiplier of a modest 1.5, the McKesson investment may result in $7.5 Million annually to the County's economy.

Secondary Benefits

The McKesson recruitment's ancillary benefits are outstanding.

The Caroline Commerce Center, once a land locked parcel, is rezoned for 200 acres of industrial use. The site now has an access road and highway access that makes the site attractive for additional industrial investment. The park now has water and sewer infrastructure to support additional recruitments. This is especially important as Caroline has been pursuing a strategic vision of clustering industries at this site: pharmaceutical distribution, and general distribution. Future recruitments are likely to be less complex and difficult due to the site being in ready to go status.

Not only will the Company add an estimated $7.5 Million through the multiplier effect to the local economy, McKesson has a generous Foundation for Community support. The McKesson Foundation grants over $5 Million annually to communities for health related initiatives. As Caroline is underserved in a number of health related areas, the Foundation is an important potential partner in assisting in making Caroline a healthier community.

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2 National Association of Counties.