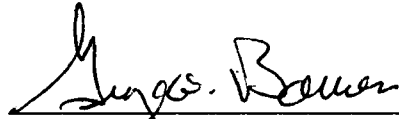


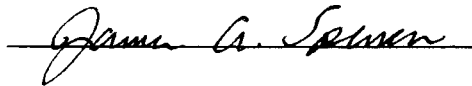
To the Graduate Council:

I am submitting herewith a thesis written by David Douglas Birchim, entitled "Anatomy of a Deal, a case study of the PBR Automotive, USA site selection." I have examined the final copy of this thesis for form and content and recommend that it be accepted in partial fulfillment of the requirements for the degree of Master of Science in Planning.


George Bowen, Major Professor

We have read this thesis and
recommend its acceptance:

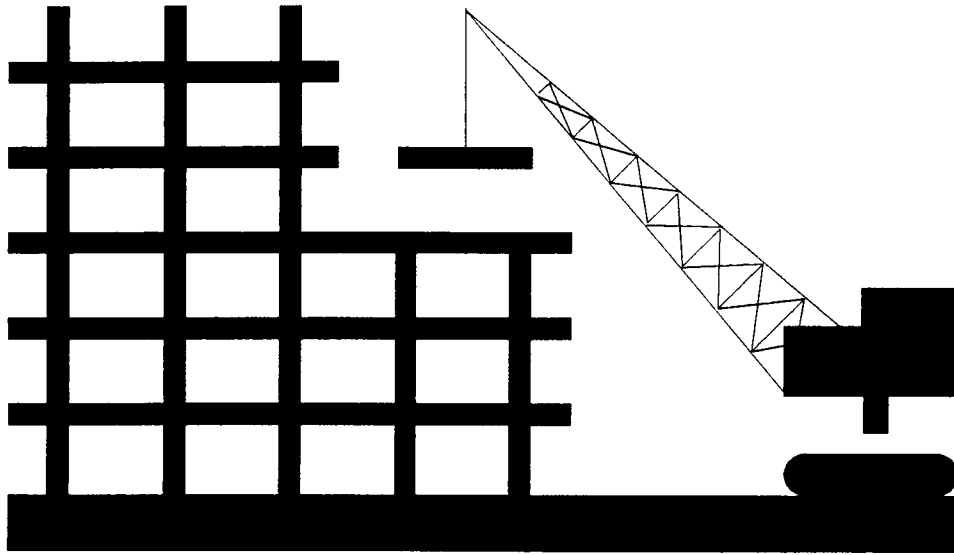




Accepted for the Council:


Associate Vice Chancellor
and Dean of the Graduate
School

ANATOMY OF A DEAL
A CASE STUDY OF THE PBR AUTOMOTIVE U.S.A. SITE SELECTION



A Thesis
Presented for the
Master of Science Degree in Planning
The University of Tennessee, Knoxville

David Douglas Birchim
August 1997

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CHAPTER 1

Statement of Purpose, Methodology and Research Questions

Introduction

The United States has an economy which is very dynamic and fluid. Industries which were once concentrated in the big cities of the North have migrated throughout the country. This movement of industry continues today and it is stimulated by economic development agencies. Economic development organizations have the mission of attracting and selling their communities to companies which are expanding or relocating their operations.

There are two goals of economic development, the first is to create jobs in the community. The expansion of the job base will improve the personal financial status for the workers, improving their quality of life and introducing more commerce into the local economy. The second goal of economic development is to generate more tax revenue for local governments to use for vital services such as infrastructure maintenance and improvement, education, police, fire service and others. This revenue is created through property taxes, tax increment financing, re-payment provisions, etc. Additionally, many industries use an enormous amount of electricity, natural gas or water, generating income for local utility providers. Utility companies will use this revenue to improve and expand their services, thus providing another valuable service to the community.

The process of attracting a company into a community is a complex mixture of real estate development and salesmanship. In order to make a company want to locate their

business in an area, the community must first have property to sell. Industrial property is the "hard" merchandise that the prospect is looking for. To stay competitive with other communities, this land must meet several criteria. There is basic criteria that all industrial land must meet such as transportation access, access to workers, a site which is flat and large enough to handle the development, etc. Another aspect of industrial property which is vital for development is the availability of the proper utilities which are necessary for the businesses operation.

When a business park (or any industrial property) is developed, prior planning should be done to target the type of business, which is most suitable for the property. Once they are identified, the proper utilities for that industry type are put in place on the site or close enough for easy linkage to the site, and this will help to ensure that the community is locating its industry in the correct location and that the company will be attracted to it. The process of identifying specific areas, which are most suitable for specific industries, leads to the creation of the development strategy. For example, if the community is in an urban area, they may see an opportunity to attract corporate headquarters facilities, so their strategy might be to develop upscale office parks with excellent visibility and communications infrastructure. A rural community might try to attract warehouse and distribution centers as part of their development strategy and place a park near a highway for easy truck access.

Once the community has developed a parcel of industrial land, it must sell the prospect the "soft" merchandise. The soft merchandise encompasses many tangible and intangible aspects of the community including leadership, quality of life, employment rates,

education quality, political stability, financial stability and others. These criteria are very important in the decision making process of the company and can be difficult to sell (or to improve) if they are deficient. These aspects of community life should also be taken into account during the creation of the development strategy. For example, if a community has poor air quality because of its geographic location, they would not target industries that produce high volumes of air pollution.

A third aspect of site selection that has stimulated movement in industry is the granting of incentives. Today, incentives can take many forms such as tax relief, free or low cost land, money for training workers, money for infrastructure improvements and others. The advantage of having money to offer companies is that it can be used to make improvements that benefit the entire community, such as site improvements, apart from the goal of creating jobs. The disadvantage of incentives is that even if there are no physical improvements necessary for the site or training that needs to be done, every business now expects some free money. Recently, the State of Alabama gave the Mercedes Benz Corporation over \$250 million dollars to locate an automobile manufacturing facility in Vance, a small city between Tuscaloosa and Birmingham. This landmark deal shows how quickly the costs of incentives can escalate when states are competing with one another for a prospect. Whether or not this huge investment will pay off for Alabama remains to be seen. The state's motivation for such a bold move had as much to do with creating jobs as it did with increasing the prestige of the state to large manufacturers. Economic developers and industry executives still use this deal as the

focal point of debate over incentives and the lessons learned from it continue to influence both the public and private sides of industrial site selection.

This thesis is not a critique of the philosophy of granting incentives to businesses, it is a case study of a deal to bring a large manufacturing facility to Knox County, Tennessee. It will attempt to show the stages in which the deal progressed, and how the company, The Development Corporation of Knox County and the State of Tennessee eventually reached an agreement to build the plant. It will take into consideration all aspects of site selection and which aspects were the most important to the company and how they approached them. It will highlight the roles of all of the players involved and the organizations they worked for. Additionally, this study will outline the incentives that were offered to the company and the changes these incentives went through before the deal was finalized. The thesis presents a “snap shot in time” of economic development in Knox County and Tennessee.

Statement of Methodology

The case study method is the approach that will be taken for this thesis. The typical sources of information which will be used include interviews, direct observation, correspondence and official records. Additionally, some data will be gathered from magazine and journal articles, a literature review on the subject and statistical data from public and private sources. Data will also be gathered directly from phone logs, journal entries and interoffice memos. The author was an observer of this deal by virtue of working at The Development Corporation of Knox County at the time. Definitions of key

terms, acronyms and concepts will be made clear as well as a timeline of the event, which will shed some light on the chronological steps taken during the process of negotiations.

Research Questions

Primary Question

How are industrial site selection deals structured?

Secondary Questions

1. What is the Development Corporation of Knox County?
 - a) How was it created and why?
 - b) What is the Chamber of Commerce's role in local economic development?
 - c) Who are the other important players in this process?
2. What is the development strategy of Knox County?
 - a) How does Westbridge Business Park fit into the development strategy?
 - b) How does this prospect fit into the development strategy and what does TDC want from the prospect? What are performance guarantees?
 - c) Why is time important to the development strategy and this deal?
3. What is the role of incentives in the deal?
 - a) The TIIPs program, what is it, how does it work and where does it come from?
 - b) Local incentives, what are they and how influential are they?
4. How does local and state politics influence the deal and incentive package?
 - a) Why was the TIIPs formula changed and how did it effect the deal?

- b) How much money did the state give and for what?
 - c) How much money did TDC give and for what?
5. How does Tennessee's state incentive package compare with neighboring states incentives?
- a) What is attractive about Tennessee and what is Tennessee lacking?
 - b) What is attractive about neighboring states incentives?
6. How does Tennessee's state tax structure influence the deal?
- How does Tennessee's tax structure compare with neighboring states taxes?
7. What are the physical location and infrastructure issues that influenced this deal?
- How was electrical power supply negotiated between the prospect and utility provider?
8. What does Knox County stand to gain from their investment in this company?

Introduction to Knox County, Tennessee

Knoxville/Knox County is located in the heart of East Tennessee at the foothills of the Great Smokey Mountains. Knox County is approximately 506 square miles in area, while the Knoxville MSA is approximately 2,750 square miles in area. It is situated roughly 225 miles northeast of Atlanta, Georgia and 117 miles east of Nashville, the Tennessee state capital. Knoxville sits at the junction of U.S. Interstate 75, running north-south from Maine to Florida and U.S. Interstate 40 running east-west across the entire continental U.S. and Interstate 81, giving it excellent transportation access to most

domestic markets and it is within one day's drive of 75% of America's population.(GKCOC,1996)

For moving freight across land, there are 65 regular route common motor freight companies located in Knox County, and 20 smaller cartage companies. Additionally, rail service is provided by both CSX Transportation Systems and Norfolk Southern Railway Systems. Other transportation infrastructure includes 6 river terminals and 62 barge lines on the Clinch and Tennessee Rivers which connect to the Great Lakes and the Gulf of Mexico through the Tennessee-Tombigbee Waterway.(GKCOC,1996)

Air service, both passenger and freight, is provided at McGhee Tyson Airport. This airport has over 120 daily direct passenger flights to 13 hub airports. McGhee Tyson Airport also handles air cargo, which in 1994 amounted to 36,224 tons and it is the site of a 27,000 square foot warehouse designated a Foreign Trade Zone, in which foreign imports can be stored duty free until shipped out for sale. Executive air service is also available at Island Home Airport, located in the city of Knoxville.

The Knox County community is a growing one, its population in 1970 was 276,293 and grew to 335,749 by 1990, this is a 21.5% growth rate. The Knoxville MSA population reported for 1994 was 631,097. (TDC, 1996)

Employment figures from the region indicate a very favorable business climate. The economy is diverse and no single sector accounts for more than 25 percent of the areas total employment. The current unemployment rate for Knox County (1995) is 3.6%. This figure has been relatively stable for the past 7 years. During the time period between 1988 and 1995, the unemployment rate has never reached above 5.7%. This figure is at

least partially misleading however, because of ongoing and projected downsizing at major facilities such as TVA and The Oak Ridge National Laboratories that are managed by Lockheed Martin. Lockheed Martin's employment figures ran from a high of over 16,000 in 1993 to a current level of under 14,000. The loss of these technicians and scientists, and strategies to retain these high-paying jobs, forms part of the basis for the development strategy followed by Knox County. (GKCOC, 1996)

One reason for the favorable employment rate is the high quality of the workforce, and this can be attributed, at least in part, to the quality of education. Knox County's public school system has served both the city and county in a unified district since 1987. It provides quality instruction through 52 elementary schools, 13 middle schools, and 13 high schools as well as 2 magnet schools and a variety of adult education centers. In addition to these public schools there are over 15 private and parochial schools in the community. The student to teacher ratio in 1993 was 19:1. There were 2,949 high school graduates in Knox County in 1993, down from 3,592 in 1988. Of all Knox County graduates, 70.1% continue their education after graduation. The number of students taking the ACT from this school district in 1993 was 1,815, with a composite score of 20.9, rising above the Tennessee average of 20.2 and the national average of 20.8. (GKCOC, 1996)

Knoxville is also the home of the main campus of the University of Tennessee. Current enrollment figures place the student body population at 25,251, with 18,735 undergraduate students and 6,516 graduate students in over 300 fields of study. The University was founded in 1794 and is nationally recognized as one of the highest value

public education institutions in the country. The University of Tennessee has an excellent athletics program which is supported by a huge number of fans and alumni who come to Knoxville every Fall to watch the Volunteer football team play in the largest college football stadium in the country. The University, with its outstanding academic and athletic programs, is a permanent fixture in Knoxville and contributes greatly to the economic and social fabric of the community. This resource can not be underestimated when evaluating a community for possible business site selections.

Pellissippi State Technical Community College is located in West Knox County and is a fully accredited two-year college offering associate degrees and certificate programs in business, computers, engineering and scientific technologies to over 8,000 students. Pellissippi State located its new \$45 million main campus on Pellissippi Parkway, in the heart of the Technology Corridor. This location is ideal for industries who wish to locate in an area where state of the art facilities can train workers for future employment and retraining.

Research and development facilities are located on these campuses, at the National Laboratories at Oak Ridge and in 11 experimental science facilities that are designated as "user facilities" in the Knox County area. These facilities include: the High Temperature Materials Laboratory, the Bioprocessing Research Facility, the High Flux Isotope Reactor, the Environmental Research Facility, the Shared Equipment Program, and the Surface Modification and Characterization Research Center. (TDC, 1996) With all of this activity going on it is not surprising that Knox County is home to the highest per capita concentration of technical PH.D.'s in America. This also represents an invaluable

resource to industries considering Knox County as a location for manufacturing and high-tech processes.

When evaluating Knox County as a potential site for business, there are also important facts to know concerning the State of Tennessee as a whole. Tennessee maintains the following impressive business climate; it is a Right-To-Work State (meaning mandatory union shops are illegal), it maintains a balanced budget, it has no personal income tax and it has a AAA bond rating. These attributes are indeed important to companies coming from states burdened by high taxes and influential unions.

The Development Corporation of Knox County

The responsibility for economic development in Knox County falls primarily upon The Development Corporation of Knox County and the Greater Knoxville Chamber of Commerce. The Development Corporation (herein referred to as TDC), is a private, non-profit (501c3) corporation that was formed in 1991. TDC's stated mission is to "create wealth", this mission relies on the philosophy that "individual wealth comes from quality job opportunities, community wealth from investments and community development, and corporate wealth is achieved in an atmosphere where responsible businesses can grow and prosper" and the result of this work will lead to "a high value business location for your company that meets the unique needs of your business". (TDC, 1989)

Some of the functions of TDC include; "assembling a site, developing a building, facilitating permitting, assessing various infrastructure needs and review possible incentives that might be available for a project" (TDC, 1992). It is a commonly stated

euphemism that TDC is in the “hardware” side of the business, i.e. selling and helping develop the physical site, while the Chamber of Commerce is in the “software” side of the business, i.e. selling the prospect on the community and quality of life and business climate.

The Greater Knoxville Chamber of Commerce offers “intellectual and other non-tangible resources to help in your relocation process”, this includes; employment recruiting, pre-screening of applicants, instructional videotape development, pre-employment, classroom and supervisory training, quality control and team training, cross-training of employees and training manual and employee handbook production. (GKCOC, 1996) These stated functions are valuable but perhaps the most valuable service provided by the Chamber of Commerce is its role as the center for communication, and contacts, between local businesses and government. This leaves TDC with the responsibility of selling and developing the actual physical site.

TDC is a unique organization in that it is a private corporation that works for the welfare of the community. The rationale for privatizing the “public” function of economic development had to do with the granting of incentives. In Tennessee, it is a violation of law for public agencies to grant incentives to private concerns. This is a serious obstacle for a community to overcome in order to compete with states that have much more liberal laws concerning the relationship between public and private interests. In order to remain competitive, Knox County formed TDC, under state charter. TDC works for the county, under contract, to fulfill the county’s economic development mission. In this way, the

county can grant money to TDC and TDC can use this money (with guidance from the county executive and county commission) to offer incentives to industry.

TDC is run by an executive director, currently Melissa Zeigler, and a ten person Board of Directors. This Board consists of: TDC's Executive Director, the County Commissioner (currently Tom Schumpert), the Chairman of the Board (currently Pat Wood, Sr.), the Chair of the Knox County Economic Development Committee (currently Howard Pinkston), the Chair of the Knox County Commission (currently John Greiss), the Chairman of the Knox County Commission Finance Committee (currently Frank Leuthold), the Chair of TDC's Existing Industry Committee (currently Hank Bertelkamp), the Chair of TDC's Property and Construction Committee (currently Lee Iglehart), the Vice Chairman of TDC's Finance Committee (currently Thad Cox, Sr.) and the Secretary/Treasurer Chairperson of TDC's Personnel Committee (currently Sharon Miller). (TDC, 1996)

The role of the Board of Directors is to review and approve all matters concerning transactions between TDC and all private and public agencies and entities it works with. The membership of the Board reflects the public/private nature of TDC. The private sector influence has positively impacted the philosophy of economic development in Knox County by thinking of this business in terms of simplicity, consistency and speed as opposed to the traditional public pace of beaurocracy. The public sector influence has positively impacted the process also, by providing checks and balances to the procedures involved in development and ultimately the approval of the political hierarchy whose responsibility is to protect the public's welfare.

This mix of public and private sector interests has proven to be quite successful for the community and this blending of people from many backgrounds was used also in the formation and updating of the development strategy.

CHAPTER 2

The Development Strategy of Knox County

Introduction

Knox County owns and manages an industrial property inventory which includes over 1,200 acres of land in four different business parks. These parks are; Westbridge Business Park, Eastbridge Business Park, CenterPoint Park and the I-640 park, adjacent to the Knox County Farmer's Market. There is an additional park being developed at the time of this writing at the eastern junction of Pellissippi Parkway and Hardin Valley Road which will add an additional 154 acres to the inventory in the near future. (TDC, 1996) All of this land was acquired and developed with relatively specific future tenants in mind. In addition to the parks which TDC manages, there are over 1,000 acres of private industrial property at Forks of the River Industrial Park and additional acreage in several smaller business and office parks throughout the county which also contributed to Knox County's development strategy. The development strategy is constructed and amended by a vehicle called the "strategic planning process".

Strategic planning originated with military planners doing work with logistics but it was quickly adopted in the private sector. During the decades of the 1980's and 1990's, American businesses, particularly major corporations, have used strategic planning as a critical management tool and now increasingly, the public sector is seeing the value of this activity as a means for developing competitive positions for the future.

In the private sector, strategic planning involves analyzing a company's business environment, forecasting the future of their markets and competitors, and evaluating their

current products and services to determine how they will fare in the future. Plans are adjusted on the basis of this analysis to enhance profitability in an ever-changing business climate.

Local governments are not concerned with profitability in the strict sense of the word but they are concerned with maintaining and enhancing the social and economic prosperity of the community. Strategic planning is a process, which helps the community anticipate and take advantage of change. The community begins to look at changes beyond local boundaries and the impact national and regional market trends have on local economics. (TDC, 1995)

There are seven basic steps involved in the strategic planning process:

1. Organization: Establish objectives, identify key players, define the structure of the process, establish a planning team, identify data requirements and develop the final work program and schedule.
2. Environmental Scan: Focus on long term issues, looking at “megatrends” or fundamental forces that may shape the community’s future, determine major trends, issues, problems and opportunities.
3. Establish Goals: Based on trends and issues, establish broad goals for each important issue identified in item 2.
4. External Analysis: Review of external factors or uncontrollable factors affecting issues identified in item 2.
5. Internal Analysis: Resource audit designed to identify strengths and weaknesses as they relate to key issues.

6. Strategy Development: Strategy formulation is based on results of items 3 thru 5, it consists of outlining specific actions that lead to the attainment of strategic goals, within the context of the external and internal environments.

7. Action Plan: Results in realistic actions that address timing, key players, political issues, resources required, and accountability.

(CUED, 1983)

Knox County's Economic Strategic Plan

Knox County's development strategy is codified through several plans that have been periodically updated with additions and amendments. The author will focus only on the "economic development" portions of these plans that are pertinent to this time frame. Therefore, the material which will be analyzed to provide insight into Knox County's development strategy will consist of hand written notes and work produced by team member Melissa Zeigler as well as the actual published reports including Economic Development Summary and Issues from the General Plan 2005 (1990), The Development of an Economic Strategic Plan; Foundation Phase Summary Report (September 1990, Ernst and Young), KnoxVision 2000: A Strategic Plan for the Knox Community (April 4, 1991), and Knoxvision: Strategic Plan, Goals and Actions (1994). The bulk of the analysis will focus on KnoxVision 2000, because it forms the basis for the present development strategy followed by TDC.

Stage 1: General Plan 2005

The first economic development plan influential to TDC's development strategy is from the General Plan 2005. In the economic development summary and issues from this plan, seven issues were recognized and goals, objectives and strategies were produced to explore these issues.

Issue #1 - Land Inventory and Infrastructure - The need for a competitive inventory of available industrial sites with infrastructure in place. (General Plan 2005, 1990)

Issue #2 - Central Business District - The need to maintain the central business district as an important development center. (General Plan 2005, 1990)

Issue #3 - Training and Education - The need to develop and maintain a well-educated, well trained labor force. (General Plan 2005, 1990)

Issue #4 - Support Services for New Growth - The need to maintain a high level of support services as a means of attracting new industry. (General Plan 2005, 1990)

Issue #5 - Regulations - The need for better understanding of pertinent regulations and statutory requirements as they relate to economic growth and development in the community. (General Plan 2005, 1990)

Issue #6 - Communication and Coordination - The need for effective coordination and communication among the community's economic development agencies and groups. (General Plan 2005, 1990)

Issue #7 - Local Tax Laws and Structure - The need to examine state and local tax laws as they relate to economic development. (General Plan 2005, 1990)

Of the issues presented in this plan, issue #1, #4 and #5 are most important to TDC's strategy.

The need for a "competitive" inventory of available industrial sites is a major concern for TDC, and was recently expounded upon on March 20, 1996 at the Knox County Commission meeting. The adjective "competitive", in this case refers to several varieties of property suited for different industry types, "that can be marketed easily for new development, to be marketable, property generally is under the community's control, is supported by the necessary infrastructure, including utilities and transportation, and is appropriately zoned for new development." (General Plan 2005, 1990) TDC has attempted to address this issue by acquiring and preparing four industrial/business parks with different target industries in mind as tenants.

CenterPoint Business Park is a 55 acre park catering to office, headquarters and research and development. It is a more "upscale", more visible and more exclusive than any other park in the county. Because of this, its price per acre is from \$65,000 to \$135,000. (TDC, 1996)

Westbridge Business Park is a 300 acre park catering to precision manufacturing. It is a less visible park than CenterPoint and it has direct rail access as well as excellent truck access. It also has the large capacity utility services needed by manufacturers. Its location (close to Pellissippi Parkway, Oak Ridge National Laboratories and Pellissippi State Technical Community College) make it ideal for high-tech manufacturing, and this has been its main marketing goal. Land in this park sells for \$55,000 acre. (TDC, 1996)

Eastbridge Business Park is located in Mascot, Tennessee. It is a 690 acre park catering to larger scale, lower-tech manufacturing, sub-assembly and assembly line operations. This park is in a rural setting, off the beaten path, yet close to major transportation arteries. Eastbridge Business Park land sells for \$15,000 to \$20,000 acre. (TDC,1996)

The I-640 Park is an undeveloped 20 acre site adjacent to the Knox County Farmer's Market. It is intended as a center for manufacturing and distribution of produce and foodstuffs. It's location and access makes it ideal in this role and it would be most efficient with one large tenant.

With these parks in place, and Forks-of-the-River Industrial Park fulfilling the role as a location for heavy industry, TDC has moved forward with its land inventory. However, this is an on-going process. When these parks have been built out, more land must be acquired and developed for the market. This is going on at the present time, with the acquisition of 154 acres of land at the junction of Pellissippi Parkway and Hardin Valley Road, one-half mile from Westbridge Business Park. This new park is intended to fill the void of land that will occur when Westbridge is built out. This new park will cater to the same type of tenants as Westbridge, however it has the excellent visibility of CenterPoint, making it more exclusive than Westbridge.

Issue #4, support services for new growth, is concerned with improvements in local transportation and communications services. The objectives presented with this issue include improvements to local highways, air service, barge access, rail service, mass transit and telecommunications. TDC has attempted to address this issue by using the existing

transportation services to their highest and best use and by improvements to areas surrounding TDC's developments. Hardin Valley Road, which fronts Westbridge and the new park site being developed at Hardin Valley and Pellissippi Parkway, is being widened from 2 to 4 lanes. It is interesting to note that this improvement was done by the county well after Westbridge had been developed and almost one-half occupied by major tenants including Fuji-Oozx, Omni Metals and International Paper. Recognizing the need to improve Hardin Valley Road, and the actual physical improvements (which at the time of this writing is still underway) took a great deal of time, this however did not affect the marketability of the park but does show the urgent need for more coordination of county services.

Issue #5, the need for better understanding of pertinent regulations and statutory requirements has also been specifically addressed by TDC with its "one-step" permitting process. This is a process where TDC can accept or deny any building or site plans for its parks, during the design review process, and these plans will in turn be accepted or denied by MPC based on TDC's recommendations. This process takes one "tier" of bureaucracy out of the development process. The rationale for this "one-step" permitting is simple, TDC has eased the burden of regulation, if only slightly, on the architects and engineers who plan the buildings and sites in TDC's parks.

Issues #2,3,6 and 7 are very important to the business climate of Knox County and should not be discounted. However, they are not directly relevant to TDC's development strategy. Item #6, which stresses the need for better communication between development agencies is still a major problem.

The issues that are important to TDC as a foundation for its development strategy continue with the next strategic plan, KnoxVision 2000, which attempts to take what was done in the General Plan 2005 and improve it.

Stage 2: KnoxVision 2000

In order to develop a strategic plan, TDC began by seeking the guidance of a qualified consultant. On August 21, 1989, TDC began advertising a request for proposals for the job of strategic planning consultant. The job was commissioned to the firm of Ernst and Young, a top national accounting firm and Economic Research Associates, a Boston consulting firm. The cost to provide these consulting services was \$89,000 which was approved by then Knox County Executive Dwight Kessel. (Knoxville News-Sentinel, June 16, 1990) This strategic plan included not only Economic Development (1), it also specifically addressed Education (2), Environment (3), Governance, Community Leadership and Involvement (4), and Social Fabric (5). Each of these areas was explored by working teams made up of community leaders in each respective field. These teams had the task of identifying goals, objectives, and strategies. After this initial work was completed, a sixth team was formed from members of the respective individual teams and formed into the Implementation Committee and the Communication Committee. These committees took the goals, objectives and strategies and used them to form "Tactical Plans" for implementing the strategies already recognized. (Knoxvision 2000, 1991)

The economic development strategic plan was broken down into five working stages, generally following the stages of strategic planning outlined earlier. The first phase

was simply an introductory meeting. The next two phases, called Foundation 1 and Foundation 2, concentrated on establishing the background for analysis, the final 2 phases, called Strategy 1 and Strategy 2, focused on the mission, goals, and strategies designed to carry out the plan. The final step in the process is implementation, including adopting the plan and assigning responsibilities with which to carry it out.

The initial planning meeting was on June 15, 1990. At this time, the Economic Development Working Committee was assembled and given an introduction and calendar of events. The team members included: Dr. David Patterson (chairman), Hank Bertelkamp, Allen Borden, Richard Cate, Mike Collins, Dr. James Eblen, Dr. William Fox, Robert Freeman, Mike Magill, Harold Woods, and Melissa Zeigler. Representing the Metropolitan Planning Commission was Joan Blanton and Ewing "Buz" Johnson.

This team assembled again on September 7, 1990 for the Foundation Phase of the Workshop with the goal of producing a preliminary mission statement. During this workshop, the team worked through six components of the "vision of what the community would like to become" (Ernst and Young, 1990) Armed with the demographic analysis of Knox County, the team worked through the following steps; Vision components, Critical Success Factors, Existing and Potential Obstacles, Best and Worst Characteristics of the Knox County Community, Services and facilities, and formulating the Mission Statement.

The group reached the following conclusions regarding the Vision of the future by identifying the six most critical vision factors, which are:

1. Educational excellence at all levels
2. Quality jobs

3. Balanced economy
4. Unified government
5. Strategy implementation
6. Progress against crime, drugs and poverty (Ernst and Young, 1990)

In order to achieve its vision, the Critical Success Factors must occur. Twenty-six of these factors were identified and the top six were seen as crucial to the vision.

1. Improve K-12 education
2. Develop shared vision for the community
3. Expand employment opportunities
4. Preserve the environment
5. Offer a trained labor pool
6. Maintain a low crime rate (Ernst and Young, 1990)

After developing a vision of the future and identifying critical success factors to give birth to that vision, the next step was to analyze the existing and potential obstacles. This category includes both real and perceived obstacles that "potentially may inhibit the success of the Knox County Community". The team identified 21 positive characteristics and 25 negative characteristics of the Knox County community and it narrowed the list down to 8 "best" characteristics and 6 "most critical negative characteristics".

Positive Characteristics:

1. Large labor force and good work ethic
2. Market accessibility
3. Very few Union problems

4. Quality of life
5. Natural beauty
6. Higher education
7. Low cost of living
8. Wage scales (Ernst and Young, 1990)

Negative characteristics:

1. External image
2. Community resistant to growth
3. Utilities
4. Education and educated labor
5. Short-term government vision
6. Venture and start-up capital (Ernst and Young, 1990)

Next, the team graded the community's services and facilities. The point of this category was to identify important infrastructure components and the team's "current perception as to the quality of the services and facilities". (KnoxVision 2000, 1991)

The three highest graded services and facilities:

1. Health care
2. Advanced education
3. Cultural and performing arts (Ernst and Young, 1990)

The three lowest graded services and facilities:

1. Public transportation
2. K-12 education

3. Job opportunities (Ernst and Young, 1990)

Finally, the team took considerable time and effort to produce a mission statement. This critical step is meant to provide a focus for the activities and strategies, which will follow in the next step of the strategic plan. This mission statement is only preliminary and “represents the shared values of the group and their collective vision”. This mission statement was produced by the entire staff of teams, not only the economic development team, and is basically a short and nebulous summary of the work done during the Foundation phases.

The mission statement for the Knox County Community is:

To be a progressive and unified community which believes in and is recognized for:

- *Excellence in education at all levels for all citizens*
- *Economic vitality and balance which provides meaningful employment opportunities*
- *Good government and community leadership that is responsive to the needs of our citizens*
- *A safe, clean and healthy environment which contributes to an excellent quality of life*

(KnoxVision 2000, 1991)

At the end of the Mission Statement Workshop, leadership participants formed goal teams to draft preliminary goal statements, potential objectives and strategic initiatives. The economic development team identified five initial potential strategies;

1. Develop risk capital awareness programs
2. Create incentives to attract venture capital
3. Develop minority business programs

4. Continue focus on industrial site development
5. Evaluate additional funding for schools (Knoxvision 2000,1991)

This work ended the Foundation Phase of the Strategic Planning Project. The economic development goal team then moved into the Strategic Phase (I and II), where they prepared recommendations for public policy, intergovernmental activity, capital projects, ongoing programs and other projects. They reviewed these programs and projects in terms of management capacity, financial feasibility and political support. They wanted to determine if “our efforts and our use of funds best match our priority objectives”. (Zeigler, 1990) Finally, they organized their recommendations into specific strategies that will be most helpful in achieving the overall goals and objectives. The goals, objectives and strategies for this phase are summarized as follows:

GOALS

To foster a vital and balanced economy built on the attraction, creation, retention, and expansion of businesses by:

- Capitalizing on our areas of economic strength
- Increasing quality employment opportunities balanced among the service, distribution, and manufacturing sectors
- Encouraging entrepreneurship and small business development
- Increasing and broadening the base of community wealth
- Increasing corporate participation

(KnoxVision 2000, 1991)

OBJECTIVES

- To achieve \$500,000 of funding in the capital pool by 1992
- To have a plan to increase minority and technology business
- To increase the number of stable minority businesses by 10% by 1993
- To increase new business starts by 20% by 1993
- To attract 20 new businesses by 1994
- To decrease the number of displaced workers by 30%

(KnoxVision 2000, 1991)

STRATEGIES

- Develop a strong, coordinated Economic Development team
- Develop a strong business retention and expansion program for our existing business and industry
- Increase tourism in our community and build on the meeting and convention business
- Develop a targeted business recruitment program
- Develop a mechanism to increase the number and viability of minority and technology businesses
- Develop a mechanism to increase the linkage between UT and local business
- Continue to pursue regional cooperation and promotion

(KnoxVision 2000, 1991)

Stage 3 - Knoxvision Strategic Plan: Goals and Actions

The Knoxville/Knox County Metropolitan Planning Commission, the planning arm of Knox County, in its published report Knoxvision, Strategic Plan: Goals and Actions, lays out economic development, environmental, governmental, social and educational goals and action ideas for the community to strive for. This strategic plan is an update of the Knoxvision 2000, A Strategic Plan for the Knox Community, published in 1991. Under the economic development section, the general goal is to “improve the economic base of the community” and there are five additional goals that lead to a more specific strategy. These goals do not mirror TDC’s development strategy exactly, because the city and county have somewhat different strategies, however they do represent the stated goals of the community, which includes Knox County. This plan has 5 goals with “action ideas” to implement these goals.

The first economic development goal that is expressed in Knoxvision is to “Develop specific long-range strategies for economic development through an analysis of local strengths and a rapidly-changing national and international economy”. (Knoxvision, 1994) To achieve this goal there are six specific action ideas that should be pursued according to MPC.

1. “ Become a national leader in the telecommunications/information revolution by assisting North American Phillips and Whittle Communications achieve a thoroughly integrated system of delivering educational services” This goal seems at least partially unattainable given that Whittle Communications is no longer in operation and North

American Phillips has just recently downsized their facility in Knoxville, moving parts of their operation to other locations outside the community. (Knoxvision, 1994)

2. "Utilize the community's present strengths in telemarketing to recruit additional prospects."
3. "Take advantage of Knoxville's strategic location and access to automobile manufacturers (e.g. Nissan, Saturn, Mercedes, Honda) to recruit automobile parts manufacturers." (Knoxvision, 1994)
4. "Establish a coordinated and cooperative health care system involving local hospitals and markets that model nationally." (Knoxvision, 1994)
5. "Examine ways in which the UT Institute of Agriculture might assist in setting up local businesses involved in the production and distribution of foodstuffs." (Knoxvision, 1994) The Development Corporation attempted to bring food distributors into the Knox County Farmers Market, located in East Knoxville, which it built and managed for a short period of time, but was unsuccessful in doing so and had to sell the facility.
6. "Capitalize on the significant scientific and technological strengths of the area (UT, TVA, ORNL) to promote high-tech start-ups and to attract new or relocating businesses." (Knoxvision, 1994) This goal is a primary goal of TDC and TDC's development strategy is focused on this mission to a very great degree.

The second economic development goal stated in Knoxvision is to increase tourism by expanding the convention center, staging more events at the local sports venues and to explore the development of a major tourist attraction, like the aquarium at

Chattanooga. (Knoxvision, 1994) This goal does not apply to TDC's development strategy.

The third stated goal of Knoxvision is to "enhance local facilities, infrastructure and sites for the purpose of economic development". (Knoxvision, 1994) This goal encompasses many different city and county departments, including TDC, the Highway Department, MPC and the Department of Public Works as well as the state of Tennessee. Physical infrastructure improvements contribute to an enhanced economic development climate directly, by improved transportation networks, modern telecommunications upgrading, basic improvements such as sewer lines expansions and indirectly by improving the quality of life.

The action ideas for implementing this goal that apply to Knox County and TDC include:

1. "Create a pool of available industrial sites before current supply is exhausted."
(TDC, 1994)
2. "Lobby vigorously and concertedly for significant improvement in roads and highways." (TDC, 1994)

Other action ideas within this goal topic that do not apply to Knox County, but rather the City of Knoxville include redeveloping old industrial sites (at the South end of Gay Street) and waterfront development. Additional action ideas included expanding McGhee Tyson Airport and encouraging private development in industrial parks.
(Knoxvision, 1994)

The fourth goal of Knoxvision is to “Become more effective in attracting or creating new business and protecting current business”. Knoxvision, 1994) This goal does practically apply to Knox County and TDC, however, none of the action statements have been followed since the writing of Knoxvision. Although it is certainly a very general principle of economic development, the action ideas which are meant to bring about this goal have to do with, “creating a local venture capital fund for entrepreneurial activities” (which has not happened), “support and show greater appreciation for local companies” (the existing industry program for Knox County no longer exists as of the writing of this thesis), “developing a minority business outreach program” (Knox County does not have such a program within its economic development programs), “encouraging UT and Pellissippi State to establish training sites in Central and East Knoxville” (this has not happened as of the writing of this thesis), “develop retraining programs for displaced workers” (this has not happened) and “to provide expanded public transportation in West Knox County.” (Knoxvision, 1994)

The final goal of Knoxvision is to “Encourage the development or strengthening of partnerships to stimulate economic development”. (Knoxvision, 1994) Of the four action ideas presented with this goal, two apply to TDC and two do not apply, those that apply are;

1. “Establish quarterly meetings of the Chamber of Commerce, Tennessee Resource Valley, the Tennessee Technology Foundation, the Tennessee Center for Research and Development, TDC, and the city development office to discuss issues of mutual concern” This is being done more or less informally at the present time. The need for

greater cooperation between economic development entities and agencies is an ongoing process and is still an issue of concern with all parties. (Knoxvision, 1994)

2. "Become more involved with and supportive of major development in Oak Ridge, and take advantage of significant DOE funds to be invested in retraining laid off workers and in technology transfer." This applies directly to Knox County's development strategy. One of the biggest selling points of Westbridge and CenterPoint Business Parks is their proximity to ORNL and the technology transfer opportunities that can be created there. TDC endeavors to help the scientific, business and research and development communities of Oak Ridge in any way they can. (Knoxvision, 1994)

The remaining two action statements with this goal are to re-establish chambers of commerce meetings for all of the regions counties and cities and to promote (or support) UT, TVA and ORNL. These two actions would have positive impacts on TDC's growth but they are not directly concerned with its development strategy and are in fact not being done at this time.

This series of economic development goals and action plans represents the last plan applicable to TDC and Knox County's development strategy.

Summary of TDC's Development Strategy

From the metamorphosis of these 3 plans and TDC's unique role in the county's economic development, TDC has created its development strategy and development philosophy. There is a land component and this component fulfills the physical location requirements of the strategy by being tailored for different target industry types

(manufacturing, distribution, heavy industry, office/r&d). The main emphasis of TDC's strategy focuses on the following issues:

1. Maintaining an inventory of available industrial land in different geographic locations within the county. These areas will be tailored specifically to "target" industry types and thus each parcel of land must conform to the requirements of these industry types.
2. Working with the major research institutions (UT, ORNL, Lockheed Martin) and educational institutions (UT, Mississippi State) in the area to provide support to new industry through research and development, technology transfer and training. This provides the basis for an incentive to industry which is very attractive to high-tech companies.
3. Maintaining close ties to the local regulatory bodies (MPC, County Codes Department, County Commission) in order to expedite the regulatory process.
4. Maintaining a pool of money in which to provide direct incentives to companies without relying on the state to provide all of the direct incentives.
5. Working with the Greater Knoxville Chamber of Commerce as a marketing body for prospective industry. TDC also markets its property directly when queried by prospective clients.
6. Attempt to retain the scientists, researchers and academics who are losing their jobs in Oak Ridge by attracting high-tech industry.
7. Attempt to feed off the regional automotive manufacturing industry and expand it by attracting automobile manufacturing and auto parts industries.

These issues represent the present focus of the development strategy and are open to change as the business climate in the county and region changes.

CHAPTER 3

Westbridge Business Park

Westbridge Business Park is a 300 acre light industrial and precision manufacturing oriented business park located in West Knox County. Westbridge is situated on Hardin Valley Road, less than one-half mile from Pellissippi Parkway. The details of Westbridge's utilities, topography, rail and access will be explored later. This section gives an overview of how Westbridge (and Eastbridge and CenterPoint Parks) fit into TDC's development strategy.

Westbridge Business Park's location is very important to its potential success. It is important to note that the Pellissippi Parkway is a state designated "technology corridor". It is a 4 lane, divided scenic highway connecting Oak Ridge to Knoxville. The technology corridor was created in 1983, by the State of Tennessee, as a "regional economic development concept intended to promote long-range economic growth by capitalizing on the technical and scientific research base in the Oak Ridge/Knoxville area" (TTC, 1985). It fulfills this mission by strictly regulating development along the corridor through zoning and design standards. The corridor is zoned BP (Business Park) and SP (Scientific Production) and this allows relatively specific uses oriented towards high-technology businesses. The design standards are intended to require technology firms to adhere to strict design guidelines for site development to promote a "natural" working environment in park-like or campus-like settings.

Westbridge Business Park is not located inside the tech corridor, rather it is adjacent to it and this gives it a tremendous advantage over property inside the corridor. Like the tech corridor, Westbridge also has design standards and restrictive covenants in place which strictly regulates site development and permitted uses. Westbridge is zoned I (Industrial), although some of the uses permitted under this zoning classification are not allowed in the park, such as demolition landfills, automobile wrecking and junk yards. Design guidelines are in place to assure a campus-like setting with an emphasis on landscaping and the preservation of green space. The fact that Westbridge is outside the tech corridor gives it a locational advantage. By the fact that Westbridge is zoned Industrial, it has a greater range of permitted uses than property less than one-half mile away. Additionally, being outside the tech corridor means developers do not have the “extra layer” of bureaucracy in dealing with the Tennessee Technology Corridor Development Authority (TTCDA) which regulates the corridors’ development.

Utilities in Westbridge Business Park

Electric

Dual feed electrical service is available in Westbridge. Service can be provided from two separate substations with an automatic transfer scheme. The Karns Substation and TVA’s BullRun-Lonsdale 161 kv transmission line provide the primary service and the backup substation is the Solway Substation and TVA’s BullRun-Alcoa 161 kv transmission line.

Westbridge has experienced only two "short term" outages of 5 seconds or less since the Karns substation was placed in service in 1992. The new Karns substation is adjacent to the park on Byington Solway Road and a main TVA transmission line is near the park. (KUB, 1996)

Water

Water service for Westbridge is provided by West Knox Utility District. A water line up to 6 inches can be made available within the park. The water tap fee is dependent on the size of the water line as follows:

1 inch water line (50 gallons per minute)	\$1,450 tap fee
1.5 inch water line (100 gallons per minute)	\$3,250 tap fee
2 inch water line (160 gallons per minute)	\$5,800 tap fee

The cost of the water meter is included in the tap fee. Water rates based upon the consumption figures provided by PBR are as follows:

<u>Year</u>	<u>Total GPD (gallons per day)</u>	<u>Cost per day</u>
1997	2,144	\$11.47
1998	83,667	\$230.11
1999	200,800	\$407.81
2000	284,467	\$541.86
2001	301,200	\$564.96

(WKUD, 1996)

Sewer Services

The sanitary sewer services for Westbridge are provided by West Knox Utility District. A sewer line can be provided up to 6 inches to meet the companies' requirements. The sewer tap fee is dependent on the size of the sewer service meter line as follows:

1 inch line meter	\$1,338 tap fee
1.5 inch line meter	\$3,000 tap fee
2 inch line meter	\$5,200 tap fee

Based on the consumption volumes provided by PBR, the sewer rates are as follows:

<u>Year</u>	<u>Total GPD</u>	<u>Cost per day</u>
1997	2,144	\$21.99
1998	83,667	\$273.58
1999	200,800	\$565.15
2000	284,467	\$707.28
2001	301,200	\$886.53

Volume discounts may be given to PBR considering the customers' potential utilization.

(WKUD, 1996)

CHAPTER 4

The Deal

Introduction

The deal to locate a PBR Automotive's precision manufacturing plant in Westbridge Business Park evolved over a period of 9 months. The main players in this deal were PBR Automotive, Inc., KPMG Peat Marwick (an independent consulting firm hired by PBR to analyze the financial side of the deal including the local and state sponsored incentives), Fluor Daniels Associates (an independent consulting firm hired by PBR to analyze the site), TDC, the Greater Knoxville Chamber of Commerce, and the local utilities providers. The actual structure of the deal remained fairly constant throughout the negotiations period, that is to say, TDC's proposal for land and incentives did not change structurally, and neither did the State's proposal. There were changes in the dollar amount of money to be provided to PBR, and what this money could be used for. This evolution of the deal was most influenced by the changes in the State of Tennessee's position on TIIP's funds and TDC's changes on dollar amounts.

The State of Tennessee's inability to provide a solid foundation for the distribution of its TIIP's incentives, in terms of how much money was to be provided and for what, created a great deal of conflict between the local and state economic development agencies. This "internal" conflict was precipitated by a lack of communication (the improvement of which was one of the goals of the development strategy) and by personality conflicts between two key players, Melissa Zeigler (executive director of TDC) and William Dunavant (State of Tennessee Department of Economic and

Community Development). Other changes that occurred to the deal were precipitated by PBR. The company, after making adjustments in their figures (for total investment in the deal), presented these changes to TDC, who in turn adjusted their figures (on incentives) accordingly.

The whole process began on June 17, 1996, when TDC was contacted by an industrial manufacturing prospect, using the code name "silverleaf", who were interested in looking at greenfield sites in Knox County. A greenfield site is one which is environmentally clean and has never been developed. They disclosed information regarding their total investment, total number of employees, the average salary of their workers, what they are producing, how large the facility will be and what the company needed in terms of raw materials. After this initial request for information, TDC assembled a packet of general information on the community and Westbridge Business Park. It is important to note that the prospect did not pick Westbridge as a potential site for their operation, but rather TDC picked Westbridge as the site, based on their development strategy. This prospect fit very nicely into the strategy that TDC had for Westbridge including their need for 25 acres (later 30 acres), their need for high-tech training (available at Pellissippi State Technical Community College), their potential need to utilize research and development facilities at Oak Ridge and their desire for a site with close access to a major transportation artery heading West.

On June 19, the first development proposal was prepared. This two-day turnover time was not requested by the prospect but was intentionally done at such a pace (causing a considerable amount of stress to TDC staff members) to show the prospect that TDC

was very serious about such a deal and that decisions regarding this deal could be done rapidly. It was at this time that the one-stop permitting ability of TDC was explained as was an assurance that local officials were highly motivated to proceed with this project. The intent in doing this was to reinforce the notion that TDC could get things done quickly, with total local cooperation.

Proposal 1

The Development Corporation in its initial proposal offered the following:

1. TDC will reserve a 25-acre site in Westbridge Business Park. The cost for this land at the market value is \$1,250,000 but TDC is will to give an \$875,000 discount for land and site improvements making the total cost to the company for the property \$375,000.
2. Knox County will waive building permit fees, a discount of \$20,000 to the company
3. TDC will reserve \$100,000 in CDBG funds for training of low and moderate income persons.
4. TDC will grant \$300,000 to the company for "appropriate uses to be mutually determined".
5. TDC will assist the company in acquiring the full amount of money available to it under the State of Tennessee's Jobs Tax Credit program, valued up to \$740,000.
6. TDC will assist the company in obtaining all required permits under the "one-stop" permitting process in order to expedite construction.

7. TDC will assist the company in assessing the research and development facilities and technology available at the Oak Ridge National Laboratories.
 8. The State of Tennessee will pledge \$650,000 in money through its TIIPs program.
- (TDC, 1996)

Summary of Proposal 1

Discount on 25 acre site at Westbridge	\$875,000
Tennessee Industrial Infrastructure Funds	\$650,000
Waiver of permit fees	\$ 20,000
Additional CDBG funds	\$100,000
Grant from TDC	\$300,000
Jobs Tax Credit	\$740,000
TOTAL	\$2,685,000

Following this initial proposal on the part of TDC, the prospect responded with a list of 10 requests for consideration; (PBR, 1996)

1. A 30 acre site provided to the company at no charge, valued at \$1.5 million
2. All site preparation including grading, drainage, extension of utilities to the site and all environmental testing at no charge, estimated value of \$1 million, the environmental assessment to be done by September 30, 1996
3. A trained production workforce, specifically, up to 35 people in intense training for at least 30 days in Australia, including pre-employment screening and training, the company

wants "a commitment on an end result (a trained workforce) not a dollar commitment".

(Zeigler, 1996)

4. \$2.5 million for appropriate uses to be mutually determined by the company and TDC with payments being made over 5 years as follows:

year 1 - \$600,000

year 2 - \$600,000

year 3 - \$400,000

year 4 - \$200,000

year 5 - \$200,000

5. A traffic light to be installed at the Park's main entrance, Hardin Valley Road and Westcott Blvd., by the end of 1998

6. Significant property tax abatement for 5 years, commencing 1998

7. An offsite office and training space should be covered as part of the \$650,000 site prep and training allowance under the TIIPs program

8. A Jobs Tax Credit of \$2,000 for every job created with no cap on the amount of credit

9. Proposal on \$40,000,000 taxable Industrial Revenue Bond

10. Favorable utility rates from 1998 through 2002

This list of requests by the prospect was countered by TDC with their second proposal which was presented on June 27. In it they offered the following: (TDC, 1996)

Proposal 2

1. 30 acre site to the company for \$450,000, a discount of \$1,050,000
2. TDC will provide \$1 million to the company over 5 years with payments as follows:
 - year 1 - \$300,000
 - year 2 - \$300,000
 - year 3 - \$200,000
 - year 4 - \$100,000
 - year 5 - \$100,000
3. TDC will provide all administrative and legal services associated with the administration of TIIP funds. This represents a savings of over \$55,000.
4. Knox County will waive building permit fees.
5. TDC will reserve \$100,000 in CDBG funds for eligible employee training for low and moderate income Knox County residents.
6. TDC will assist in obtaining the full use of the Electrical Utility Growth Credit and Jobs Tax Credit for the company
7. Knox County will provide a traffic signal at Hardin Valley Road and Westcott Blvd. when it is warranted.
8. \$699,700 in funds from the TIIPs program. This money will be used in the following ratio; \$164,500 for training (35 employees for 30 days in Australia), \$160,200 for training locally and \$375,000 for site preparation (on a 250,000 square foot building) or only \$255,000 for site preparation if the building is 170,000 square feet.
9. \$740,000 in tax credits under the Jobs Tax Credit program

These two agencies offered a combined total incentive package of \$3,785,000.

Summary of Proposal 2

Discount on 30 acre site at Westbridge	\$1,050,000
Grant from TDC	\$1,000,000
TIIPs administration grant	\$55,000
Waiver of permit fees	\$20,000
Additional CDBG funds	\$100,000
Jobs Tax Credit	\$740,000
Tennessee Industrial Infrastructure Funds	\$699,700-750,000
Total	\$3,785,000

PBR's Response to Proposal 2

The actions taken at this point by the prospect were done through the consulting firm of Fluor Daniels Consulting. This independent consulting firm sent a list of questions to TDC to help assess the suitability of the site. This amounted to additional information on sewer rates, sales tax on machinery, a property tax depreciation schedule, cost for a sewer line, cost for dual feed electrical power, cost for a natural gas line and information regarding the guidelines with which the prospect could use the TIIPs funds and the \$1million grant to the company under "appropriate uses". (Fluor Daniels, 1996)

As this information was being compiled, the consulting firm of KPMG Peat Marwick becomes involved in the project to specifically analyze the state incentives, taxes

and financing of the deal. They immediately call into question the validity of the proposal in this regard.

Under the TIIPs program, the \$699,700 pledged to the company by the state can only be used for “on-site” infrastructure improvements and training. However, TDC has also pledged money for the same services, \$100,000 in CDBG funds and the site itself, which was already being served by water, sewer and power. Although these utilities needed to be extended to the eventual structure itself, they were already in place. The lot itself does require grading, but this grading also may not cost enough to use the full amount of funds offered. So, there was a question of whether the company can actually use all of the money it has been pledged to by TDC and the State of Tennessee.

At this point, the firm of Wilbur Smith and Associates conducts a preliminary grading estimate for the site with two alternatives. Alternative 1, which brings the floor elevation down to 960 feet will cost \$428,800 and alternative 2 which brings the floor elevation down to 940 ft is \$1,312,200. These estimates gave a better idea of how much site prep will cost. Under the TIIP program, the site prep category is a 50/50 match with a cap of \$1.50 per square foot as the State’s contribution. For example, if a 200,000 square foot facility were built, it would be eligible to receive up to \$300,000 in TIIP funds for qualifying costs. Under this scenario, PBR would have to expend \$300,000 in order to be eligible for the maximum TIIP site prep funding.

After reviewing this proposal, Mark Koth, General Manager of PBR Automotive USA, made several comments;

- “Tennessee’s proposal was sorely lacking compared with other southeastern states, therefore they will have to shift focus to other states, specifically Alabama, South Carolina and Georgia.” (TDC,1996)
- “Tennessee’s proposal was ‘too loose’ and although the TDC proposal was very good and by far the most professional, the state is not a partner with you .” (TDC,1996)
They reached this conclusion because they felt that “TIIPs funds are of very marginal value because we (PBR) can’t use them for things that are meaningful to the company”. the issue of what the company saw as “meaningful” remained a relative mystery, PBR wanted an open ended grant from the state through the TIIPs program to do what it wanted with the money without regulation, however this may have been a tactic to apply pressure on the state and TDC for a more discretionary use of funds.
- An additional comment was that Tennessee and South Carolina’s tax structures are only marginally different so Tennessee’s incentive package not being competitive (to South Carolina’s) was critical to the deal. (TDC,1996)
- Finally, all of the states that were approached by PBR provided pre-employment training except Tennessee and this was not acceptable. In general, “the TIIPs guidelines are so complicated that it makes the company nervous, in every other state in the running, the site had been given to them free and prepped, this is what they want from Knox County”. (TDC,1996)

After these comments and further work, TDC issued its third and final proposal dated September 9, 1996. (TDC,1996)

Proposal 3- The Final Proposal

1. TDC will give a grant of \$1,700,000
2. TDC will provide \$100,000 in CDBG funds for training low and moderate income persons.
3. TDC will facilitate construction through its "one-stop" permitting process.
4. The Knox County Industrial Development Board will waive the application fee for the Industrial Revenue Bond.
5. TDC will provide a 30-acre site at no cost.
6. TDC will provide clean, usable fill material at no cost for grading of the site.
7. Knox County will waive all permit fees.
8. TDC will find 2,000 square feet of temporary office space in Knoxville for the company at no cost or reduced cost, until the facility at Westbridge is completed.
9. TDC will cover all administrative and legal fees associated with the application of TIIPs funds.
10. Knox County has agreed to install a traffic light at the intersection of Hardin Valley Road and Westcott Blvd. by 8/21/98.
11. TDC and the Greater Knoxville Chamber of Commerce will work with Pellissippi State Technical Community College to provide training in a cost effective way in order to maximize the training benefits provided under the TIIPs program. Teleconferencing facilities will also be made available to the company at the best available rate.

12. TDC will work with the Knox County Property Assessors Office to obtain a date that the equipment will be placed on the tax rolls relative to the time the equipment is placed in service.
13. TDC will work to provide all legal tax advantages to the company regarding the local option sales tax during the purchase of building supplies and equipment.
14. The full statutory limit of \$750,000 under the TIIP program will be reserved for the project, split into training funds of \$324,700 and site prep funds of \$300,000 with the balance of \$125,300 available for other costs to be mutually agreed upon including pre-employment training.

Summary of Proposal 3

30-acre site at no cost	\$1,500,000
Tennessee Industrial Infrastructure Funds	\$750,000
Grant from TDC	\$1,700,000
CDBG Funds	\$100,000
Building Permit fees waived	\$20,000
TIIPs Administration	\$55,000
Jobs Tax Credit	\$740,000
Total	\$4,865,000

In addition to the incentives being offered here, the State of Tennessee offers many other advantages to businesses who are located in the state. Those that apply to this project include;

- Tennessee is a Right-to-Work State, meaning mandatory union shops are illegal
- No personal income tax on wages
- No sales tax on eligible manufacturing equipment
- Reduced sales tax on energy fuel and water
- No sales tax on eligible pollution control equipment
- No sales tax on raw materials
- No state property tax
- No property tax on work in progress or finished product inventories
- An investment tax credit of 1%
- A franchise tax jobs credit
- Accelerated depreciation on personal property

Every state has its own package of incentives which are meant to attract businesses. In the southeast, these states are very competitive with one another. A simple comparison of southeastern states incentives presented in the appendix, will give the reader a better idea of how each state structures its business climate in terms of taxes.

Shortly before the third proposal was submitted, General Motors Corporation, who is a silent partner in this deal and acts as a financier for some portion of the deal (that portion not being disclosed), decides to conduct a feasibility study of the utilities present at Westbridge. This can be interpreted as an indicator that the Knox County site has gotten on the short list of states.

GM went about conducting this study by prearranging meetings with the utility representatives (TVA, WKUB, KUB, and LCUB) as well as TDC and the Chamber of

Commerce. These meetings were arranged through the Development Corporation and were held on August 8, 1996 in a private dining room at Club Leconte in downtown Knoxville. Prior to the meeting, detailed questions regarding power, water, wastewater and gas were presented to the applicable utility providers. The questions asked included individual capacities, system capacities, drawings of the distributions systems, history of these utility services and interruptions, a history of the costs of their services and rate schedules based on figures GM provided. After the question and answer period, two concerns were raised, one concerning power and one concerning gas.

The Question of Power

Concerning power, the issue was not one of supply or quality, it was simply a question of money. Specifically, the cost for providing two 2,000 KVA (kilo volts annually) transformers on site. Generally, LCUB provides one 2,000 KVA transformer on site free of charge to an industrial power user. However, they never had a customer this large before. The transformer provides the power and backup power connection for the industry. In this case, the projected power needed for this operation would take between 3,000 KVA and 3,500KVA. At first, LCUB's position was that giving one 2,000 KVA transformer per customer of this size was their policy, but no more than one. If the customer needed more than one transformer, they could either buy it from LCUB or from someone else and have it installed in the power net at their own expense. GM's position was that in giving one transformer per customer, the utility is providing services for power and backup power and it stands to reason that they should continue to provide this service

no matter how much power is going to be used, without the penalty of buying additional transformers. After thinking it over, LCUB conceded the point and provided two 2,000 KVA transformers at no cost. (GM,1996)

The Question of Gas

The gas industry has been deregulated and the utility provider, in Knox County is KUB, who now use a brokering system to obtain gas to sell to their customers. There are two charges involved with gas, a charge for the gas itself (the product) and a charge for the "transportation" of that gas, i.e. space for that gas to travel down the pipeline. The gas provider, KUB, gave rate estimates for this project for the total cost of gas (including transportation) which were unreasonably high to GM. Although indicative of the price for gas in this region of the country, GM, with their own gas brokers, could get a more favorable rate for the product. Because of this situation, GM wanted to act through their own individual broker for the product and only pay KUB the transportation costs.

KUB was not happy with this suggestion because this gas would take up space in the pipeline (that is near capacity) and they would loose the money for the cost of the product taking up this space.

A compromise was reached with the parties in which KUB would supply the transportation of the gas, and GM's gas broker would provide the product, or obtain it locally at a favorable rate on a fluctuation scale, in other words, GM will buy the cheapest gas its broker can find.

The involvement of General Motors in this deal remained very confidential throughout the process and it still is not at liberty to disclose the exact nature of its relationship with PBR Automotive, USA. However, the fact that Tennessee is a Right-to-Work state undoubtedly became a factor when GM considered Knox County as a future site for PBR.

CHAPTER 5

Estimated Tax Revenues and Partial Performance Requirement

The sales tax rate for Knox County is 8.5% and is applied generally at the time of purchase. Manufacturing machinery and equipment and industrial supplies necessary for routine operation of the plant (cleaners, lubricants, etc. used within 25 days of delivery to the facility) are exempt from sales taxes. Other items may be reviewed by the auditor for exemption if they are related to the above two exemptions.

Sales taxes are levied on all utilities at 6%. However, if utilities are separately metered, then an industry can apply for a reduction in this rate to 1% by completing an “industrial machinery authorization form” which will be made available to the prospect from the State of Tennessee Sales Tax Office.

Construction and building materials and construction equipment is not exempt from sales tax and is assessed at a rate of 6%.

Property taxes in Knox County are levied on land, buildings, and personal property. Industrial land and buildings are assessed at 40% valuation and personal property at 30% valuation and depreciates according to an established schedule. There are no special taxing bodies in the Knox County area where Westbridge is located. The property tax rate is \$3.16 per \$100 of valuation. There are no property taxes on inventory.

In order to assess the future value of this manufacturing facility to Knox County, the estimated tax revenue that it will generate is calculated. This is done by adding the

Personal Property Revenue and the Real Property Revenue to find the Total Yearly Tax Revenue.

The figures for the Personal Property must be adjusted because of depreciation on the personal property, this is called the Standard Depreciation Factor, while real property does not depreciate. Once the Personal Property Less Depreciation has been calculated, that figure is multiplied by .30 (30%) and then multiplied by the tax rate, which is .0316, this gives you the figure that PBR must pay annually for their Personal Property.

To calculate the annual tax on Real Property, the value of the Real Property (in this case \$11,500,000.00) is multiplied by .40 (40%) then multiplied by the tax rate, which is .0316.

The formula for the depreciation of personal property for manufacturing machinery is provided by Knox County and is as follows:

Year 1 - Personal Property Value x .88 = Property Value Less Depreciation

Year 2 - Personal Property Value x .75 = Property Value Less Depreciation for year 2

Year 3 - Personal Property Value x .63 = Property Value Less Depreciation for year 3

Year 4 - Personal Property Value x .50 = Property Value Less Depreciation for year 4

Year 5 - Personal Property Value x .38 = Property Value Less Depreciation for year 5

Year 6 - Personal Property Value x .25 = Property Value Less Depreciation for year 6

Year 7 onward - Personal Property Value x .20 = Property Value Less Depreciation for year 7 and future years, this formula does not change after year 7.

The figure provided by PBR for Real Property is \$76,500,000.

The figure provided by PBR for Personal Property is \$11,500,000.

Partial Performance Guarantees

In the event that PBR does not make the capital investment that it disclosed it would or in the event PBR does not hire as many employees that it disclosed it would, penalties will be assessed by TDC to PBR in the form of reimbursements of funds that TDC granted to the company. These reimbursements are called "partial performance reimbursements" and the two categories that they apply to, capital investment shortfalls and employment level shortfalls are not linked together and will be analyzed independently of one another. In any event, the company will not be held liable for any amount of money, other than that which has been given by TDC. In this regard, the company may be held liable for the cost of the land, \$1,500,000 and the dollar amount of all incentives it has been given prior to the 'audit'. The formula for this penalty is as follows;

Capital Investment	<u>more than / but less than</u>	<u>Reimbursement</u>
	0/\$10,000,000	\$1,500,000 + 100% of investments in PBR
	\$10,000,000/\$20,000,000	\$1,350,000 + 100% of investments in PBR
	\$20,000,000/\$30,000,000	\$1,250,000 + 100% of investments in PBR
	\$30,000,000/\$40,000,000	\$1,000,000 + 100% of investments in PBR
	\$40,000,000/\$50,000,000	\$850,000 + 100% of investments in PBR
	\$50,000,000/\$60,000,000	\$750,000 + 75% of investments in PBR
	\$60,000,000/\$70,000,000	\$450,000 + 50% of investments in PBR
	\$70,000,000/\$80,000,000	\$150,000 + 30% of investments in PBR
	over \$80,000,000	\$0

Employment	<u>more than / less than</u>	<u>Reimburesment</u>
	0/100	\$850,000
	101/200	\$600,000
	201/300	\$400,000
	301/350	\$250,000
	351/380	\$ 90,000

(TDC,1996)

Figure 1 and 2 show personal and real property taxes.

Year	Personal Property Property Value Less Depreciation	Personal Property Revenue
.....		
Year 1 - 1997	\$67,320,000.00	\$638,193.00
Year 2 - 1998	\$57,375,000.00	\$543,915.00
Year 3 - 1999	\$48,195,000.00	\$456,888.00
Year 4 - 2000	\$38,250,000.00	\$362,610.00
Year 5 - 2001	\$29,070,000.00	\$275,583.00
Year 6 - 2002	\$19,125,000.00	\$181,305.00
Year 7 - 2003	\$15,300,000.00	\$145,044.00
Year 8 - 2004	\$15,300,000.00	\$145,044.00
TOTAL		\$2,748,582.00

Figure 1. Personal Property Taxes

Projections based on investment of \$11,500,000.00 in Real Property

Year	Real Property Value	Real Property Revenue	Total Yearly Tax Revenue, Real+Personal	Total Collected Tax Revenue
Year 1 - 1997	\$11,500,000.00	\$145,360.00	\$783,553.00	
Year 2 - 1998	\$11,500,000.00	\$145,360.00	\$889,275.00	\$1,472,828.00
Year 3 - 1999	\$11,500,000.00	\$145,360.00	\$602,248.00	\$2,075,076.00
Year 4 - 2000	\$11,500,000.00	\$145,360.00	\$507,970.00	\$2,583,046.00
Year 5 - 2001	\$11,500,000.00	\$145,360.00	\$420,943.00	\$3,003,989.00
Year 6 - 2002	\$11,500,000.00	\$145,360.00	\$326,665.00	\$3,330,654.00
Year 7 - 2003	\$11,500,000.00	\$145,360.00	\$290,404.00	\$3,621,058.00
Year 8 - 2004	\$11,500,000.00	\$145,360.00	\$290,404.00	\$3,911,462.00
TOTAL		\$1,162,880.00	\$3,911,462.00	

Figure 2. Real Property Taxes

CHAPTER 6

South Carolina's Proposal and the PBR Interview

Sumter County, South Carolina and the State of South Carolina put together an incentive package as their proposal for the PBR Automotive deal. While it is not possible to track the changes in this proposal over time, the final proposal that South Carolina put together for PBR is summarized here and it makes a valuable comparison to the Tennessee - Knox County proposal.

The property that South Carolina identified for this project is located in the Black River Industrial Park in Sumter County. South Carolina put together a package of incentives including tax breaks, jobs tax credits, funds for training, funds for site improvements and preparation, funds for building the facility, sales tax exemptions, fee-in-lieu of property taxes and free land. The proposal is summarized as follows;

South Carolina's Proposal for the PBR Automotive Project

1. Jobs Tax Credit of \$4,500 per job for 5 years, based on 420 new jobs	\$9,450,000
2. State Grant through the EZ Capital Co-Investment fund, 15 year total	\$9,828,000
3. Sales Tax exemption on machinery and equipment	\$3,732,180
4. Customized Pre-Employment Training	\$1,680,000
5. Property Tax savings (estimate) through a Fee-in-Lieu of Property Tax for 20 years	\$13,281,157
6. Capital Funds for Infrastructure Improvements	\$1,500,000

7. 20 acre site at no charge	\$200,000
8. Site Preparation (In-Kind Services)	\$200,000
Total Incentives Value	\$39,871,337

This incentive package is in comparison to Knox County, Tennessee's package which totals \$4,865,000. Because of the enormous difference in the value of these two incentive packages, the rationale for PBR's decision to locate in Knox County is a very important question. An interview was conducted by the Greater Knoxville Chamber of Commerce to ask the question "Why did you choose Knoxville when South Carolina offered you so much more money?". To answer this question, Mark Koth, general manager of PBR Automotive, USA gave some insights on the company's position on incentives. The results of this interview were published in The Knoxville News-Sentinel on April 8, 1997.

Question: How important were incentives to this deal?

Koth: "Our decision, in the end, had nothing to do with state incentives or the lack of them. We were looking long-term." Koth went on to explain that other companies may be more inclined to be attracted by incentives than a company like PBR. "Incentives are a one-shot thing. If we were a low-end manufacturer, there is absolutely no doubt we would be in South Carolina today."

Question: What was important to your decision to locate in Knox County?

Koth: PBR needs access to technology, available at Pellissippi State Technical Community College and The University of Tennessee. "We were able to set the incentives

aside because we have a special situation. Most companies will be larger or will not require technical support. We fall into a special niche because our technical base is 14 time zones away, and our process and product technology are fairly high.”

Question: What else did you take into account when analyzing sites?

Koth: “PBR also needed an environment that was urban enough to be attractive to high-tech employees and their families. The company had seen similar organizations in more remote locations struggle with attracting and retaining workers.” “We will have a state-of-the-art facility that is at the high end of manufacturing technology, you cannot take a facility like this and put it in a remote location and expect it to be successful without importing a tremendous amount of expertise.”

Question: How did PBR go about its search for sites?

Koth: “When PBR began its search, it started by pinpointing all the locations from which it would receive component parts and all the locations to which it would deliver its finished brake calipers. PBR wanted a new plant that was within a one-day drive of all these locations. It also required its new location to be in a favorable work climate.”

Question: Was anything else important to your decision to choose Knox County?

Koth: “Over and above the technical help we received, what ultimately cinched the decision for Knoxville was the quality of life. By that I mean climate, recreation facilities and the fact that it’s a good place to raise a family. Basically all the things outside of work that enhance your life.”

Question: Do you have any suggestions for Knox County for its future in economic development?

Koth: “East Tennessee could benefit by offering some incentives such as free or low-cost land and property tax abatements to businesses it is trying to attract.”

CHAPTER 7

Summary, Conclusions and Recommendations

Summary

This thesis was presented to the Graduate School as a case study of an economic development deal between PBR Automotive, USA and Knox County, Tennessee in 1996.

To fully understand the dynamics of the deal, it was necessary to first give a general introduction to Knox County and The Development Corporation of Knox County. The intent in doing this was to present the favorable quality of life in Knox County, which proved to be a critical factor to PBR and to impress upon the reader that there is a very pro-business attitude in Knox County, which is fostered through the work of the Development Corporation and the Chamber of Commerce as well as a whole range of community institutions and leaders.

Through the combined work of these institutions and leaders, several development strategies have been published. These strategies take into account the values of a broad spectrum of community leaders, each with their own unique focus within the community. By examining three economic development plans as they change over time, the current development strategy can be seen. In it there are currently seven areas of emphasis including; tailoring sites for specific industries, maintaining an inventory of land and a 'pool' of money to work with future prospects, working with regulatory bodies to streamline the level of bureaucracy, working with the major research institutions to provide business, technology and training for local companies, trying to attract the kinds of high-tech industries that will employ scientists and researchers who may be

“downsized” from the Oak Ridge National Laboratories, and finally, attracting the automobile manufacturing industry to feed off the regional automobile manufacturing market.

PBR Automotive’s plans for a high-tech auto parts plant fell right into place with this current development strategy and was a great motivation for TDC to land this deal.

After summarizing what Knox County had and what Knox County wanted, the next step was to present what Knox County was willing to give PBR to fulfill part of its development strategy. This was done by showing each proposal TDC made to PBR, how they changed and why. Simply put, TDC began by offering PBR an incentive package worth \$2,685,000 for an investment of \$85,000,000 and ended the negotiations by giving PBR a package worth \$4,865,000 for a \$80,000,000 investment. Throughout the negotiation period, TDC was focused on maintaining a competitive posture with the neighboring southeastern states that were also trying to attract PBR. Only later did TDC find out that their sum total for incentives was far below South Carolina’s offer of over \$39,000,000. Why, therefore, did PBR choose Knox County? According to PBR’s General Manager, Mark Koth, the real issue for the company was never focused on direct incentives, but rather other factors such as the quality of life, the availability of workers and the proximity to major research institutions.

Finally, the estimated tax revenues that Knox County will receive from PBR were calculated and an explanation of the partial performance guarantees were presented, both to give the reader an idea of what kind of return Knox County expected from its investment.

From all of this material, the author is trying to impress upon the reader the simple idea that Knox County planned for, fought for and won the PBR Automotive site selection by formulation a strategy, preparing for a target industry and when such an industry appeared, they negotiated with the prospect very aggressively.

Conclusions

Economic development in Knox County is organized well and it is effective in achieving its goals. There are some problems with this process, however. One problem is the unusually large number of different utility districts, each with overlapping services, in the county. This creates more levels of bureaucracy when simplifying the process is a goal of TDC. Another problem is the lack of coordination and cooperation between local economic development agencies and the State of Tennessee's Department of Economic and Community Development. This was a problem that was recognized by every party to this process, TDC, the State, the company and the consulting firms, and the fault for this lack of solidarity lies with both TDC and the State of Tennessee.

Recommendations

There are several recommendations that can be drawn from the observations made in this thesis.

1. Continue to periodically update the development strategy and use the findings of these strategies to guide development.

2. Continue to acquire land and prepare this land for targeted development, according to the development strategy in place at the time.
3. Have a better understanding of the importance of direct incentives and when and how to use them most effectively. A deal is normally measured as a cost/benefit analysis between the direct incentives a community gives a prospect and how much investment the company will make in the community, however in the case of PBR, direct incentives were not an overriding issue. Direct incentives should therefore be stressed more with prospects that need these incentives the most.
4. Remain competitive with neighboring states, but do not let this interstate competition drive the amount of incentives to be given to a company in any given deal. In the race to remain competitive, some communities have given a company far more than it can afford and this very negatively impacts the future of economic development to the area.

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APPENDIX

Southeastern States Incentives Comparison

	State Industrial Development		Private Industrial Development		State Revenue Bond		State General Obligation		City/County Revenue	
	Authority		Authority		Financing		Bond Financing		Bond Financing	
STATE										
Alabama	YES		YES		YES		NO		YES	
Arkansas	YES		YES		YES		YES		YES	
Florida	NO		YES		YES		NO		YES	
Georgia	YES		YES		YES		NO		YES	
Kentucky	YES		NO		YES		NO		YES	
Louisiana	NO		YES		YES		YES		YES	
Mississippi	YES		YES		YES		YES		YES	
North Carolina	YES		NO		NO		NO		YES	
South Carolina	YES		YES		YES		NO		YES	
Tennessee	NO		NO		NO		NO		YES	
Texas	YES		YES		YES		YES		YES	
Virginia	YES		YES		YES		NO		YES	
West Virginia	YES		YES		YES		NO		YES	

Southeastern States Incentives Comparison

	State Financing Aid for Existing Plant Expansion	State Matching Funds for City/County Industrial Financing Programs	State Incentive for Establishing Industrial Plants in Areas of High Unemployment	City/County Incentive for Establishing Industrial Plants in Areas of High Unemployment
STATE				
Alabama	YES	YES	YES	YES
Arkansas	YES	YES	YES	YES
Florida	YES	NO	YES	YES
Georgia	NO	NO	YES	YES
Kentucky	YES	NO	YES	YES
Louisiana	YES	YES	YES	YES
Mississippi	YES	NO	YES	YES
North Carolina	NO	NO	YES	NO
South Carolina	YES	NO	YES	YES
Tennessee	YES	YES	YES	NO
Texas	YES	YES	YES	YES
Virginia	YES	NO	YES	YES
West Virginia	YES	YES	NO	NO

Southeastern States Incentives Comparison

	State Loan Guarantees for Building Construction	State Loan Guarantees for Equipment, Machinery	City/County Loan Guarantees for Building Construction	City/County Loan Guarantees for Equipment, Machinery
STATE				
Alabama	NO	NO	NO	NO
Arkansas	NO	NO	NO	NO
Florida	NO	NO	YES	YES
Georgia	NO	NO	NO	NO
Kentucky	NO	NO	NO	NO
Louisiana	YES	YES	YES	YES
Mississippi	YES	YES	NO	NO
North Carolina	NO	NO	NO	NO
South Carolina	NO	NO	YES	YES
Tennessee	YES	YES	NO	NO
Texas	YES	YES	YES	YES
Virginia	NO	NO	NO	NO
West Virginia	YES	YES	NO	NO

Southeastern States Incentives Comparison

	City/County General Obligation Bond Financing	State Loans for Building Construction	State Loans for Equipment and Machinery	City/County Loans for Building Construction	City/County Loans for Equipment and Machinery
STATE					
Alabama	YES	YES	YES	YES	YES
Arkansas	YES	YES	YES	YES	YES
Florida	YES	YES	YES	YES	YES
Georgia	YES	NO	NO	YES	YES
Kentucky	NO	YES	YES	YES	YES
Louisiana	YES	YES	YES	NO	NO
Mississippi	YES	YES	YES	YES	YES
North Carolina	YES	NO	NO	YES	YES
South Carolina	YES	YES	YES	YES	YES
Tennessee	YES	YES	YES	YES	YES
Texas	YES	YES	YES	YES	YES
Virginia	YES	YES	YES	YES	YES
West Virginia	NO	YES	YES	YES	YES

Southeastern States Tax Comparison

State	Manufacturing Equipment Sales Tax	Pollution Control Equip Sales Tax	Raw Material Sales Tax	State Property Tax on Manufacturing Facility
Alabama	Yes, Rate 1.5	No	No	Yes, 20% of Fair Mkt Value
Georgia	No	No	No	Yes, 40% see attached sheet
Florida	No	Yes, 6%	No	No, levied at local level
Kentucky	Not for New or Expanding Ind.	No	No	No, up to 5 years tax free
Louisiana	Yes, Rate 4%	No	No	No, levied at local level, 15%
Mississippi	Yes, Rate 1.5%, 50% exempt	Yes, 7%	No	No, up to 10yrs tax free
North Carolina	Yes, Max of \$80 per item	Yes, 1%	Yes, 1% on coal, fuel oil	No, levied at local level
South Carolina	No	No	No	Yes, 10.5%
Texas	Yes, 6.25% with exemptions	No	No	No, levied at local level
Tennessee	No	No	No	No, levied at 40% locally

Southeastern States Tax Comparison

State	Franchise Tax	Personal Property Tax on Equipment	Inventory Tax	Personal Income Tax
Alabama	Yes, see attached sheet	Yes	Yes, 4%	Yes, see attached sheet
Georgia	No	Yes, 40% of fair market value	Yes, can be exempted	Yes, see attached sheet
Florida	No	Yes	No	No
Kentucky	Yes, \$2.10 per \$1,000	Yes, \$.45 per \$100 of value	Yes, 2% to 6%	Yes, see attached sheet
Louisiana	Yes, \$1.50 per \$1,000	Yes, 15% of value levied at local level	Yes, can be exempted	Yes, 2% to 6%
Mississippi	Yes, \$2.50 per \$1,000	Yes, 1.5% of value	No	Yes, 3% to 5%
North Carolina	Yes, \$1.50 per \$1,000	Yes, replacement cost new - depreciation	No	Yes, see attached sheet
South Carolina	Yes, \$.25 per \$100	Yes	No	Yes, see attached sheet
Texas	Yes, .25% of net capital	Yes	Yes, levied at local level	No
Tennessee	Yes, \$.25 per \$100	Yes, 30% of appraised value	No	No

Southeastern States Tax Comparison

State	Property Tax on work In progress	Property Tax on finished product Inventory	Gas Tax	Corporate Excise Tax
Alabama	No	No	16c per Gallon	Yes, 5% of Net Income
Georgia	Yes, can be exempted	Yes, can be exempted	7.5c per Gallon	Yes, 6% of Net Income
Florida	No	No		Yes, 5.5% of Net Income
Kentucky	Yes, \$.05 per \$100 value	Yes, \$.05 per \$100 value	15c per Gallon	Yes, see attached sheet
Louisiana	Yes, levied at local level	Yes, levied at local level		Yes, 4% to 8%
Mississippi	No	No	18c per Gallon	Yes, 3% to 5%
North Carolina	No	No	21.9c per Gallon	Yes, 7.75%
South Carolina	No	No	16c per Gallon	Yes, 5% of Net Income
Texas	Yes, can be exempted	Levied or not at local level		No
Tennessee	No	No	20c per Gallon	Yes, 6%

Key Players in the PBR Deal

Steve Amos - Finance Director, PBR Automotive Pty Ltd.

Ben Atchley - Tennessee State Senator

Ben Bonfoey - Chief Engineer for Lenoir City Utilities Board

Sami Dietrich - State of Tennessee, Department of Economic and Community Development

William Dunavant - Director, State of Tennessee Department of Economic and Community Development

John Evans - Director, Knox County Division of Solid Waste

Derek Hodgson - President, PBR Automotive Pty Ltd.

Cathy Holland - State of Tennessee, Department of Economic and Community Development

Elizabeth Hrubala - Fluor Daniel Consulting Representative

Bill Kervin - Director, Knox County Department of Engineering and Public Works

Mark Koth - Joint Venture Administrator, Delphi Chassis Systems

John MacKenzie - Managing Director, PBR Automotive Pty Ltd.

Betty McIntosh - Associate National Director, KPMG Peat Marwick LLP

Mike Patterson - Knoxville Utilities Board representative

Donald Poole - Manager, General Motors Worldwide Facilities Group

Ron Smith - Staff Engineer, General Motors Worldwide Facilities Group

David Swanner - Vice President, Greater Knoxville Chamber of Commerce

Tim Thompson - Business Development Consultant, State of Tennessee

Melissa Zeigler - Executive Director, The Development Corporation of Knox County

DEFINITIONS OF TERMS AND ACRONYMS

CDBG - Community Development Block Grant , the federal assistance for local economic development.

Delphi Chassis - an Ohio based automotive parts company

Eagle-JV - Eagle Joint Venture was the first code name given by TDC to the prospects.

Fluor Daniel Consulting - The consulting firm hired by the prospects to evaluate the site for the deal.

GM - General Motors Corporation

GPD - Gallons per Day

GPM - Gallons per Minute

Jobs Tax Credit - A State of Tennessee program where tax credits are given to a company which creates new jobs in the state.

KPMG Peat Marwick - The consulting firm hired by the prospects to evaluate the financing and incentives package of the deal.

KUB - Knoxville Utilities Board, the gas utilities provider for the silverleaf deal.

KVA - Kilo Volts Annually

KVH - Kilo Volt Hours

KW - Kilowatts

LCUB - Lenoir City Utilities Board, the power provider for the silverleaf deal.

LLC - Limited Liability Company

LLP - Limited Liability Partnership

MCF - Million Cubic Feet (of gas)

PBR Automotive U.S.A. - Patons Brake Replacement, an Australian automotive parts company which is a member of the Pacific BBA Limited group of companies

PHASE 1 ENVIRONMENTAL - The initial environmental examination of a property which examines soil and water quality (if applicable) and also searches the past uses of a property, by deed, for any signs of possible environmental contamination.

psi - Pounds per Square Inch

SIC NUMBER - Standard Industrial Classification number, a categorization system of job types for easy reference.

SILVERLEAF - The final code name given to the prospect.

TDC - The Development Corporation of Knox County

TIIPS - Tennessee Infrastructure Improvement Program

TVA - Tennessee Valley Authority

WBP - Westbridge Business Park

WKUD - West Knox Utilities District, the water and sewer provider in the silverleaf deal.

TIMELINE OF THE DEAL

June 17, 1996 - The prospect discloses information on their end of the deal to include; total investment in Phase I and Phase II, total number of employees, average salary of their workers, what they are producing, how large the facility will be, what the company needs in terms of raw materials. *ref 27*

June 19, 1996 - A packet of general information on Knox County is assembled. Included in this packet are cover letters from Dean Neal of UT College of Business regarding the Executive Training Program, Karl Leitton of ORNL who answers questions about sharing technology, Mike Patterson from KUB who enclosed the first round of figures for gas consumption, Bill Kervin from the Knox County Department of Engineering and Public Works stating that he can issue a grading permit within 48 hours of receiving the plans, Joe Andrews of Pellissippi State Technical Community College providing information about training facilities. *ref 25*

June 19, 1996 - The first development proposal is formulated to include in the information packet being sent. This proposal includes TDC's price for the property, site development funds from TIIPS and TDC, funds and facilities available for training workers, the Enhanced Growth Credit Rate from TVA, the gas rate from KUB, cost per kilowatt hour from LCUB and an assurance from the County Executive that building permit fees will be waived. *ref 26*

June 24, 1996 - Tim Thompson sends Koth a list of additional incentives for consideration in the deal including training, land cost, free environmental assessment, a free traffic light, tax abatements, free office space, job tax credit of \$2,000 per job, favorable utility rates and \$40 million taxable IRB *ref 66*

June 25, 1996 - The prospect asks for basic data on Westbridge Business Park's electrical layout, electrical capacity and basic rate data. LCUB is contacted and responds to the inquiry through TDC. *ref 22*

June 26, 1996 - Additional power questions are faxed to TDC and handed over to LCUB for analysis and response. These questions include annual billing rates based on the figures provided on June 19, information on outages and transformers. *ref 24*

June 27, 1996 - William Dunavant, Commissioner of State of TN Department of Economic and Community Development, sends Mark Koth of Delphi Chassis a memo concerning the "sunsetting" of the Jobs Tax Credit program, Dunavant informs Koth that the Governor is anxious to reinstate this program during the TN General Assembly in Jan 1997 *ref 6*

June 27, 1996 - Cathy Holland, TN Dept. of ECD, sends Koth a letter stating the amount of money which this project is eligible for amounts to \$750,000 *ref 45*

June 27, 1996 - Ben Atchley, Majority Leader of the Tennessee State Senate, informs the prospect of his support for extending the Jobs Tax Credit legislation which is due to sunset in 1998, and says he will move for passage of the extension of this program at the beginning of the session *ref 7*

June 27, 1996 - The prospect raises the issue of transportation of molten aluminum, which is integral to their process. Data is gathered by TDC concerning TDOT (TN Department of Transportation) regulations about moving molten aluminum by truck. The applicable regulations are CFR Title 49, parts of 100-177 and parts of 178-199 concerning transporting elevated temperature materials. *ref 9*

June 27, 1996 - Zeigler sends Tim Thompson of the East TN Dept. of ECD a copy of TDC's proposal amounting to \$750,000 in TIIPS, \$2,295,000 in TDC money for site improvement, waivers and cash to the company and \$740,000 in credits under the Jobs Tax Credit program for a total incentive package of \$3,785,000 *ref 47*

June 28, 1996 - INCO Recycling Inc., located in Loudon, TN, is contacted and sends information about their company, which can handle any molten aluminum load that this prospect may need. *ref 10*

July 1, 1996 - Silverleaf requests information on local firms who can handle the transportation, treatment and disposal of hazardous wastes. Advanced Environmental Technical Services (AETS) and Spectra Environmental Services were contacted and sent information and a cover letter for Silverleaf. Prospect is concerned with the removal and recycling of oily wastes, acid and caustic wastes and coolant recycling *ref 8*

July 1, 1996 - Bob Bowers of Wilbur Smith and Associates sends a memorandum to Melissa regarding a NPDES permit for stormwater and wastewater analysis and discharge limits *ref 55*

July 3, 1996 - Mark Koth responds to the June 27 proposal for the site (coming from TDC) and requests clarification on the issues of property tax abatement, a lease agreement proposal for the land and building from TDC and data on interest rates and terms for the industrial revenue bonds
ref 58

July 2, 1996 - Elizabeth Hrubala of Fluor Daniel Consulting sends a list of initial questions regarding the site at WBP *ref 49*

July 8, 1996 - Fluor Daniel Consulting requests information on Utilities, Taxes, Payroll Taxes and Incentives *ref 1*

July 9, 1996 - Fluor Daniel Consulting requests additional information on Sewer rates, sales tax on machinery, a depreciation schedule for property tax, cost for a sewer line, costs for dual feed electrical service, costs for a natural gas line, the information is sent to them on July 11 *ref 11*

July 11, 1996 - Fluor Daniel Consulting is sent information on sewer monthly rates based on the most current figures provided to TDC at that time, also information is sent on the tap fee for water lines, natural gas costs based on most current projections and power costs based on most current projections along with the discount from the TVA Growth Credit *ref 57*

July 11, 1996 - Zeigler sends Koth and Hodgson answers to questions regarding her latest proposal, specifically concerning property tax abatements, leasing of the building and land, building costs and industrial revenue bond information *ref 63*

July 11, 1996 - Zeigler sends Koth information on natural gas and power rates based on revised consumption figures *ref 64*

July 12, 1996 - Information regarding which landfill will be used and space available is provided by John Evans of Knox County Solid Waste, the Chestnut Ridge Landfill is chosen due to its close proximity and available space *ref 18*

July 12, 1996 - Elizabeth Hrubala of Fluor Daniel Consulting requests and is sent a manufacturing wages and benefits information package *ref 50*

July 12, 1996 - Don Poole is sent water and sewer rates based on his projection of how much this operation will use *ref 51*

July 15, 1996 - Environmental Science Engineering was hired to do a phase 1 environmental assessment *ref 2*

July 15, 1996 - Fluor Daniel requests information on an additional transformer at the site to handle 5,000 kva, more detailed workers comp rates, depreciation schedule for the property and building (real property), an outline of incentives for training *ref 3*

July 15, 1996 - Don Poole (GM) requested information on soil borings and a site investigation *ref 4*

July 16, 1996 - Fluor Daniel is sent information they requested regarding workers compensation rates and the corporate income tax apportionment formula *ref 16*

July 17, 1996 - Tim Wojdacz of Delphi Chassis requests information on the Phase 1 environmental assessment *ref 5*

July 17, 1996 - LCUB (Lenoir City Utilities Board) responds to questions concerning power. LCUB will provide the first 2000KVA transformer at no cost, and additional transformers must be paid for by the client *ref 12*

July 17, 1996 - Fluor Daniel is sent information it requested concerning state incentives, specifically the Industrial Training Service Program and the Tennessee Infrastructure Improvement Program (TIIPs), the first set of figures is sent to Fluor Daniel from Tim Thompson from the State's Economic Development Office in Knoxville. *ref 13*

July 17, 1996 - Knoxville Utilities Board (KUB) is contacted regarding water meter costs and tap fees for the project *ref 14*

July 17, 1996 - Wilbur Smith and Associates is hired to sketch a preliminary building and parking lot footprint on the parcel of land chosen by the prospect for their facility. This is done to show the relative size of the facility to the parcel. *ref 23*

July 18, 1996 - The consulting firm of KPMG Peat Marwick becomes involved in the project to evaluate the state incentives, taxes and financing *ref 15*

July 19, 1996 - Don Poole asks for and receives information regarding the gas rates, the gas rate change after the TVA Growth Credit expires and the electric rate schedule. *ref 17*

July 22, 1996 - Don Poole asks for and receives information on the TN Enhanced Growth Credit Program *ref 18*

July 23, 1996 - KPMG is sent information regarding depreciation rates for personal property, corporate income tax and sales tax exemptions *ref 19*

July 24, 1996 - KPMG is sent a copy of the Tennessee Department of Revenue publication which summarizes all of the state taxes *ref 20*

July 25, 1996 - S&ME, the company retained for subsurface soil testing, completes their analysis of the soil conditions on the site and presents their report to TDC, the report indicates that bedrock is present at depths ranging from 14 feet to 46 feet throughout the site. There were a total of 12 borings for this project. *ref 56*

July 31, 1996 - GM sets up a face to face meeting with TDC and representatives of all of the utilities providers (LCUB, West Knox Utilities, TVA and KUB) on Aug 8 and 9 *ref 21*

July 31, 1996 - Wilbur Smith Associates conducts a preliminary grading estimate for the site with two alternatives, the cost for alternative 1 which brings the floor elevation down to 960ft is \$424,800 and the cost for alternative 2 which brings the floor elevation down to 940ft is \$1,312,200 *ref 48*

July 31, 1996 - Ziegler sends Cathy Holland a memo addressing the site prep costs issue and the money that is available for grading the lot *ref 46*

July 31, 1996 - Lawyer send Poole a copy of the phase 1 environmental evaluation of the site *ref 65*

August 2, 1996 - Cathy Holland of TN ECD sends Ziegler a memo stating the incentive package which the prospect is eligible for totals \$624,000 *ref 44*

August 1, 1996 - Don Poole sends revised utilities projections for analysis and discussion during the meeting of Aug 8 and 9 *ref 22*

August 5, 1996 - West Knox Utilities completes analysis of new sewer rates based on the new projections *ref 23*

August 5, 1996 - Prospect sends a detailed list of questions to be answered by the power provider (LCUB) including the capacity of their entire system, drawings of their distribution system, history of their service and interruptions, history of costs of their service, differential of costs with and without state incentives and rate schedules based on the revised figures *ref 24*

August 6, 1996 - KUB completes the analysis of the new gas rates based on the revised figures *ref 25*

August 7, 1996 - LCUB and TVA complete the analysis of the new power rates based on the revised figures *ref 26*

August 7, 1996 - Zeigler responds to Koth's inquiry concerning the amount of time it takes to get a permit for a stack to ventilate heat. If heat is the only thing coming out of the stack, no permit is necessary, if anything other than heat is coming out of the stack, a permit is required and will take 3 to 4 days to obtain after application *ref 61*

August 8, 1996 - First face-to-face meeting with GM site selectors Don Poole and Ron Smith. This was a meeting of all utility providers and included representatives from TVA, KUB, LCUB, the Chamber of Commerce, TDC and WKUB. The meeting was seen as favorable by the prospects and TDC and a large list of questions arose from this initial meeting (see appendix 3) and need to be answered by August 16. *ref 29*

August 14, 1996 - Water analysis is completed after samples had been taken over a period of several weeks by West Knox Utilities. The analysis finds the water to be clean and potable. Also, fire hydrant static pressure and flow rate are checked. *ref 28*

August 14, 1996 - The issue of molten aluminum arises when the prospect reveals that our competitor in South Carolina has agreed to give Silverleaf land and a facility near a plant which can provide molten aluminum at a significantly lower price than IMCO's aluminum in Knox County. This starts a process of trying to find alternative aluminum sources in Knox County and in doing so, ALCO is contacted and negotiations are begun for the sale of aluminum with favorable results. *ref 31*

August 16, 1996 - Koth relays to Zeigler the problems he is having with the deal at this point, which include tax credits, TIIPs funds and training *ref 60*

August 21, 1996 - Based on discussions, revised figures for utilities and competing pressure, TDC issues its second development proposal, dated August 21, 1996 to Mark Koth of Delphi Chassis Systems, a partner in this joint venture. *ref 30*

August 21, 1996 - Terry Harris, Director of the Department of Air Pollution Control sends a letter to the prospect explaining that Knox County issues all air quality permits and these permits do not have to go to the state level for approval, it is all done locally and thus can be done quickly. *ref 54*

August 26, 1996 - The state's office sends the prospect a TIIPS funding example for review of how the process works and its projected savings to a fictitious company of comparable size *ref 43*

August 29, 1996 - Don Poole inquires more deeply about the environmental history of the parcel in WBP selected for them. He is concerned about its past land use and potential contamination from agricultural uses. *ref 32*

August 29, 1996 - Fluor Daniel Consulting has a face-to-face meeting with TDC. They ask for a more detailed environmental study, information about sales tax on manufacturing machinery and the Knox County Highway Department's Industrial Guidelines. *ref 33*

August 30, 1996 - Dietrich sends McIntosh an updated list of the commitments in funding that the state will give which amounts to \$624,700 total *ref 42*

September 4, 1996 - LCUB agrees to supply two 2000KVA transformers after considering the power usage by silverleaf and continued negotiation. Silverleaf must

supply the third transformer and sign a contract for 4000KW with a minimum monthly demand of 1200KW to be used without accruing a “minimum billing penalty”. *ref 34*

September 9, 1996 - Betty McIntosh of KPMG Peat Marwick Consulting is sent a letter outlining the incentives that TDC proposes. This includes \$1,700,000 in cash to the company, \$100,000 of CDBG funds for training, a 30acre site at Westbridge Business Park at no cost, one stop permitting, waiver of fees for the application for an industrial revenue bond, TDC’s acceptance of the fill material from the site preparation, TDC’s acceptance of the legal and administrative costs associated with the TIIPs funds and the establishment of a “Development Agreement” that will outline the full incentives package, conveyance of the site, covenants of the parties, conditions, and performance provisions to be executed by all parties. This proposal is identical to the proposal of August 31 *ref 52*

September 10, 1996 - Steve Amos of PBR send KPMG a fax outlining the unresolved issues surrounding this project which include money and facilities for training, confirmation of \$1.7 million, the industrial revenue bond’s confirmation, they want 12 months of office space at no cost and the basis for the transfer of 30 acres of land from TDC to PBR *ref 59*

September 13, 1996 - Don Poole raises the issue of natural gas service to WBP. He would like to discuss KUB’s plans for getting natural gas from the main pipeline to their site at WBP. *ref 35*

September 13, 1996 - The second face-to-face meeting is arranged for Sept. 18 between the prospect team headed by Don Poole and TDC’s utilities team including representatives from KUB and LCUB. *ref 36*

September 17, 1996 - Cathy Holland of TN ECD sends McIntosh a TIIPS time line for approval and request for payment to address the issue of when the prospect can reasonably expect to receive state funds after approval *ref 40*

September 17, 1996 - Cathy Holland sends Mark Koth a list of eligible and ineligible activities that fall under the TIIPS program, ruling out some of the activities that Koth wanted funding for *ref 41*

September 18, 1996 - Prospect team of Mark Koth (Delphi Chassis) and Steve Amos and Derrick Hoddgson of PBR meet with LCUB, KUB and TDC for round of face-to-face negotiations concerning power and gas. Prospect team also met with Rentenbach Construction contractors and local industry managers. *ref 37*

September 18, 1996 - Koth and Amos request help finding temporary office space in Knox County and are shown Fairview Technology Center (a TDC venture) where they rent 2 offices on a 6 to 9 month lease. *ref 38*

September 18, 1996 - Sami Dietrich, Deputy Commissioner, TN Dept. of Economic and Community Development sends Koth (Delphi Chasis) a summary of the state's position on funding commitments for TIIPS *ref 39*

September 26, 1996 - James Carmon, Sr.Vice President for Gas Operations of KUB proposes gas rates for the prospect based on the projections given to him and the previous negotiations. *ref 53*

VITA

David Douglas Birchim was born in San Francisco, California on March 21, 1969. He attended elementary and middle school in Jacksonville, Florida and high school in Ft. Lauderdale, Florida. After graduating from Pine Crest Preparatory School in 1987, he attended the University of Florida in Gainesville, Florida. At the University of Florida, he received a Bachelor of Arts degree and a commission as a Second Lieutenant in the United States Army in December, 1991. He continued his academic career in 1994 when he enrolled in the University of Tennessee's School of Planning. During this time, he worked at Hodges Library at the University as well as for the Development Corporation of Knox County. He completed his Master of Science degree in Planning in August, 1997.