WEGMANS – FUNDAMENTAL REASONS TO DENY THE APPLICATION

Executive Summary and Conclusions

This position paper analyzes several major issues in Air Park Associates, L.P., REZ2019-00037 and SE2020-00005.

The Wegmans Distribution Center (DC) should be compared to the SuperValu DC. There were no residential subdivisions near SuperValu when it was constructed, and its access roads have no residential traffic today. SuperValu is close to I-295 and bordered by the Chickahominy River, industrial companies in a business district, and the CSX railroad. SuperValu’s affiliate owns 437 acres, twice the acreage of Air Park. Both DC’s are Pentagon-sized. The similarities end there; and unlike SuperValu, Wegmans DC would radically change the established communities and residences which surround it.

This position paper also discusses issues related to the Wegmans DC at the Air Park site based on the Performance Agreement (PA) and the county’s Comprehensive Annual Financial Reports (CAFR’s). The PA does not mention the Air Park site. Wegmans need not provide a single job to obtain $2.92 million in county tax subsidies and receives $2.35 million of it three years before it receives an identical state grant. The Wegmans tax abatement package is also unprecedented and draws no support from the CAFR’s. Larger investment commitments have been made without county tax abatements or incentives. These are additional reasons to reject the Wegmans application.

Analysis

1. Wegmans DC Compared to the SuperValu DC. Under the revised conceptual plan, Wegmans proposes 1,096,501 square feet (sf) in buildings. The largest building will be the Wegmans DC at 1,034,616 sf with an additional 205,650 sf shown at both ends of the building for expansion.[[1]](#footnote-1) 400,000 sf is shown for potential future development elsewhere on the site.

The only existing Hanover DC comparable to Wegmans in size is the SuperValu facility at 1,249,000 sf.[[2]](#footnote-2) There are, however, major differences between the two DC’s.

> SuperValu’s affiliate owns 437 acres of land, twice Wegmans’ 217 acres.

> Unlike SuperValu, Wegmans is receiving a generous package of corporate subsidies consisting of county tax rebates and reductions and infrastructure improvements.

> The closest residential subdivision to the SuperValu DC is Summer Walk. Summer Walk was developed well after the SuperValu DC began operations under a corporate predecessor.[[3]](#footnote-3) By contrast, Fox Head and Somerset, the closest residential subdivisions to the proposed Wegmans DC, have been in existence for many years. Established neighborhoods, like these and the 150 year old Brown Grove community, should not be sacrificed to a Pentagon-sized DC.

> The SuperValu DC has easy access from I-295 (Exit 42) - 0.4 miles to Richfood Road, and that access road is not used by any residents. By contrast, Wegmans is 2.3 miles from the nearest interchange on I-95 (Exit 86) and, of greater significance, would add traffic to multiple roads used by residents of many neighborhoods.

> The SuperValu DC is bordered by the Chickahominy River, CSX railroad tracks, and industrial development along its entrance road. Wegmans, on the other hand, is surrounding by homes and residential subdivisions on all sides.

The SuperValu DC is not comparable to the Wegmans DC and provides no basis for the latter’s approval. If the Board were to approve the Wegmans DC at this location, it would open up the entire county to Pentagon-size and smaller DC’s in all magisterial districts without regard to existing residential communities, road use, traffic, or parcel size. Future DC developers would likely also seek Wegmans-type tax rebates, reductions, and infrastructure improvements from the county.

2. No Reference to Air Park Site in the Performance Agreement. Air Park Associates, L.P. is not a party to the PA. The PA makes no reference to any specific parcels in Hanover County.

There is no discussion of county applications for any site in the PA. The PA contains no discussion of approval, denial, or any other action by the county or any department on Wegmans or Air Park Associates applications. The PA contains no contingencies related to county, state, or federal approvals for Wegmans. Nothing in the PA constrains the Board from denying the Wegmans application and determining that this is the wrong site for a Pentagon-sized DC.

3. County Tax Subsidies Not Tied to Jobs. The county claims that the Wegmans DC will provide 700 jobs for Hanover. Wegmans will receive $2.35 million in county tax rebates if it meets certain performance obligations.

Wegmans is, however, not obligated to provide any jobs in order to receive county tax rebates and reductions. Under the PA, Wegmans does not have to hire a single worker at its DC in order to receive $2.92 million in county tax rebates and reductions. PA, Section 4 (b)(i) ($2.35 million in tax rebates tied only to Wegmans’ capital investment of $142 million), PA, Section 4 (b)(iii) (50% reduction in merchants’ capital taxes for Wegmans not tied to capital investment or jobs).[[4]](#footnote-4) Jobs play no role in determining Wegmans’ eligibility for $2.92 million in county tax rebates and reductions, and the county pays Wegmans $2.35 million three years before Wegmans receives the state money. Compared to the state, the county is giving money away to Wegmans, an insult to Hanover businesses and citizens paying full county taxes.

4. Tax Abatements. The $2.35 million in tax rebates and $0.57 million in tax reductions for Wegmans are tax abatements.

In the county’s 2017 CAFR, financial note 10, new accounting pronouncements, discusses the requirement to disclose tax abatements to comply with GASB Statement 77. A tax abatement is defined as an agreement between a government and an individual or entity in which the government “promises to forgo tax revenues” and the individual or entity promises to take a specific action that contributes to economic development or otherwise benefits the government or the citizens. FY2017 CAFR, p. 50. The 2017 CAFR then states that the GASB statement “is not applicable to the County as there are no agreements of this type.” Id. Similarly, note J - tax abatements, in the most recent 2019 CAFR, only discusses the county’s speculative building program but states there were no FY2019 tax payments related to this program. FY2019 CAFR, p. 122.[[5]](#footnote-5) No tax abatements are reported under a note with the broadly inclusive title “Tax abatements.”

Tax abatements have not been reported in the county’s CAFR’s. The $2.92 million in county tax subsidies for Wegmans are unprecedented and a major departure from prior county practice.[[6]](#footnote-6)

5. Capital Investments – Wegmans and Cascades. Under the PA, the Wegmans DC will entail an investment of $175 million, consisting of $128 million in the construction of new buildings, $22 million in tangible personal property, $20 million in site improvements, and $5 million in land purchases. PA, p. 1 (whereas clause). Eligibility for county tax rebates is, however, tied to lower capital investments. If Wegmans makes a capital investment of at least $120 million in the construction of new buildings and $22 million in tangible personal property by January 1, 2023, it will receive $2.35 million in county tax rebates. PA, Section 4(b)(i).

Cascades, a Canadian company, is the successor in interest to Bear Island Paper Company and took over its facility. The county’s most recent 2019 CAFR states:

“Cascades, a major international cardboard and tissue company, announced a $275 million investment in Hanover County that will create 140 well-paying jobs. This project alone was one of the top five announcements in Virginia over the past 12 months and one of the largest industrial projects in the Commonwealth during the same period. The company will take over the idle Bear Island Paper facility, and after full build out, will once again be one of county’s largest taxpayers.” FY2019 CAFR, p. 6.

Cascades received a $1.95 million grant from the state but no county tax rebates or reductions. The investment decision and the state grant were announced on July 26, 2018.

Cascades is making a capital investment which exceeds Wegmans required investment for tax rebates by $133 million. Unlike Wegmans, however, Cascades will receive no tax rebates or reductions from the county.

The situation with Cascades raises an obvious question. Why did Hanover County provide a generous incentive package to Wegmans for $142 million in investment when no county incentive package or matching of a state grant was needed to induce Cascades to make an investment commitment of $275 million at the Bear Island facility?

Cascades’ commitment demonstrates that county tax rebates and reductions are not needed to attract industrial and commercial development to Hanover County. As the CAFR’s show, save for Wegmans, this is true for investments up to $275 million. The county tax rebates and reductions for Wegmans are unnecessary, excessive and unprecedented corporate welfare.

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Bob Nelson, Chickahominy District

1. The Pentagon building gives some idea of the size of the Wegmans DC. The Pentagon building sits on 28.7 acres or 1,250,172 sf, almost the same sf as the Wegmans DC expanded. Wegmans SE application requests a DC maximum height of 62 feet above ground. The Wegmans DC is the equivalent of the Pentagon with the top floor removed. [↑](#footnote-ref-1)
2. Other large Hanover DC’s include Amazon - 321,000 sf, Vitamin Shoppe – 312,000 sf, Republic National Distribution Company – 300,000 sf (expandable to 500,000 sf), and Supply Room Companies – 280,000 sf. None of these DC’s are located near residential subdivisions. [↑](#footnote-ref-2)
3. The SuperValu DC was built in the 1960’s. May 14, 1997 Board minutes (Richfood resolution). [↑](#footnote-ref-3)
4. Wegmans has to meet jobs and investment performance obligations in order to receive the state grant of $2.35 million. PA, Section 3(a). [↑](#footnote-ref-4)
5. Notwithstanding these statements in the 2017 and 2019 CAFR’s, it is possible that tax abatements are buried in the CAFR’s with a number of “netting” adjustments. Non-disclosure of tax abatements and agreements to provide them does not comply with GASB Statement 77. Compare, FY2019 CAFR, p. 175, Table 8, n. 2 (total fiscal year property tax levies are net of undisclosed amounts for supplemental levies, abatements, land use deferrals, and tax relief). [↑](#footnote-ref-5)
6. Note K in the county CAFR’s references two special assessment Community Development Authorities (CDA’s), Bell Creek and Lewistown Commerce Center. CDA’s issue bonds to acquire land and/or construct infrastructure improvements, and special assessments are imposed on taxable real property to pay interest and principle on the bonds. FY2019 CAFR, pp. 122-124. The county’s $1.5 million in infrastructure improvements for Wegmans is the polar opposite of principles governing CDA’s and a major disincentive to their formation in the future. [↑](#footnote-ref-6)