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Dayton Tennessee's journey to build a new industrial park without a prospect in hand

Identifying natural advantages to change a Tier 4 community

Background - Information on community and organization

This report is an overview of the journey that Dayton, TN took in hopes of attracting new industry and new jobs into the community. Their efforts ended up attracting the city's largest ever foreign direct investment of $360 million USD and creating 400 new full time jobs and 600 construction jobs for their community. Most communities face this same dilemma and have a desire to recruit new industries, but typically are unsure where to start or how to evaluate their location for a realistic assessment of their attractiveness. Dayton's efforts were led by the Rhea Economic & Tourism Council, Inc.

In 1996, the Rhea Economic & Tourism Council was chartered. It is a 501 C3 private nonprofit agency that also serves as a "similar sufficient" organization and qualifies as the J.E.C.D.B. for Rhea County as required by the Public Chapter 1101 legislation passed in 1998. RETC serves the municipalities of Dayton, Spring City & Graysville as well as the Rhea County government and its private members.

Rhea County is a "tier 4" economically distressed county as rated by TNECD and is currently rated as an "at risk" county through the federal Appalachian Regional Commission. *Rhea County is* also often ranked as "distressed" by the ARC as well) Rhea County has 22.9% of the population living below the poverty level (1) and has an average personal income per capita of $33,551. (2)

Rhea County is located in Southeast Tennessee in the Greater Chattanooga region. Rhea County has a population of 32,691 and a workforce of approximately 13,409. (2) The county seat is the City of Dayton, which is the largest economic center in the county with a population of 7,316 (2). Dayton is located 35 miles north of downtown Chattanooga.

Dayton was chartered in 1903. It was originally settled in the 1820's and known as Smith's Crossroads before becoming Dayton. The community's population boomed to 2,719 during the 1890 census up from only 200 in the 1880 census. (3) The population boom was driven by the discovery of coal and the formation of the Dayton Coal & Iron Company. (5)

When the mines struggled to compete and eventually closed in the 1920's, Dayton and Rhea County was in an economic crisis. The population was decreasing and businesses were struggling.

By 1940, the population had decreased to 1,870, which was almost 1,000 fewer residents than 50 years before. (6)

When TVA began several major projects in the area, such as the Watts Bar and Chickamauga dams, the population stabilized and rebounded 70% to 3,191 by 1950. (6) The industrial base began to slowly appear in the community as a hosiery mill and other smaller manufacturing operations began to sprout up as TVA began producing and supplying reliable power to the rural areas.

The county's next big growth spurt happened in the 1970's when the community grew 24% to 4,361 (6). TVA began construction on the nearby Watts Bar nuclear plant in 1973 and the Sequoyah Nuclear plant in 1970 and these projects were catalysts that helped energize the region during the 1970's and early 1980's.

In 1971, La-Z-Boy Furniture Company literally landed in Dayton when a corporate pilot with ties to the community landed the corporate aircraft at the Dayton municipal airport and asked the La-Z-Boy leadership to meet with the Dayton Mayor for 15 minutes while in route to look at another site they were considering to build a new furniture manufacturing facility. That meeting proved to eventually be successful and La-Z-Boy started operations in 1973 with 50 employees in Dayton. Today, La-Z-Boy is Rhea County's largest manufacturer with over 1,500 employees. By 2010, Rhea County's county seat had grown to a population of 7,191 (6).

Dayton and Rhea County's economy has been like a roller coaster ride since the late 1800's. Similar to many small rural communities, a few larger employers controlled the labor market and the local political scene. There has always been a hesitancy to break out of the small town mentality, even though Rhea County and Dayton are less than 35 miles away from one of the nation's hottest markets in Chattanooga, TN. Local leaders never made the connection to the power of working as a region and helping each other succeed. Others in leadership worked to protect the interests of a few of the powerful leaders with ties to local manufacturing operations. More industry meant higher wages for the existing operations.

Time for change – a new way of thinking

The status quo always seems hard to change for most communities. It is human nature to resist change and change is often uncomfortable. In 2014 Dayton elected a new Mayor. Not uncommon with a new election, there were also key staff positions that also changed. The Mayor sought candidates for those roles that would compliment his new vision for a change in direction for Dayton. One of the roles that the new Mayor changed was the Director of Economic Development for the Rhea Economic & Tourism Council. These changes in leadership were the catalyst that sparked a fresh new vision for Rhea County and to Dayton.

Description of the opportunity - The Chicken or the Egg dilemma

Dayton is located 35 miles from one of the state's hottest economic markets in Chattanooga, yet has had zero "new" significant industrial project announcements in 20 years. The new director of economic development began responding to many RFPs in 2014 and was always eliminated from searches because of the lack of suitable& available sites or buildings. Today's projects are moving quickly and having available & suitable land is critical to meeting their needs. However, smaller communities often believe that they lack the resources to make large industrial investments. The Director of Economic Development had to get creative in finding ways to secure property and market a suitable site with limited funding available.

What was Dayton's natural advantage?

The new Director of Economic Development began to attend conferences in the spring of 2014 and scheduled meetings with state leaders and site selectors to find out what "product" was in the highest demand for industrial searches. He continually heard that there was a shortage of large acreage (100+ acres up to 500+ acres) rail-served sites in Tennessee and the Southeast United States in general. This discovery helped the Director to build a plan to create a natural advantage for Dayton & Rhea County. The community is served by a Norfolk Southern rail line that bisects the county north to south. Could Dayton use a large rail site as their "advantage?"

After listening to many "experts", the new director began to scour Google Earth and courthouse retrieval system property records to locate potential suitable sites of more than 100 acres. A few rural sites were found, but they lacked utilities and suitable access. The closer that you get to utilities, the more fragmented the land parcels became due to development (smaller acreage parcels). The site search did reveal an 84 acre farm that lies adjacent to an existing rail line. It was located a ½ mile north of Dayton's existing industrial park that had a very poor entrance from a small county road. Locating a suitable site had proven to be a difficult task given the lack of utilities and access in the rural areas and the fragmentation of parcels closer to town by subdivision. By embracing today's technology, the local site identification process was made easier. In just a few weeks, the Director was able to scour every potential parcel and identify a target list.

Another topic that always came up in the meetings with site selectors and state leadership was the availability of a skilled workforce. Large industrial projects are focusing on areas where they can draw from a very large pool of skilled labor. That immediately puts most rural communities at a disadvantage. Further research by the Director revealed that the site consultants would typically consider a 30 minute radius of the site in their labor search. Armed with this knowledge, it focused the search for a suitable new tract within a 30 minute drive of downtown Chattanooga. This requirement focused the site search on the south end of Rhea County as it is at the boundary of the 30 minute drive time for the workforce living in Chattanooga.

The search revealed the one vacant 84 acre site that was adjacent to an existing railroad main line was available. The economic development director presented his findings to the board and the “new” Mayor. Although the parcel had many challenges, it was the best “potential” option that existed. It had potential if Dayton could find a better access point, secure confirmed rail access and extended utilities. The farm was such a bargain that Dayton decided that they had no choice, but to take a chance on it. The property was about to become unavailable and the City wasn’t able to move quickly enough due to “processes.” The property was purchased by a developer and their chances at securing the site were quickly disappearing. The Director of Economic Development approached the developer and asked for an “option to purchase” agreement to give the City time to work through their processes. The developer agreed to a 6 month option and the Mayor began to work through the process to acquire. Fortunately, the Mayor discovered that the City of Dayton Industrial Development Board had enough cash reserve to make the purchase without all of the legal process of borrowing money for this type of purchase. (Don't worry, that will come later). After receiving written confirmation that the Norfolk Southern Railroad would agree to serve the site, the 84 acres was purchased by the City IDB in 2015 and became Dayton's " rail served advantage" as the director of economic development began to market a large rail-served site, Although the site had poor access and utilities a ½ mile away, it had plenty of potential and was Dayton's only available rail-served site that would allow them to submit a proposal for an RFP requiring rail. The director of economic development shared his vision for the property in a Saturday morning board meeting about the property with the RETC Executive Board. Mayor Louallen attended the Saturday morning "visioning" session and believed in the survey taken by the director of economic development and the vision of what the site could become. The Mayor then began "selling" the idea of change to the City Council. He knew that he was elected to bring change and something different had to be done if Dayton was going to see change. He is a visionary and had to sell a vision of something better to the funding partners on the City Council.

After the City of Dayton worked through the IDB (Industrial Development Board) for purchasing the 84 acre parcel, the director began to look for ways to improve the site and to make it more marketable. He applied for a $500,000 TVA Invest Prep grant to assist with the needed improvements, such as access, utilities and land clearing. During the TVA Invest Prep process, TVA hired an outside consultant (KPMG) to evaluate the parcel and its future potential. It was viewed favorably for location, but was turned down for the grant for a few reasons. The parcel lacked a suitable industrial access and adjoining tracts were currently not on the market. Also, the 84 acres was a great start, but in order to really "move the needle", Dayton needed more acreage to attract the large projects.

Armed with feedback from KPMG and TVA, the director enlarged his vision for the site and identified 6 fragmented parcels adjacent to the 84 acres owned by 4 separate individual owners. The director scheduled meetings with these individuals and received mixed results. 2 of the owners agreed to sell the RETC a 1 year "option to purchase" and 4 of the ownership groups rejected any request for an option.

The director of economic development entered into an assignable option to purchase these 2 tracts through the RETC economic development organization. The director chose the "assignable option" route after the City IDB had purchased the original 84 acre tract; the IDB informed the director that "they would NOT consider any more property because they were not going into debt to purchase speculative industrial property." The director used his understanding of "land options" to "lock up" the parcels with an option to purchase and to begin to market the property without actually having to close on the property. These new options added an additional 86 acres to the original 84 acres creating a 170 acre rail-served parcel to market and promote. Now, Dayton has something to promote.

Applicable TCED coursework (I will add supporting info below)

TN Basic Economic Developers course

TN Basic Finance course

TN Managing Economic Development Organizations course

TN Marketing and Attraction course

TN Strategic Planning for Economic Development course

State or national standards or trends identified in research

The director's research was done in conversation with other economic development leaders and site selection consultants. Those consulted for advice and insight include, Deloitte Consulting, KPMG Consulting, Creek & Rogers Consulting, TN Dept. of Economic & Community Development, and TVA Economic Development. The director also engaged Creek & Rogers Consulting from North Carolina to come spend 2 days in Dayton and to give their professional opinions about Dayton's advantages and obstacles. Armed with multiple sources of information, the director went to work developing a plan.

Project Description: - Vision becomes reality

The director of economic development spent the first 1 ½ years in the role researching, networking, and identifying potential community advantages before choosing and securing a marketable site. The original site consisted of 84 acres that was purchased by the Dayton IDB and another 2 private parcels secured by an "assignable option to purchase" agreement with the Rhea Economic & Tourism Council. This creativity allowed to combination of parcels to create a 170 acre rail-served master parcel. The 1 year options were secured for $1,000 each from the economic development agency. There was not any debt on the parcels at this point.

The director began to market and promote the 170 acre site that had mixed ownership. The director had a background in sales and marketing and knew that branding was critical to a successful promotion platform. In brain storming with TVA staff, they landed on a new name for the vacant land. The director began to call the site "Rail Hub South Industrial Development." Marketing material was created by TVA tech services team calling the site Rail Hub South. In consultation with TVA's Brad Maul, who managed TVA's Site Development team, they chose the name to help brand the site as a rail project destination. Chattanooga has a long history with the railroad and is a major rail hub for the southern United States and the director wanted to be closely associated with the hot Chattanooga market. The director began to market the property and sent marketing material to the State of TN Dept. of Economic & Community Development to inform project managers about the newly developed large acreage rail-served site. Very quickly, the site was also presented to KPMG Consulting who was managing a project called Project Mariner in 2015. The Rail Hub South site worked its way through the site elimination process with KPMG and landed as a "top 2 finalist site" in this search. Project Mariner visited the site by TVA helicopter 5 times during their search. TVA helicopters flying into newly acquired property gains a lot of attention in a small town. The economic development director had to field multiple calls answering questions about rumors from the community and from politicians eager for information. Project Mariner was a Japanese company which eventually shelved Project Mariner, but each site visit helped to prepare the marketing and promotion plan for Rail Hub South. The increased visibility had put a spot light on the site among many in the economic development community. During all of the "parading" in and out of the Rail Hub property, the neighboring property owner's interests were peeked. Those 4 neighbors that were originally approached about joining the opportunity almost 1 year earlier but denied the opportunity agreed to open doors for negotiations. The director of economic development entered into negotiations with these owners and secured all 4 parcels with an assignable "option to purchase" agreement. Each option cost $1,000 and was paid by the RETC economic development agency. None of the "options to purchase" had gone to the Dayton City Council or the IDB. These options to purchase were handled exclusively by the Rhea Economic &Tourism Council, Inc. The options were "assignable" options meaning that the RETC, who owned the option, had the ability to assign the rights to any future entity that may acquire the property at a future date. This method of "locking up" the parcels streamlined the process and moved quickly without timely government process. The addition of these 4 new parcels increased Rail Hub South's potential to 330 rail-served acres! RETC was not sure who would end up executing the options, but knew the options had to be in place in order to market the property. A larger vision was born for Rail Hub South.

Who was Involved

Rhea Economic & Tourism Council, Inc.

(A “similar sufficient” 501 C3 agency serving as the JECDB for Rhea County and its communities)

Executive Director – Dennis Tumlin

- Provided the park’s master vision along with site identification & market research. Provided overall project management including site due diligence, procurement of engineering and environmental services and negotiations with property owners. The director also led all project site visits and represented the City of Dayton’s interests which eventually led to the landing of Nokian Tyres as the final park tenant.

Executive Board members

- Supported the master vision with influence in the community and ensured the RETC organization was financed properly to achieve it’s mission.

The City of Dayton

Mayor Gary Louallen (who is also the Chairman of the Rhea Economic & Tourism Council)

- Provided the support from the very beginning at City Hall and with the Industrial Development Board.

Tommy Solomon – Dayton City Manager

- Provided support of the project from the very beginning at City Hall and assisted with due diligence on utility capabilities. Tommy was also vital in all aspects of committing to the funding of the acquisition and making sure the City Council was comfortable with his financial projections.

<u>Dayton City Council</u>

- Provided to final vote to fund site acquisition and supported rate study. (although all members were not supportive of the acquisition plan)

<u>The City of Dayton Industrial Development Board</u>

- Taking their direction from the Dayton City Council, the IDB took possession of the master parcel after the final tenant was secured to allow for the PILOT tax abatement program. The IDB also passed the PILOT agreement document.

<u>Private landowners</u>

- Agreed to “option to purchase” agreements to eventually sell their homes and farms to allow for the creation of a new industrial park.

<u>Utility departments</u>

- Supported with due diligence of utility capabilities and rate study.

<u>Norfolk Southern</u>

- Provided a commitment letter to serve the master planned Rail Hub South development.

<u>TNECD</u>

- Assisted with project site visits and state of TN incentives for the final tenant.

<u>TVA</u>

- Provided initial project assistance through TVA's "invest prep" grant evaluation program with KPMG. TVA also provided the helicopters used during site visits to view the property. TVA's tech services team provided site renderings and conceptual designs. TVA also committed a suitable power supply to meet industrial demands.

Goals and Objectives

Ultimately, the goal was to create an industrial site that would use Dayton's natural advantages of close proximity to Chattanooga, TN and a Norfolk Southern main rail line bisecting the county to create new jobs for economic growth. The research had indicated that creating a large acreage rail-served site within 35 minutes of downtown Chattanooga with a major 4 lane highway access could attract a "game changing" economic project.

Project Timeframe

In January 2014, the new economic director was hired and began understanding the economic climate and identifying natural advantages. In September 2015, the City of Dayton paid $400,000 cash for the initial 84 acre parcel. The first 2 assignable options were also executed in September of 2015 for $1,000 each, with the following 4 options secured in 2016, also for $1,000 each. In April 2016, RETC submitted the Rail Hub south site on an RFP for Deloitte Consulting. Deloitte was managing a nationwide search for Project 3F which was looking for 135 acres, which could be served by rail, initially to build a new tire plant. After more than 1 year of negotiations and 8 site visits later, in May 2017, The State of Tennessee and the City of Dayton announced that they had won Project 3F for a $360 Million project with 400 jobs in Phase 1 (Nokian Tyres) had selected the Rail Hub South site for their first North American manufacturing facility.

Results

Rhea Economic & Tourism Council's Executive Director led the community leaders through research, site evaluations, site selections, negotiations, due diligence, acquisition, marketing, project negotiations and project announcement. The vision created in 2014 was fully realized in May of 2017 with the state of TN's 2nd largest project announcement of 2017. Finland based, Nokian Tyres, broke ground in September 2017 on their first US manufacturing plant. They plan to invest $360 Million USD and create 400 jobs in phase 1. The site has enough room for up to 5 phases. Nokian Tyres stated that they evaluated more than 75 sites in the United States and visited 24 communities to evaluate sites. When asked by Development Counsellors International (DCI) why they finally chose Dayton, Tommi Heinonen (VP of North America Operations for Nokian Tyres) stated on March 12, 2018 that "Well, of course, there are a lot of criteria for us as on the site selection, and logistics is one of those. Rail access was very important. Then availability of the labor, availability of the energy, meaning…our tyre cooling process needs a lot of energy. And, of course, the overall business environment. That's very important." (8)

There were nearly 100 obstacles that had to be overcome during this process, including but not limited to; a new access bridge to 4 lane Hwy 27, utility extensions, expiring options with unreasonable private sellers, defining a solution to provide steam for the prospect, a requirement by the project to actually close on the parcel to stay in consideration, and wastewater rates had to be studied and adjusted for the project. These are only a few of the notable hurdles that were overcome.

The access problem was solved by a "two pronged" approach. Dayton negotiated with an adjacent property owner to purchase an additional 50 acre parcel to the south of the Rail Hub site that previously was not on the market. This acquisition allowed for the extension of an existing industrial access road that served the current industrial park into the Rail Hub site. The 2nd access option involved a commitment from TDOT (TN Dept. of Transportation) to build a rail road overpass bridge directly to 4 lane Hwy 27. This will require TDOT to acquire another private parcel for right of way. This bridge is expected to be completed in 2020.

The utility extensions have already been completed and were committed to the project in writing by the Dayton City Council. The water and wastewater departments each had to extend services 3,100 feet to serve the site.

Several times during the process, several of the private property owners had become restless and demanded that "someone" needed to close on their property or they would walk away once the option expired. The director of economic development and the Dayton city manager met multiple times with each owner and had to renegotiate each person's terms as options were expiring in the middle of negotiating with Nokian. The loss of the right to purchase any of the parcels had the potential to lose the entire deal for the community. Luckily, through negotiations and increased prices, the director and the city manager were able to keep the land options secured with the 4 private property owners.

Near the end of the site selection process, there was a point where Nokain's consultant (Deloitte Consulting) informed the economic development director that in order to remain under consideration, the City or the IDB would need to take ownership of the parcels that were under options. It was too risky for Nokian to select a community and then have to deal with private property owners. The Mayor of Dayton and the City Manager of Dayton were able to convince the city council to move forward with acquisition of the optioned parcels without a firm commitment from the company to choose Dayton. The City had to issue bonds for $2 million to make the initial required acquisition of the next 3 parcels totaling 87 additional acres. In addition, this new debt required the director of economic development and the Dayton city manager to submit a "certificate of public purpose" to the State of TN's Building

Commission for approval to issue the debt. Because this was such a high priority project for the State of TN, the certificate of public purpose was expedited and completed in 6 months, where it normally takes 2 or more years.

Another major obstacle was the waste water rate structure from the City of Dayton wastewater department. Deloitte had indicated very early in the search that Dayton's wastewater rates were above the national average. Deloitte informed the director of economic development that in order to stay under consideration, there would have to be some adjustments to the rate structure to remain competitive in the site search. The director of economic development searched for and secured a wastewater rate consultant which was hired by the City of Dayton wastewater department to analyze their rates. After a 4 week analysis, the consultant found a way for the rates to be adjusted for all industrial class users. Based on this study, the Mayor of Dayton was able to get the city council to authorize a rate reduction offer to Nokian, which also benefits all area industries. This adjustment allowed the Dayton site to remain in the site selection search process, without a commitment from Nokian yet.

Lastly, Deloitte had indicated that TN's corporate tax structure was disadvantaged vs the other finalist state, which was Georgia. This wasn't the first time that Tennessee had heard that they were uncompetitive. Tennessee had lost several major projects over the last 3 years to Georgia due to this corporate tax issue. Tennessee had been trying to revise their corporate tax structure for 2 years unsuccessfully. Based on this feedback, Governor Bill Haslam submitted a proposal to the state's legislative branches for consideration in January of 2017. Governor Haslam wrapped up this corporate tax break into what he called the IMPROVE Act. The act was very controversial as it also raised Tennessee's fuel tax on gasoline and diesel while offering tax breaks to manufacturing operations through what is called the “single sales factor” approach.   The act received much negative press because of the fuel tax, so the Governor added in a reduction of the grocery tax into the IMPROVE Act to help combat the negative press. Deloitte had given Tennessee a deadline of April 30th, 2017 to have the act passed or risk losing the Nokian project to Georgia. On April 26th, 2017 Governor Haslam signed the IMPROVE Act into law after a long battle with the state legislature. 7 days later, on May 3rd, 2017, Nokian makes the public announcement that they had chosen Dayton TN as the site for their first North American manufacturing operation.

Lessons Learned

In conclusion, Dayton’s journey started with a strong purpose, which was a desire for a brighter future. The leaders knew that transformation is hard and they also knew that they would face internal and external opposition. Dayton discovered that sometimes, state laws and processes don’t always make sense. Dayton has recommended to the TN Department of Economic & Community Development that the “certificate of public purpose” process needs to be overhauled at the state level.   Dayton’s new leadership worked hard to overcome all obstacles that were presented along the way. Their “can do” attitude helped to create a business environment that was noticed by Deloitte Consulting and ultimately by Nokian Tyres too. It was also confirmed that hard work will be recognized. The RETC Executive Director was nominated by Deloitte Consulting and was chosen by the Site Selectors Guild to receive their annual Award for Excellence in Economic Development for 2018.

Dayton's final recommendation to help communities implement change has to do with having the right leaders in the right position. As quoted from the book "Good to Great" by Jim Collins, "When it comes to getting started, good-to-great leaders understand three simple truths. First, if you begin with "who," you can more easily adapt to a fast-changing world. If people get on your bus because of where they think it's going, you'll be in trouble when you get 10 miles down the road and discover that you need to change direction because the world has changed. But if people board the bus principally because of all the other great people on the bus, you'll be much faster and smarter in responding to changing conditions. Second, if you have the right people on your bus, you don't need to worry about motivating them. The right people are self-motivated: Nothing beats being part of a team that is expected to produce great results. And third, if you have the wrong people on the bus, nothing else matters. You may be headed in the right direction, but you still won't achieve greatness. Great vision with mediocre people still produces mediocre results." (9)

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