

Deep in the Desert, an Experiment in Economic Development

Why businesses and employees from around the country have flocked to the desert in Nevada.

BY MIKE MACIAG | NOVEMBER 2017



Lance Gilman has transformed a pocket of Northern Nevada into a global center of business. *(Photos by David Kidd)*

Storey County is a stretch of sparsely settled Northern Nevada landscape, 264 square miles of largely unpopulated valleys, mountains and rocky desert terrain. Herds of wild horses graze the land. At last count, the county seat had a population of 845.

But on a recent weekday afternoon, there's a major traffic backup in one corner of the county. Lines of tractor trailers and cars with out-of-state license plates trudge slowly toward the entrance to Interstate 80 -- a near-daily occurrence commuters have grown accustomed to. It's all because of the Tahoe-Reno Industrial Center, a massive complex of buildings that claims to be (and may well be) the largest industrial park in the world.

Three years ago, the park lured Tesla's Gigafactory, hailed as one of the biggest economic development prizes ever. Since then, the park has taken off, landing as many high-profile deals as any development in the country. Google recently purchased 1,200 acres. Down the road, the data storage company Switch opened the first building of what's slated to become the world's largest data center campus. Jet.com and Walmart have big distribution facilities in the park, as do their competitors eBay and Zulily. The industrial park is now home to more than 140 tenants. Already, more than three times as many people hold permanent or temporary jobs within the park as live in the entire county.

Storey County has huge plots of land to offer for industrial development. But what's played a key role in luring so many companies to the area is an exceptional absence of local regulation and a speed of permitting that rivals any business development in the U.S. The park's exploding growth is just the latest chapter in an unprecedented experiment in economic development.

All this development has rescued the finances of a county that was nearly broke not too many years ago. Back in the 1990s, Storey County was chronically short of revenue. "The county was bankrupt but didn't know it," says Pat Whitten, the current county manager. Some state officials thought of abolishing the county, which is the second smallest in the state by land area.

Then came Lance Gilman, a Stetson-wearing developer who got his start working for Capitol Records in Hollywood and had built a small empire of businesses. Gilman and his partner, Roger Norman, saw a shortage of large parcels of land with adequate utilities to accommodate industrial use. When 104,000 acres of undeveloped land with proximity to an interstate, railroad and power generation were put up for sale by Gulf Oil, the partners jumped at the opportunity, buying it for \$20 million in cash in 1998. They now own about 55 percent of the land in Storey County.

To lay the groundwork for the industrial park, Gilman made another deal with the cash-strapped county that turned the usual marathon permitting process into a hundred-yard dash. By the terms of the agreement, nearly all industrial uses for the park are

preapproved, so tenants don't have to go before a planning commission or obtain any special use permits. This is an extremely rare and significant public concession. It has allowed companies -- ranging from plastics and machine gun manufacturers to fuel processing plants -- to be up and running at unheard-of speeds. A company can usually get a grading permit within 48 hours and a building permit in one to two weeks.

What's more, the agreement prohibits the county from imposing any new fees or regulations, with most existing fees frozen at amounts charged in the year 2000. Storey County must assist the developers in any dealings with other local, state and federal agencies. The county runs some of its support services on a round-the-clock basis. At times, staff have carried out building inspections at 3 a.m., because that's when crews pour concrete in the summer.

In return, the developers paid upfront for the construction of all roads, flood control, fire stations and most other public infrastructure within the park. County officials agreed to start paying back the developers for these infrastructure investments, interest free, once the park turned a profit. Calculated as a percentage of total revenues after expenses, this reimbursement has totaled about \$1 million annually in recent years.

Gilman did Storey County one more favor: At the time, the county relied on the well-known Mustang Ranch brothel for more than 10 percent of its revenue. But the Internal Revenue Service had shut it down, so Gilman purchased the ranch buildings and naming rights on eBay and got the business running to plug the shortfall.

But the Tahoe-Reno Industrial Center didn't take off right away. It landed a Walmart distribution facility in 2005, which took a mere six months to open. Business slowed down after that, hurt badly by the 2008 recession. It was a meeting in a construction trailer in 2013 that permanently altered the park's trajectory. Tesla executives had flown in for what was supposed to be a 15-minute session. They had already toured the nation in a well-publicized search for a massive factory site. Gilman asked why they hadn't yet signed a contract. The representatives cited scheduling risks -- delays that cost companies money. "How long," they asked, "would it take to receive a grading permit?" Storey County's community development director then pushed a permit across

the table and told them simply to fill it out. “It’s the magic of the development agreement that allowed that all to happen,” Gilman says.

The announcement that Storey County had landed Tesla, made on the steps of the state Capitol in September 2014, dramatically raised the region’s profile in what’s been called the “Tesla effect.” Some companies send in deposit checks for parcels in the industrial center without even visiting. Over two recent weeks, Gilman closed 11 transactions for land purchases in the development. “We have such a strong critical mass of companies,” Gilman says, “that the companies are coming to us.”

Currently, Gilman estimates about 14,000 people work there, including temporary construction crews. He expects employment to double or triple in the next five years as companies meet hiring projections and new facilities open.

The county’s small staff has struggled to keep up with all the construction and development around the park. Each day, many of the center’s 6,000 construction workers descend on the Tesla site, expected to have the largest footprint of any building in the world once completed. One building inspector spends about 10 hours a day there handling 50 to 100 inspection requests for new machines.

Wanting to play a greater role in the area’s anticipated growth, Gilman, who is 72 years old, won a seat on the county commission as a Republican in 2012. (Given Nevada’s unique-in-the-nation prostitution laws, Gilman is likely the only elected official in America who owns a legal brothel.) He says his top priorities on the commission are fiscal restraint and deregulation. Predictably, the combination of his investments, his ownership of most of the county land and his position in county government has at times drawn accusations that he wields too much influence. “I say what’s on my mind and lay my plans out there,” he says. “Often, folks have untested assumptions.”

Remote as Storey County may seem from anywhere in urban America, the location has actually been an advantage in bringing in companies. The center is only 15 miles east of Reno and a three-and-a-half-hour drive from San Francisco. Nothing on the

West Coast is more than a day's truck drive away, and that has made it attractive for distribution centers.

Nevada has no corporate or personal income tax, and relatively low labor and real estate costs. Economic development officials have promoted the state's low taxes and favorable regulatory environment as an alternative to neighboring California. A recent Development Counsellors International survey of corporate executives with site selection responsibilities reported they viewed California as having the least favorable business climate of any state. "Every time they pass new acronyms of laws, we get more companies," says Austin Osborne, Storey County's planning director. "They push the companies here."

The Tahoe-Reno Industrial Center has, in fact, wooed a slew of companies across state lines. A botanical ingredient supplier, BI Nutraceuticals, relocated to Storey County after operating in California for over three decades. "California is draconian in how they burden businesses," says CEO George Pontiakos, who cites permitting speed as an "enormous" factor in his decision to move the company. BI Nutraceuticals decided to move in April 2015 and by the following January had opened a new plant in the industrial park.



California has fought back against its reputation for cumbersome regulation. While Nevada plays up its low taxes and regulatory advantages, California officials emphasize the state's skilled workforce, research capacity and access to markets. The state economic development agency has stepped up its efforts to help companies navigate local, state and federal permitting with a dedicated support unit and online portal. The fact remains, however, that an estimated 30 to 40 percent of companies relocating to the larger Northern Nevada region migrate from California, according to the Economic Development Authority of Western Nevada. That number used to be higher -- about 60 percent -- but more businesses have been moving to the industrial park from other parts of the country in the wake of the Tesla deal.

Storey County advertises to prospective companies that only three officials are responsible for handling all plan reviews, inspections and permitting. "Every budget season, our departments are reluctant to staff up, because when you start staffing up, then you start compartmentalizing and not communicating," Osborne says. "We do not want to build an empire."

Of course, state tax incentives have played a role in some of the economic development victories as well. Tesla's package totaled nearly \$1.3 billion -- one of the largest in American history -- including a 20-year sales tax abatement and a 10-year property tax abatement. Tesla CEO Elon Musk, however, has said other competing states offered larger tax deals. He cited the "pace of execution" as the primary driver of the automaker's site selection in an earnings call last year.

Storey County, which prospered from gold mining in the 1800s, is now enjoying something of a second heyday. With a much-improved financial picture, the county has hired trained paramedic firefighters rather than relying on volunteers. Officials are also considering issuing rebates on individual property taxes, an unheard of move most elsewhere.

Few of the center's workers live in Storey County at all, since the industrial center prohibits residential development within its territory. Instead, they're mostly residing in Reno and other parts of Washoe and Lyon counties, putting greater pressure on

schools, transportation systems and other services. This summer, some Tesla employees lived in dorms on the Reno campus of the University of Nevada.

Reno officials say the arrival of Tesla and other companies at the industrial park has helped the city broaden its image beyond gaming. "With the industrial center coming in, the developers are not shy anymore to build and invest in Reno," says Mayor Hillary Schieve. "Now, we're telling a very different story on a national level." But that hasn't yet translated to a significant increase in Reno's revenues. The city hasn't fully recovered from the recession, and its total staffing remains about 25 percent below 2008 levels. At the same time, demand for city services is up -- fire department calls, for instance, increased 12 percent last year.

Nevada Assemblyman Skip Daly, who represents the nearby town of Sparks, says the development is adversely affecting his constituents. "It's great for Storey County, but there's an inequity," he says. "All of the impacts are really borne by the adjacent counties." Daly introduced a bill in the legislature this year that would allow counties with schools and services affected by developments such as the industrial center to charge those counties impact fees. The bill was tabled with little support. Storey County officials say they expect surrounding jurisdictions to receive a boost from employees spending paychecks outside the county as companies accelerate hiring.

One major reason local revenues aren't keeping up with the costs of development is a state law capping property tax increases. Last year, the law limited increases on residential property to just 0.2 percent in Washoe County, which relies on property taxes for about half its general fund revenues. "We have million-dollar homes where people are paying \$500 in taxes," Schieve says.

Perhaps no community is experiencing as much rapid change as Fernley, a town that sits a short drive down the interstate from the industrial center. The city's population has more than doubled since its incorporation in 2001. At a recent public chamber of commerce meeting, about two-thirds of the crowd raised their hands when asked if they were from California. City Manager Daphne Hooper says many of these transplants

have come to expect better infrastructure and additional services. But the city, with general revenues totaling less than \$7 million, doesn't have the money to pay for them.

Although Fernley is gradually becoming suburban, it's still trying to hold onto its identity as a rural farm community. "We want to still be part of rural Nevada," Hooper says, "without being forced to be urbanized."

Jeff Page, the county manager in Lyon County, hopes to avoid some of the negative unintended consequences that could potentially come with all the development. A parkway near the industrial center that cuts through Lyon County just opened, bringing additional traffic. A developer wants to build man camps, temporary dorm-like housing that has sprung up in places such as North Dakota. Page has resisted that idea, pushing instead for tiny homes that could eventually serve as transitional housing for the homeless population.

The region's recent growth represents a drastic turnaround from the Great Recession, when it was among the hardest hit areas in the collapse of the housing market. Total employment in the Reno metro area has climbed nearly 8 percent from two years ago, one of the sharpest increases nationally. Most of the new jobs created so far are outside the industrial center, in the tech and advanced manufacturing sectors. Several of the industrial center's most established businesses are distribution facilities and data centers, occupying large parcels but not employing a large number of workers. All the activity has pushed up wages. Pontiakos, the BI Nutraceuticals CEO, says the park's growing businesses are competing for the same workers, and only so many people are willing to drive out to the center from distant locations.

While more out-of-state workers are relocating to the region, the existing local workforce still fills the vast majority of job openings. The Economic Development Authority of Western Nevada estimates workers from outside the region account for 20 percent of new companies' hires across all industries. Mike Kazmierski, its president, reports that gaming, restaurant and retail workers have pursued retraining as they seek higher-paying jobs. "If [companies] want to come here and we don't have the workforce, they're not going to come," Kazmierski says. "It's much more expensive to import talent."

At local schools, students and their parents are pursuing career paths that didn't exist before. Interest in career technical education at the Washoe County School District has expanded exponentially over the past five years. The district has responded by tripling its advanced manufacturing course offerings. One recent morning at a Sparks high school, a classroom full of freshmen was learning modeling software. Down the hall, students operated computer-controlled welders and printed out parts on 3D printers. The district has incorporated metric system conversions into courses and swapped out their old modeling software to match what Tesla uses.

Given what's happened in Storey County, other jurisdictions have worked to make themselves more business-friendly. In Lyon County, Page says the industrial center has led to a culture change among his staff and a speedier permitting process. The Northern Nevada Development Authority established a certified site program that resolves any code problems, cleanups and other issues for prospective developers looking at properties. "It gets them to that same place that Storey County gets," says Robert Hooper, the authority's director. "But I think it's a better governance practice."

One developer who has approached Lyon County about a proposed industrial site there has cited parts of the Tahoe-Reno Industrial Center agreement in negotiations. The county, though, isn't willing to cede ground on some issues. "We can't give away the farm," Page says. "But we surely can come in with open ears."

There's no doubt that the Tahoe-Reno Industrial Center has influenced economic development all across the region. It may turn out, however, that it's a model that can't be replicated, at least not entirely. "That will not happen again in this region in the next 100 years," Page says. "Storey County was in the right spot at the right time."

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