

BOARD OF SUPERVISORS
Agenda Item

Meeting Date:	December 19, 2017
Title:	Consider a Tax Exemption for a Property Associated with a Health Care Clinic to Serve Active Duty and Retired Military Members and their Families
Department:	County Administration
Staff Contact:	Michael T. Smith, Deputy County Administrator
Board Committee/ Other BACC:	Community and Economic Development Committee (CEDC)
Staff Recommendation:	Approval
Fiscal Impact:	N/A
Time Sensitivity:	Public hearing scheduled for December 19, 2017 to meet federal contract timeline

ATTACHMENTS:

1. Background Report	4. Draft Service Charge Agreement
2. Proposed Ordinance O17-43	5. Economic Development Impact Analysis
3. Proposed Resolution R17-306	

Consent Agenda		Other Business		Unfinished Business
Discussion		Presentation		Work Session
New Business	X	Public Hearing		Add-On

REVIEW:

X	County Administrator	<i>Thomas C Foley</i>
X	County Attorney (legal review only)	<i>Charles L. Thumate</i>
X	Commissioner of the Revenue	<i>John R. [Signature]</i>
X	Finance and Budget	<i>Maria B. [Signature]</i>

DISTRICT:	N/A
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BACKGROUND REPORT

Medicorp Properties, Inc. ("MPI") submitted an application to obtain property tax exemption by designation for (i) Tax Map Parcel Nos. 39R-A, 39R-B, 39R-C, 39R-1, 39R-2, 39R-3, 39R-4, 39R-5, 39R-6, 39R-7, 39R-8, 39R-9 and 39R-10; and (ii) approximately 1.492 acres of land identified as George Washington Avenue and an associated turn lane, each identified as such and dedicated for public street purposes pursuant to a plat entitled "Plat of Subdivision - East Campus Stafford Hospital Center" by Mark D. Goodpasture, dated October 23, 2012, and recorded in the land records of Stafford County, Virginia as Plat Map No. PM130000211 ("Plat") with Instrument No. LR130026573 (collectively, the East Campus Parcel), pursuant to Virginia Code § 58.1-3651 and Stafford County Code Sec. 23-14. The exemption would apply to the land and improvements described within this application for the East Campus Parcel.

The East Campus Parcel is part of a larger parcel of land obtained by MPI over ten years ago for the development, construction and operation of Stafford Hospital and other healthcare operations. MPI is a Virginia non-stock corporation whose sole member is Mary Washington Healthcare. Mary Washington Healthcare is a Virginia non-stock corporation that, through its subsidiaries, owns and operates a health system consisting of Stafford Hospital, Mary Washington Hospital, physician office practices, and various other health care facilities. Mary Washington Healthcare and MPI are each exempt from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code (IRC), and MPI is a public charity pursuant to IRC Section 509(a)(3) as a supporting organization of Mary Washington Hospital and Stafford Hospital. As such, MPI is primarily organized and operated to own, manage, and maintain real estate associated with Mary Washington Healthcare's operations. This may include, but not be limited to the sale, lease, and development of real estate to third parties for use on the campus of each respective hospital.

MPI initially acquired additional land east of Stafford Hospital, which consists of the East Campus Parcel, for future development and subdivided a portion of the land into ten separate lots. Despite active efforts and marketing by commercial brokerage services, no development or activity has occurred on these lots, and MPI is still the fee owner of each. As part of MPI's request, it desires to vacate the plat to consolidate the ten lots. Earlier this year, CRAssociates, Inc. (CRA) approached MPI about a proposal that it was interested in submitting to the federal government for the development and operation of a new outpatient healthcare facility benefiting military personnel and their beneficiaries, pursuant to a contract that CRA was pursuing with the federal government. This new proposed medical facility (Facility) would be located within the East Campus Parcel. Specifically, CRA and MPI have entered into a ground lease, subject to CRA being awarded the federal government contract for the development, construction, ownership, and operation of the Facility, for CRA to construct the Facility, convey it to MPI, and then lease both the land and the Facility from MPI for a term of up to 30 years. In order for the financing of this project to work, MPI and CRA discussed MPI submitting this application for exemption by designation specifically limited to the East Campus Parcel and its use, pursuant to CRA's contract to operate and manage the Facility on behalf of the federal government. Rent received by MPI for its lease of the East Campus Parcel to CRA would not exceed MPI's tax exempt bond financing costs for its Stafford County campus. As a condition to Stafford County recognizing the East Campus Parcel land and improvements as being exempt by designation from property taxation, MPI would agree to notify the County of any changes to its debt service amortization schedule for the Stafford Hospital campus.

MPI agrees to reimburse the County's cost of publishing notice of a public hearing required for considering this application, as required by Virginia Code § 58.1-3651(B). As part of this application, and in consideration for the exemption by designation for the East Campus Parcel, MPI is committed to entering into an agreement with Stafford County, pursuant to Virginia Code § 58.1-3400, to pay a service charge with respect to the East Campus Parcel to the County in consideration of the County's expenditures for furnishing police, fire protection, and other general government services, as described within Virginia Code § 58.1-3401.

Specifically, MPI proposes to pay a service charge, which is a payment in lieu of taxes (PILOT), of \$75,000 per year (with an annual escalation of 2%) for so long as the land and improvements on the East Campus Parcel is tax exempt and are being used in the manner consistent with the uses described in the application. A draft "Service Charge Agreement" is included as Attachment 4.

In addition to the PILOT payment, staff hired a consultant to consider the potential economic development benefits from locating the Facility in Stafford. The study summarized the economic benefits of the Facility as shown below:

- Two hundred and fifty new direct jobs in the County that span a diverse range of skill sets;
- These direct jobs can be expected to generate an additional 80 jobs in the County due to the indirect (supply chain) and induced (employee spending) impacts of the Facility;
- The direct annual economic output (sales) is estimated to be nearly \$40.1 million with an additional \$11.8 million in output contributed to the County economy via the indirect and induced impacts for a total economic output of \$51.8 million;
- Additional, more modest economic impacts will be generated by the flow of new patients into the County for health services and their spending in retail and restaurant establishments;
- The Facility would provide the County with new opportunities for bioscience and biomedical industry connections through hosting clinical trials or connecting the Facility with private sector researchers, and bolsters the County's recent emergence in the broader regional health services industry cluster through the addition of quality jobs with above-average wages.

The analysis indicates that the future overall tax revenue associated with the Facility will be significantly more than the County currently collects. This economic impact will easily offset the decrease in revenue resulting from the tax exempt designation.

The following information addresses the items required pursuant to Virginia Code § 58.1-3651 and Stafford County Code Sec. 23-14(a). Specifically, the statute requires the County to consider, among other things, the following questions:

1. *Whether the organization is exempt from taxation pursuant to § 501(c) of the IRC.*

MPI is a Virginia non-stock corporation that is exempt from federal income taxation pursuant to IRC Section 501(c)(3) and a public charity pursuant to IRC Section 509(a)(3). MPI is organized and operated for charitable purposes, which includes supporting the charitable mission and purposes of Mary Washington Hospital, Inc. and Stafford Hospital, LLC. To fulfill this mission, MPI owns, manages, and maintains real estate associated with Mary Washington Healthcare's operations. This may include, but not be limited to, the sale, lease, and development of real estate to third parties for use on the campus of each respective hospital. The Internal Revenue Service (IRS) has determined that Mary Washington Healthcare and its affiliates are tax exempt. MPI is included as a subordinate organization within this group exemption.

2. *Whether a current annual alcoholic beverage license for serving alcoholic beverages has been issued by the Virginia Department of Alcoholic Beverage Control Board to such organization, for use on such property.*

No alcoholic beverage control license has been issued to MPI by the Virginia Alcoholic Beverage Control Board for use on the East Campus Parcel nor is it intended that one will be issued.

3. *Whether any director, officer, or employee of the organization is paid compensation in excess of a reasonable allowance for salaries or other compensation for personal services which such director, officer, or an employee actually renders.*

No director, officer or employee of MPI is paid in excess of reasonable compensation for services actually rendered. Mary Washington Healthcare (on behalf of MPI employees) contracts with Mercer LLC to provide employee compensation, benefit and wage survey information, benchmarks and consulting services to ensure that such compensation and benefits are consistent with ever-changing market values. For certain senior executives with MPI, the Mary Washington Healthcare Executive Compensation Committee works with Yaffe & Company, a firm experienced in structuring executive compensation arrangements for nonprofit healthcare organization, to ensure that the compensation and benefits provide to such individuals are consistent with market values.

4. *Whether any part of the earnings of such organization inures to the benefit of any individual, and whether any significant portion of this services provided by such organization is generated by funds received by donations, contributions, or local, state, or federal grants. As used in this subsection, donations shall include providing personal services or the contribution of in-kind or other material services.*

No part of the earnings of MPI inures to the benefit of any individual. MPI is a Virginia nonstock corporation and has no owners or shareholders. The sole corporate member of MPI is Mary Washington Healthcare, which is also a Virginia non-stock corporation that is exempt from federal income taxation pursuant to IRC Section 501(c)(3). No significant portion of the services provided by MPI is generated by donations, gifts, grants or contributions.

Rather, MPI's revenue is primarily generated from rental income related to its owned real estate and funding from various affiliates of Mary Washington Healthcare. Mary Washington Healthcare's other true-exempt affiliates do rely on gifts, grants and contributions to help fund their health care operations.

5. *Whether the organization provides services for the common good of the public.*

The organization promotes the availability and convenience of health care services for the general public by making medical office space available and otherwise providing property management services to support Stafford Hospital and certain other healthcare providers in Stafford County. When MPI acquired the land for Stafford Hospital, adjoining vacant land was acquired to help facilitate this purpose. Subject to the award of a federal contract, CRA now intends to develop, construct, maintain and operate the Facility on such excess land for active duty and retired military members and their families. This new facility will make healthcare services even more readily available, create hundreds of new jobs in Stafford County and have other positive downstream effects on the Stafford County economy.

6. *Whether a substantial part of the activities of the organization involves carrying on propaganda, or otherwise attempting to influence legislation and whether the organization participates in, or intervenes in, any political campaign on behalf of any candidate for public office.*

MPI does not participate in activities to influence legislation and does not participate in any campaigning or political activities whatsoever.

7. *The revenue impact to the locality and its taxpayers of exempting the property.*

The positive revenue impact on Stafford County that results from exempting the East Campus Parcel will be significant. MPI paid \$86,878.50 in total property taxes for 2016 for the East Campus Parcel even though the East Campus Parcel remained undeveloped. As it is undeveloped, no services for the common good or other downstream revenue was generated for the County. Despite MPI's best efforts, the East Campus Parcel has remained undeveloped for approximately ten years.

The Facility will provide over 100,000 square feet of medical facility space to provide medical services for active duty and retired military members and their families in Stafford County; it plans to employ approximately 250 full-time medical professionals and medical support personnel who have been screened and are highly qualified; it plans to contract with Mary Washington Healthcare for staff and resource sharing in the future; it plans to render medical care to over 28,000 military beneficiaries upon opening and to over 34,000 beneficiaries within five years and it will contract with local suppliers and contractors to help facilitate the operations of the Facility. The patients, visitors, employees, contractors and suppliers for the Facility will each have a positive impact on the Stafford County economy through the purchase of goods and services in Stafford County and the potential relocation of homes and business to the County to support the Facility.

In addition to this significant downstream economic impact, MPI is willing to enter into an agreement with Stafford County to pay \$75,000 per year, at an annually compounding rate of 2%, during the term of the ground lease as a payment in lieu of property taxes for the East Stafford Parcel and improvements. Therefore, the combination of the positive downstream economic impact and the annual PILOT payment will result in a net positive revenue impact to Stafford County.

The East Campus Parcel is under concurrent consideration for a proffer amendment and conditional use permit (CUP) amendment, to facilitate the development of the Facility. Staff reviewed the proposed tax exemption designation application and if the Board approves the proffer amendment and CUP amendment, recommends approval of proposed Ordinance O17-43, which designates the property associated with the Facility as tax exempt.

Proposed Resolution R17-306 would authorize the County Administrator to execute a service charge agreement with MPI for the previously described PILOT. If the Board approves proposed Ordinance O17-43, staff also recommends approval of proposed Resolution R17-306.

PROPOSED

BOARD OF SUPERVISORS
COUNTY OF STAFFORD
STAFFORD, VIRGINIA

ORDINANCE

At a regular meeting of the Stafford County Board of Supervisors (the Board) held in the Board Chambers, George L. Gordon, Jr., Government Center, Stafford, Virginia, on the 19th day of December, 2017:

MEMBERS:

- Paul V. Milde, III, Chairman
- Meg Bohmke, Vice Chairman
- Jack R. Cavalier
- Wendy E. Maurer
- Laura A. Sellers
- Gary F. Snellings
- Robert “Bob” Thomas, Jr.

VOTE:

On motion of , seconded by , which carried by a vote of , the following was adopted:

AN ORDINANCE TO DESIGNATE TAX MAP PARCEL NOS. 39R-A, 39R-B, 39R-C, 39R-1, 39R-2, 39R-3, 39R-4, 39R-5, 39R-6, 39R-7, 39R-8, 39R-9, AND 39R-10; AND APPROXIMATELY 1.492 ACRES OF LAND IDENTIFIED AS GEORGE WASHINGTON AVENUE AND AN ASSOCIATED TURN LANE, (COLLECTIVELY, EAST CAMPUS PARCEL) LOCATED WITHIN THE AQUIA ELECTION DISTRICT, AS TAX EXEMPT WHILE BEING USED FOR A HEALTH CARE CLINIC TO SERVE ACTIVE DUTY AND RETIRED MILITARY MEMBERS AND THEIR FAMILIES

WHEREAS, Medicorp Properties, Inc. (MPI) has requested that the Board designate the East Campus Parcel associated with a health care clinic to serve active duty and retired military members and their families as tax exempt; and

WHEREAS, the Board has considered the factors for granting tax exemptions as required by Virginia Code § 58.1-3651 and Stafford County Code Sec. 23-14(a) and the Board hereby finds as follows:

1. *Whether the organization is exempt from taxation pursuant to § 501(c) of the Internal Revenue Code of 1954 (IRC).*

MPI is a Virginia nonstock corporation that is exempt from federal income taxation pursuant to IRC Section 501(c)(3) and a public charity pursuant to IRC Section 509(a)(3).

2. *Whether a current annual alcoholic beverage license for serving alcoholic beverages has been issued by the Virginia Department of Alcoholic Beverage Control Board to such organization, for use on such property.*

No alcoholic beverage control license has been issued to MPI by the Virginia Alcoholic Beverage Control Board for use on the East Campus Parcel nor is it intended that one will be issued.

3. *Whether any director, officer, or employee of the organization is paid compensation in excess of a reasonable allowance for salaries or other compensation for personal services which such director, officer, or an employee actually renders.*

No director, officer or employee of MPI is paid in excess of reasonable compensation for services actually rendered. Mary Washington Healthcare (on behalf of MPI employees) contracts with Mercer LLC to provide employee compensation, benefit and wage survey information, benchmarks and consulting services to ensure that such compensation and benefits are consistent with ever-changing market values.

4. *Whether any part of the earnings of such organization inures to the benefit of any individual, and whether any significant portion of this services provided by such organization is generated by funds received by donations, contributions, or local, state, or federal grants. As used in this subsection, donations shall include providing personal services or the contribution of in-kind or other material services.*

No part of the earnings of MPI inures to the benefit of any individual. MPI is a Virginia non-stock corporation and has no owners or shareholders.

5. *Whether the organization provides services for the common good of the public.*

MPI promotes the availability and convenience of health care services for the general public by making medical office space available and otherwise providing property management services to support Stafford Hospital and certain other healthcare providers in Stafford County.

6. *Whether a substantial part of the activities of the organization involves carrying on propaganda, or otherwise attempting to influence legislation and whether the organization participates in, or intervenes in, any political campaign on behalf of any candidate for public office.*

MPI does not participate in activities to influence legislation and does not participate in any campaigning or political activities whatsoever.

7. *The revenue impact to the locality and its taxpayers of exempting the property.*

The positive revenue impact on Stafford County that results from exempting the East Campus Parcel would be significant. MPI paid \$86,878.50 in total for property taxes in 2016 on the East Campus Parcel even though the East Campus Parcel remained undeveloped.

; and

WHEREAS, MPI submitted a tax exempt designation application that met all requirements of Virginia Code § 58.1-3651 and Stafford County Code Sec. 23-14; and

WHEREAS, the Board desires to grant MPI's request;

NOW, THEREFORE, BE IT ORDAINED by the Stafford County Board of Supervisors on this the 19th day of December, 2017, that it be and hereby does grant an exemption from local taxation, which may be revoked in accordance with the provisions of law, pursuant to Section 6(a)(6) of Article X of the Constitution of Virginia and Section 58.1-3651 of the Code of Virginia (1950), as amended, for Tax Map Parcel Nos. 39R-A, 39R-B, 39R-C, 39R-1, 39R-2, 39R-3, 39R-4, 39R-5, 39R-6, 39R-7, 39R-8, 39R-9, and 39R-10; and (ii) approximately 1.492 acres of land identified as George Washington Avenue and an associated turn lane, each identified as such and dedicated for public street purposes pursuant to a plat entitled "Plat of Subdivision - East Campus Stafford Hospital Center" by Mark D. Goodpasture, dated October 23, 2012, and recorded among the land records of Stafford County, Virginia as Plat Map No. PM130000211 with Instrument No. LR130026573; and

BE IT FURTHER ORDAINED that the exemption shall be contingent upon the continued use of the East Campus Parcel for the development, construction, ownership, and operation of an outpatient healthcare facility benefiting military personnel and their beneficiaries.

TCF:mts

PROPOSED

BOARD OF SUPERVISORS
COUNTY OF STAFFORD
STAFFORD, VIRGINIA

RESOLUTION

At a regular meeting of the Stafford County Board of Supervisors (the Board) held in the Board Chambers, George L. Gordon, Jr., Government Center, Stafford, Virginia, on the 19th day of December, 2017:

MEMBERS:

- Paul V. Milde, III, Chairman
- Meg Bohmke, Vice Chairman
- Jack R. Cavalier
- Wendy E. Maurer
- Laura A. Sellers
- Gary F. Snellings
- Robert "Bob" Thomas, Jr.

VOTE:

On motion of , seconded by , which carried by a vote of , the following was adopted:

A RESOLUTION AUTHORIZING THE COUNTY ADMINISTRATOR
TO EXECUTE A SERVICE CHARGE AGREEMENT WITH
MEDICORP PROPERTIES, INC., FOR PAYMENTS IN LIEU OF
TAXES

WHEREAS, Medicorp Properties, Inc. (MPI) has received a tax exemption designation for (i) Tax Map Parcel Nos. 39R-A, 39R-B, 39R-C, 39R-1, 39R-2, 39R-3, 39R-4, 39R-5, 39R-6, 39R-7, 39R-8, 39R-9, and 39R-10; and (ii) approximately 1.492 acres of land identified as George Washington Avenue and an associated turn lane, each identified as such and dedicated for public street purposes pursuant to a plat entitled "Plat of Subdivision - East Campus Stafford Hospital Center" by Mark D. Goodpasture dated October 23, 2012, and recorded among the land records of Stafford County, Virginia on Plat Map No. PM130000211 with instrument No. LR130026573 (collectively, the East Campus Parcel); and

WHEREAS, the East Campus Parcel, which has been designated as tax exempt, are owned by MPI; and

WHEREAS, Mary Washington Healthcare and its subsidiary MPI, are each exempt from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code; and

WHEREAS, MPI has entered into a ground lease with CRAssociates, Inc. (CRA) for the East Campus Parcel that has a maximum term of 30 years after it commences (Lease); and

WHEREAS, pursuant to the Lease, CRA will develop, construct, manage and maintain a building and other improvements on the East Campus Parcel (the Improvements and, collectively with the East Campus Parcel, the East Campus Property) for the sole purpose of CRA or its assigns to operate and manage an outpatient health care complex for military personnel and their beneficiaries pursuant to a contractual arrangement, including any applicable amendments or restatements, between CRA or its assigns and the federal government; and

WHEREAS, the County provides and incurs expenses in providing police, fire and other general government services to benefit the MPI Property; and

WHEREAS, the parties desire to memorialize the terms for MPI's payment of an annual service charge to the County in lieu of taxes (PILOT) pursuant to Virginia Code § 58.1-3400, *et. seq.*, and other applicable law; and

WHEREAS, MPI has offered a Service Charge Agreement ("Agreement") which includes an annual service charge by MPI to the County of \$75,000, at an annually compounding rate of 2% to account for inflation and the increase in costs for public services provided by the County;

NOW, THEREFORE, BE IT RESOLVED by the Stafford County Board of Supervisors on this the 19th day of December, 2017, that it be and hereby does authorize the County Administrator, or his designee, to execute a Service Charge Agreement with Medicorp Properties, Inc. ("MPI") for a payment in lieu of taxes for Tax Map Parcel Nos. 39R-A, 39R-B, 39R-C, 39R-1, 39R-2, 39R-3, 39R-4, 39R-5, 39R-6, 39R-7, 39R-8, 39R-9, and 39R-10; and 1.492 acres of land identified as George Washington Avenue and an associated turn lane, each identified as such and dedicated for public street purposes pursuant to a plat entitled "Plat of Subdivision - East Campus Stafford Hospital Center" by Mark D. Goodpasture dated October 23, 2012, and recorded among the land records of Stafford County, Virginia as Plat Map No. PM130000211 with Instrument No. LR130026573; and

BE IT FURTHER RESOLVED that the Service Charge Agreement shall include an annual service charge paid by MPI to the County of at least \$75,000, at an annually compounding rate of 2%, and any other such additional terms and provisions which are in the best interests of the County.

TCF:mts

SERVICE CHARGE AGREEMENT

This SERVICE CHARGE AGREEMENT (“Agreement”) is made and entered into effective on _____, 2017 (the “Effective Date”), by and between MEDICORP PROPERTIES, INC., a Virginia nonstock corporation (“MPI”), and the COUNTY OF STAFFORD, VIRGINIA, a county government formed under the laws of the Commonwealth of Virginia (the “County”).

RECITALS:

R.1. MPI owns various real property in the County, including approximately 20.6 acres of land currently identified as Tax Map Parcels 39R-A, 39R-B, 39R-C, 39R-1, 39R-2, 39R-3, 39R-4, 39R-5, 39R-6, 39R-7, 39R-8, 39R-9 and 39R-10 (collectively, the “MPI Parcel”).

R.2. MPI is exempt from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code (“IRC”) and its sole corporate member is Mary Washington Healthcare (“MWHC”).

R.3. MPI is organized and operated exclusively for charitable purposes, which include owning, developing, managing and leasing real property for the benefit of and to further the interests of MWHC and its affiliates, which includes but is not limited to, the promotion of health.

R.4. MPI has entered into a Ground Lease with CRAAssociates, Inc. (“CRA”) for the MPI Parcel that has a maximum term of thirty (30) years after it commences (“Lease”).

R.5. Pursuant to the Lease, CRA will develop, construct, manage and maintain a building and other improvements on the MPI Parcel (the “Improvements” and, collectively with the MPI Parcel, the “MPI Property”) for the sole purpose of CRA or its assigns operating and managing an outpatient health care complex on the MPI Parcel for military personnel and their families pursuant to a contractual arrangement, including any applicable amendments or restatements, between CRA or its assigns and the federal government (the “Federal Contract”).

R.6. The Lease is contingent upon CRA entering into the Federal Contract and obtaining various approvals from the County related to the Improvements.

R.7. Upon completion of the Improvements, the Lease requires CRA to convey title to the Improvements to MPI, with CRA having the right to occupy, improve and maintain the MPI Property during the term of the Lease.

R.6. Pursuant to Virginia Code Section 58.1-3651 and Stafford County Code Section 23-13, the County granted MPI property tax exemption by designation on _____, 2017 solely with respect to MPI Property land and improvements.

R.7. The County provides and incurs expenses in providing police, fire and waste disposal services to benefit the MPI Property and the parties desire to memorialize the terms for

MPI's payment of an annual fee to the County in lieu of tax ("PILOT") pursuant to Virginia Code Section 58.1-3400 *et. seq.* and other applicable law.

NOW, THEREFORE, for and in consideration of the promises and mutual covenants herein contained and other good and valuable consideration, the receipt and adequacy all of which are forever acknowledged, the parties hereby agree as follows:

1.0 Definitions.

- 1.1 "Annual Fee" means an annual service fee payable by MPI to the County of \$75,000.00 at an annually compounding rate of 2%. By way of illustration, the first payment by MPI to the County under this Agreement will be \$75,000, and the annual payment in the thirtieth year of this Agreement will be \$133,188.35. The parties agree that this escalation reasonably accounts for inflation and the increase in costs for public services provided by the County.
- 1.2 "Effective Date" means _____, 2017.
- 1.3 "Exemption" means the exemption by designation from property taxation (applicable to the MPI Property and future improvements and modifications thereto) that the County has agreed to grant to MPI pursuant to its authority within Virginia Code Section 58.1-3651 and Stafford County Code Section 23-13 as a condition precedent of this Agreement.
- 1.4 "Specified Purpose" means the development, construction, maintenance, management and operation of an outpatient health care complex for military veterans and their families pursuant to the terms of the Federal Contract.

2.0 Term. This Agreement shall commence on the Effective Date and shall continue in effect until the Lease is terminated, the MPI Property is no longer utilized for the Specified Purpose, or thirty years elapse, whichever occurs sooner.

3.0 Obligations of County.

- 3.1 Provide Municipal Services. The County agrees to provide police, fire and other general government services for the MPI Property throughout the term of this Agreement.
- 3.2 Billing of Annual Fee. The County shall bill the Annual Fee to MPI on a semi-annual basis, with such bill being due in accordance with the due dates for real estate taxes in the County.
- 3.3 Effect of Annual Fee Payments. Other than the Annual Fee, the County shall not seek additional payments with respect to the MPI Property for

any property taxes, leasehold interest taxes or service charges from MPI or any tenant utilizing the MPI Property for the Specified Purpose during the term of this Agreement. The County shall use best efforts to ensure that no constitutional officers, employees or agents of the County seek any additional payments for such taxes or fees with respect to the MPI Property during the term of this Agreement.

- 3.4 Effect of Exemption – The County recognizes that the Exemption is made in accordance with the applicable laws of the Commonwealth of Virginia and applies, to the extent thereunder, to the MPI Property and including future modifications thereto which are consistent with the Specified Purpose, and the County will not impose any real or personal property taxes with respect to the MPI Property during the term of this Agreement pursuant to such Exemption. The County will not repeal or materially limit or condition the Exemption during the term of this Agreement.

4.0 Obligations of MPI.

- 4.1 Annual Fee. MPI agrees to pay the fixed Annual Fee to the County. MPI will not be directly or indirectly liable for any service or similar fees added to the Annual Fee attributed to the assessment or reassessment of the MPI Property. MPI is not relieved of its obligation to pay the Annual Fee if the County fails to issue a bill pursuant to Section 3.2 at any point during the duration of this Agreement.
- 4.2 Notice of Changes. MPI agrees to promptly notify the County of the termination of the Lease and any material modification or uses of the MPI Property that are inconsistent with the Specified Purposes.

5.0 Reserved Rights of County.

- 5.1 Termination of Exemption. If this Agreement is terminated, such termination shall serve as grounds for termination of the Exemption.
- 5.2 Other Taxes. Except for property taxes for the MPI, the parties expressly agree that this Agreement and the Exemption from taxation herein described shall have no effect whatsoever and shall in no way prejudice the County's right to collect other taxes, which are not attributed to the MPI Property, that may be lawfully due and owing by MPI where no other exemption applies. By way of example, these others taxes include, but are not limited to, meals, sales, merchants' capital, and other taxes associated with a for-profit business on the MPI Property.

6.0 Reserved Rights of MPI. This Agreement does not prejudice the right of MPI to appeal or otherwise dispute or challenge any assessment or reassessment which may occur after the Effective Date of this Agreement to any of its property in the County.

However, by entering into this Agreement MPI agrees that the Annual Fee is a reasonable annual service charge for the public services it will be provided by the County for the duration of this Agreement.

7.0 Termination.

7.1 Termination of Exemption. MPI may terminate this Agreement immediately in the event the Exemption is terminated, rescinded, revoked or modified.

7.2 Termination for Uncured Breach. In the event MPI is in breach of any term, condition or covenant within this Agreement, the County may terminate this Agreement immediately in the event MPI fails to cure such breach within thirty (60) days of MPI's receipt of written notification of such breach from the County. In the event the County is in breach of any term, condition or covenant within this Agreement, MPI may terminate this Agreement immediately in the event the County fails to cure such breach within thirty (60) days of the County's receipt of written notification of such breach from MPI.

7.3 Termination or Lease and Specified Purpose. Either party may terminate this Agreement upon written notice to the other party upon both the termination or non-renewal of the Lease and the failure of the MPI Property to be utilized for the Specified Purpose.

8.0 Notice. Notice under this Agreement shall be in writing and shall be deemed given either (i) upon three (3) days after deposit in the mail if sent by certified mail, return receipt requested; or (ii) upon receipt if hand-delivered or submitted by overnight delivery by a nationally recognized overnight courier with a return receipt requested. Notice to the respective parties should be addressed:

If to MPI:

MediCorp Properties, Inc.
2300 Fall Hill Avenue, Suite 206
Fredericksburg, VA 22401
Attn: Director

With a copy to:

Mary Washington Healthcare
Regulatory Affairs and Risk Management
2300 Fall Hill Avenue, Suite 509
Fredericksburg, VA 22401

If to COUNTY:

County of Stafford
1300 Courthouse Road
Stafford, VA 22555
Attention: County Administrator

With a copy to: County Attorney
County of Stafford
1300 Courthouse Road
Stafford, VA 22555

- 9.0 Severability.** Each paragraph and provision of this Agreement is severable from the entire Agreement. If any provision is declared invalid, the remaining provisions shall nevertheless remain in effect.
- 10.0 Entire Agreement.** This Agreement sets forth all of the promises, agreements, conditions and understandings between the parties respecting the subject matter hereof and supersedes all negotiations, conversations, discussions, correspondence, memoranda and agreements between the parties concerning such subject matter. This Agreement hereby supersedes and serves in full substitution of any and all prior agreements among any of the parties with regard to the subject matter described herein.
- 11.0 Amendment.** No modification, amendment, or attempted waiver of any of the provisions of this Agreement shall be valid unless in writing signed by the County and MPI.
- 12.0 Choice of Law / Choice of Venue.** The parties hereby agree that all provisions of this Agreement shall be construed, governed and enforced in accordance with the laws of the Commonwealth of Virginia. Any disputes arising out of this Agreement shall be heard and tried before the Stafford County Circuit Court.
- 13.0 No Waiver.** No failure or delay on the part of either party in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. No waiver of or consent to any departure by either party from any provision of this Agreement shall be effective unless signed in writing by the party entitled to the benefit thereof. Any waiver of any provision of this Agreement, and any consent to any departure from the terms of any provision of this Agreement, shall be effective only in the specific instance and for the specific purpose for which made or given.
- 14.0 Miscellaneous.** This Agreement may be executed and delivered in a number of counterparts each of which, when so executed and delivered, shall be deemed an original and all such counterparts shall together constitute one and the same Agreement. Each recital and exhibit to this Agreement is hereby incorporated by reference into this Agreement. The division of this Agreement into sections and subsections and the use of captions and headings in connection therewith are solely for convenience and shall have no legal effect in construing the provisions of this Agreement.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK.
SIGNATURE PAGE TO FOLLOW.]

DRAFT

IN WITNESS THEREOF, the parties hereto have caused this Agreement to be executed in multiple originals by their authorized officers, all as of the date and year first above written.

MPI:

MEDICORP PROPERTIES, INC.

By: _____ Date: _____
Sean T. Barden
Executive Vice President and CFO

COUNTY:

COUNTY OF STAFFORD, VIRGINIA

By: _____ Date: _____
Thomas C. Foley
County Administrator

Approved as to Form:

_____ Date: _____
Charles L. Shumate, Esq.
County Attorney

Scan of the Potential Economic Development Benefits from Locating an Outpatient Department of Defense Facility in Stafford County, Virginia

Introduction and Background

TEconomy Partners has conducted a high-level assessment or “scan” of the potential economic impacts and economic development benefits of a proposed DoD-funded outpatient health care center in Stafford County, Virginia. The assessment is based on the information provided in the June 9th email from CRAssociates (CRA) to Bruce Register, Director of the Department of Economic Development and Tourism in Stafford County.¹

According to CRA, the proposed facility would be constructed and located on 14.5 acres on the grounds of Stafford Regional Hospital and intended to provide outpatient health services (there are no overnight stays) to more than 28,000 military-enrolled beneficiaries. These services include routine primary care as well as ancillary services and infrastructure to provide digital x-rays, mammography, women’s health suite, orthopedics, dermatology, tele-health suite, optometry suite, physical and occupational therapy, full lab services, behavioral health suite, and a full-service pharmacy. Once operational, CRA expects the facility to employ “approximately” 250 full-time employees.

We are making the assumption that this facility is operational in 2018 so the financial figures presented in this scan are expressed in 2018 dollars.

Summary of Economic Benefits

The following summarize the economic benefits of the proposed facility presented in this scan:

- Two hundred fifty new direct jobs in the County that span a diverse range of skill sets;
- These direct jobs can be expected to generate an additional 80 jobs in the County due to the indirect (supply chain) and induced (employee spending) impacts of the facility;
- The direct annual economic output (sales) for 2018 is estimated to be nearly \$40.1 million with an additional \$11.8 million in output contributed to the County economy via the indirect and induced impacts for a total economic output of \$51.8 million;
- Additional, more modest economic impacts will be generated by the flow of new patients into the County for health services and their spending in retail and restaurant establishments;
- The new facility would provide the County with new opportunities for bioscience and biomedical industry connections through hosting clinical trials or connecting the DoD facility with private sector researchers, and bolsters the County’s recent emergence in the broader regional health services industry cluster through the addition of quality jobs with above-average wages.

¹ TEconomy has followed up with some detailed questions to CRA in a June 14th email; however, as of this writing no response to these questions has been received.

Economic Impact Assessment

Developing and operating a facility providing outpatient health services to thousands of individuals each year has broader and further-reaching impacts on the County economy beyond its direct employment, wages, and sales. This type of facility is interdependent and purchases goods and services from other establishments spanning multiple industries across complex supply chains. In addition, the workers in this facility will spend their earnings and this generates spending cycles across a range of additional sectors.

To more fully understand and quantify the more complete contribution of this facility to the Stafford County economy, TEconomy has conducted a high-level economic impact analysis of the facility based on the employment parameters provided by CRA, the description of the proposed facility, and using the IMPLAN Input/Output model for Stafford County Virginia.²

Key Concepts and Definitions

Multipliers measure the effects on an economy from a source of economic activity, in this case the jobs and activities of the proposed outpatient care facility in Stafford County.

This analysis focuses on impacts across four economic measures:

- *Output.* The total value of production or sales in all industries;
- *Employment.* The total number of full- and part-time jobs in all industries;
- *Personal Income.* The wages and salaries, including benefits, earned by the workers holding the jobs created; and
- *Value Added.* The difference between an industry's or an establishment's total output and the cost of its intermediate inputs.

In turn, four types of economic impact effects are calculated for each of these economic measures:

- *Direct effects.* The change in economic activity being analyzed—in this case the activities of the proposed outpatient care facility;
- *Indirect effects.* The changes in inter-industry purchases, for example the purchase of diagnostic testing kits manufactured by a medical device company, in response to the change in demand from the directly affected industries;
- *Induced effects.* The changes in spending from households as incomes increase due to changes in services provided; and
- *Total effects.* The combined total of direct, indirect, and induced effects.

The impact model calculates annual economic impacts and are presented for the single year, 2018.

Estimated Economic Impacts

To generate the regional impacts of the proposed facility, the County IMPLAN model was run using the total expected employment figure provided by CRA—250 employees. While some limited detail has been provided by CRA on the professional composition of the staff, the IMPLAN model does not require occupational detail for its estimates of economic impacts. By modelling the employment increase

² For more information on the IMPLAN model and approach utilized, see the Methodology section.

through the most appropriate of the 536 detailed IMPLAN sectors—in this case “Outpatient Care Centers”—the model incorporates the appropriate expected mix of professionals and skills required to operate such a facility.

One key adjustment has been made to the induced impacts for this analysis. Because Stafford is one county embedded within a very large metropolitan region with complex commuting patterns, TEconomy has leveraged data from the Census Bureau’s Longitudinal Employer-Household Dynamics (LEHD) program to refine the expected impacts of facility worker’s spending within the County. The data show that about one-third of individuals employed in Stafford County both live and work there (see data provided in the Methodology section). Therefore, it is appropriate to “temper” the estimated induced effects (which largely occur where people live) down by two-thirds, and this adjustment is reflected in the data tables presented below.

Based on the direct impact of the 250 jobs related to the proposed outpatient care facility, the development is estimated to generate \$51.8 million in overall economic output within Stafford County on an annual basis (Table 1). The direct output of the jobs accounts for \$40.1 million of this impact, or 77 percent of all total output. The estimated production/output impact on suppliers to the outpatient care sector (indirect impacts) amount to \$9.6 million.

The 250 direct facility jobs are expected to generate an additional 80 jobs throughout the Stafford County economy for a total employment impact of 330 County jobs. The majority of the additional jobs (65) are supported through the facility’s supply chain expenditures (indirect impacts). The estimated indirect and induced impacts represent an impact multiplier of 1.32 or 0.32 jobs created throughout the rest of the County economy for each 1 direct job created at the facility.

Table 1: Economic Impacts of the Proposed Stafford County Outpatient Care Facility, 2018 (\$ in Thousands)

Impact Type	Employment	Labor Income	Value Added	Output
Direct Effect	250	\$13,556	\$21,303	\$40,067
Indirect Impacts	65	\$2,683	\$5,721	\$9,585
Induced Impacts	15	\$561	\$1,257	\$2,191
Total Impact	330	\$16,801	\$28,281	\$51,843
Impact Multiplier	1.32	1.24	1.33	1.29

Source: TEconomy Partners analysis of IMPLAN Input/Output model for Stafford County, VA.

Note: Induced impacts adjusted based on share of employed individuals who both live and work in the County.

The top 15 local industries impacted by the creation of these outpatient care center jobs are generated by the IMPLAN model and presented in Table 2.

Table 2: Indirect Output Effects for Top 15 Sectors in the Stafford County Outpatient Care Center Supply Chain, 2018 (\$ in Thousands)

Industry Sector	Indirect Output (\$ in Thousands)
Real estate (including property leasing)	\$3,271
Wholesale trade	\$930
Other local government enterprises	\$647
Management consulting services	\$623
Insurance carriers	\$536
Employment services	\$378
Maintenance and repair construction of nonresidential structures	\$282
Electric power transmission and distribution	\$235
Management of companies and enterprises	\$171
Services to buildings	\$149
Medical and diagnostic laboratories	\$130
Waste management and remediation services	\$128
Monetary authorities and depository credit intermediation	\$105
Marketing research and all other miscellaneous professional, scientific, and technical services	\$103
Truck transportation	\$102

Source: TEconomy Partners analysis of IMPLAN Input/Output model for Stafford County, VA.

Additional Economic Impacts: Retail & Restaurant Spending

Patient flows into the proposed new outpatient facility will generate additional retail and restaurant spending beyond that captured in the spending of facility workers in the data presented in Table 1. While patients will not be staying overnight, they (and those accompanying them) can be expected to spend in both local retail and restaurant establishments. While TEconomy does not have hard data on expected “per patient” expenditures, we have developed estimated economic impacts of increases in spending that range from \$10 to \$25 per patient across the estimated 28,000 patients served by this facility.

This 2-part analysis applies the expected local expenditure increase under two scenarios, at a rate of 1) \$10 per patient and 2) \$25 per patient in a 50-50 split across an aggregation of likely retail sectors and restaurants and is presented in Tables 3 and 4 below.

Modelling increases in retail spending requires a unique approach as the majority of these goods are not manufactured within the region. The estimation of economic impact is based upon the retail margin that accrues to Stafford County establishments that generate retail sales to the patients and visitors. The retail margin is the net revenue accruing to the business after paying for the cost of goods from the wholesaler or manufacturer. The IMPLAN data and modeling software calculates economic impact based on the retail margin, which is built into the software platform.

Under the first scenario, with 28,000 patients (and those accompanying them) spending a total of \$10 in retail and restaurant establishments, the County could expect to see total economic output of just over \$240,000 with modest employment effects associated with this. Under the second scenario of a \$25 average expenditure, total output is estimated at more than \$644,000.

Table 3: Economic Impacts of Increased County Retail and Restaurant Expenditures (\$10 per patient scenario), 2018

Impact Type	Employment	Labor Income	Value Added	Output
Direct Effect	2.9	\$58,381	\$99,177	\$179,856
Indirect Impacts	0.2	\$9,314	\$17,999	\$32,850
Induced Impacts	0.2	\$7,128	\$15,958	\$27,814
Total Impact	3.3	\$74,823	\$133,135	\$240,519

Source: TEconomy Partners analysis of IMPLAN Input/Output model for Stafford County, VA.

Table 4: Economic Impacts of Increased County Retail and Restaurant Expenditures (\$25 per patient scenario), 2018

Impact Type	Employment	Labor Income	Value Added	Output
Direct Effect	11.3	\$251,415	\$405,758	\$449,639
Indirect Impacts	0.5	\$23,286	\$44,998	\$82,125
Induced Impacts	0.8	\$28,927	\$64,756	\$112,866
Total Impact	12.6	\$303,628	\$515,513	\$644,630

Source: TEconomy Partners analysis of IMPLAN Input/Output model for Stafford County, VA.

These additional economic impacts realized do not overlap with those presented in Table 1 so in that sense they are additive and could be summed for a more complete expected impact from the proposed facility. They have been presented here separately because of the distinct calculations and range of expenditures modelled.

Broader Regional Economic Development Context

In addition to the expected economic benefits to the County of opening the outpatient care facility, the region would benefit by further ingraining itself into a broader regional health services industry cluster, a technology- and innovation-driven cluster where regional “nodes” can act as key sites for deploying and testing innovative products and procedures. The proposed facility will complement the ongoing services provided by relatively new Stafford Regional Hospital and serve a patient base with unique and specific needs—an opportunity for the County to distinguish itself in a niche healthcare strength. Military medical needs are disproportionately focused on a younger and more active population and so often require strengths in areas such as OB GYN and orthopedics as well as focus areas to treat wounded individuals such as physical and occupational therapy. This unique patient base and state-of-the-art facility could provide opportunities to partner with private sector biotechnology,

biopharmaceutical, and medical device companies in research and clinical trials focused in such areas. Industry is by far the major funder of clinical trials, and local connections to R&D-intensive innovative bioscience companies via clinical trials can provide an entry point to other partnerships or potentially locating additional company presence in a region.

The healthcare sector has generally been a reliable economic driver in recent years, continuing to grow even during recessions and employing individuals across a diverse range of skill needs from lower-skilled maintenance and food service type jobs to middle-skilled jobs such as nursing assistants and occupational therapy aides to highly-skilled physicians and surgeons, pharmacists and registered nurses (which now require bachelor's degrees as a minimum credential). Wages in the key health services sectors shown in table 5 are generally greater than for the overall private sector. A new outpatient care center in Stafford County can be expected to generate quality jobs with wages exceeding that for the overall County average.

Industry Sector	Average Wages, 2015		
	Stafford County, VA	Northern VA Region	U.S.
Total Private Sector	\$ 41,321	\$ 69,641	\$ 52,879
Key Health Services Sectors			
Medical & Diagnostic Labs	\$ 54,635	\$ 65,339	\$ 60,662
Outpatient Care Centers	\$ 43,474	\$ 63,520	\$ 59,024
Hospitals	\$ 41,900	\$ 57,921	\$ 60,478

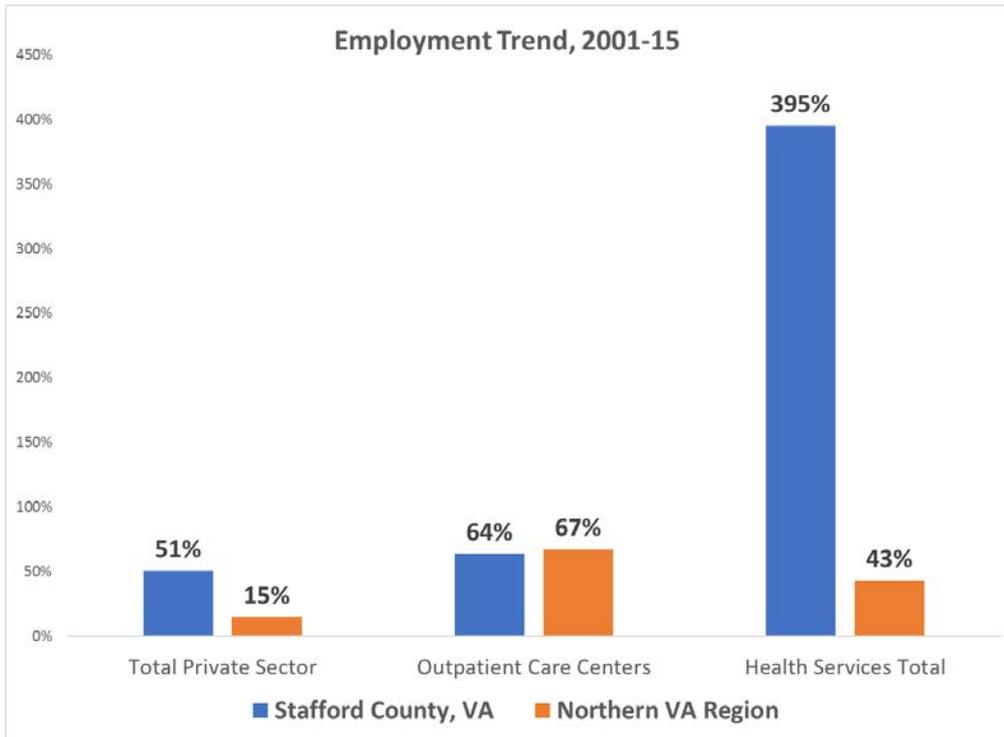
Table 5: Average Annual Wages in the Health Services Industry, 2015

Source: TEconomy Partners analysis of Bureau of Labor Statistics, QCEW data; enhanced file from IMPLAN. Northern VA counties include those in the Washington, DC MSA.

Stafford County has only recently advanced a health services industry. As recently as 2001, the County had fewer than 300 jobs in the sector³, but this has grown rapidly with the opening of the regional hospital in 2009 and employment gains in other areas to a total employment of nearly 1,300 in 2015 (see Figure 1). With the County more than doubling its population since 1990, however, there is much room for growth as the County's location quotient (LQ) in health services is just 0.50 or 50% of the average concentration of health services employment that one would expect given the national average.

³ Health services discussed here includes hospitals, outpatient care centers, medical labs, home health care, nursing and other residential care, and other ambulatory care. It does not include offices of physicians or dentists.

Figure 1: Employment Growth by Sector, Stafford County and Northern VA Region, 2001-15



Source: TEconomy Partners analysis of Bureau of Labor Statistics, QCEW data; enhanced file from IMPLAN. Northern VA counties include those in the Washington, DC MSA.

Economic Impact Methodology Notes

IMPLAN is one of the most widely used Input/Output models in the nation, and can be used to analyze the impacts of companies, projects, or of entire industries. An input-output analysis examines the relationships among businesses and among businesses and final consumers. Input-output analysis is based on the use of multipliers, which describe the response of an economy to a change in demand or production.

The IMPLAN model uses detailed sector and region-specific information to predict outcomes and gauge impacts. The base IMPLAN model incorporates detail of more than 500 individual industry sectors spanning the entire national (or in this case regional) economy.

For more information on IMPLAN and its Input/Output models, visit: <http://www.implan.com/>.

The following table presents the Census Bureau's LEHD data for Stafford County utilized by TEconomy to adjust the induced impacts described in the report.

Table A-1: Census Bureau LEHD 2014 Data for Stafford County (to adjust Induced Impacts).

Inflow/Outflow Job Counts (Primary Jobs)		
Stafford County, VA Selection Area		
	2014	
	Count	Share
Employed in the Selection Area	33,100	100.0%
Employed in the Selection Area but Living Outside	22,254	67.2%
Employed and Living in the Selection Area	10,846	32.8%

Source: U.S. Census Bureau, LEHD program.

About TEconomy Partners, LLC.

In late 2015, TEconomy Partners was formed as an independent company, transitioning the complete staff and capabilities of the Technology Partnership Practice (TPP) from Battelle Memorial Institute. In 1990, Battelle formed TPP to serve state and local organizations, universities, non-profit technology organizations, industry and professional associations, and others in the assessment, design, and implementation of research and technology programs. Over time, the practice evolved into a full-service assessment and strategy group in innovation-based economic development. Today, that practice is TEconomy Partners, LLC.