



CASE STUDY Produced in collaboration with the Leveraging
Anchor Philanthropy Initiative Group

Henry Ford Health System Cardinal Health Distribution Center

DETROIT, MICHIGAN

I. OVERVIEW & BACKGROUND

The Cardinal Health Distribution Center, a major economic development project initiated by leadership within Henry Ford Health System (HFHS) Supply Chain Management, embeds a community goal into a large, yet otherwise routine, bid process.

The project opened the opportunity to create a brownfield cleanup and a jobs generator, in addition to a supply chain solution, in close proximity to the Health System's downtown flagship Henry Ford Hospital. The result is a 270,000-square foot advanced warehousing facility that employs 200 plus individuals and serves several regional health systems.

Prior to the opening of the Cardinal Health Distribution Center, HFHS was purchasing roughly 50 percent of goods from Cardinal and 50 percent from Owens & Minor. Another large health system in the same market, Detroit Medical Center (DMC), was exclusively with Cardinal. At the point Henry Ford's contract with Cardinal was expiring, HFHS Supply Chain began a conversation with DMC around awarding a single-source exclusive dual contract with the condition that the distribution center be located in Detroit.

II. PROGRAM DESIGN

With the understanding that such a contract would equate to approximately \$100M in business, Cardinal committed to moving its warehouse operations from a location outside the City of Detroit into the neighborhood adjacent to Henry Ford Hospital. The developer, Kirco, required rent at a high enough rate to support a new build in this disinvested location, and renegotiated increases with Cardinal as project costs increased. The new facility is Cardinal's most expensive lease, though arguably some of its best space.

Each of the partners are assuming portions of risk: the supply contract between HFHS and Cardinal at 10 years is quite long term and longer than is typical for HFHS and the industry; at 15 years, Cardinal's lease of the building exceeds its contract; and at 20 years, Kirco's mortgage extends past the lease commitment.

It took roughly four years from initial conversations to full coordination and construction. Cardinal retained its existing contracts with other health systems and now serves all of them from the new location which is conveniently located at the intersection of three highways.

HFHS emphasized that local procurement and hiring was a priority for the project. Kirco used HFHS supplier diversity guidelines and goals to guide their execution of the project and to access subcontractors. A "Letter of Understanding" with a local community group was signed by HFHS to govern the communications between the partners and neighborhood residents, and other topics such as construction vehicle traffic during construction.

III. BUDGET & OTHER RESOURCES

The Distribution Warehouse represents a \$30 million investment.

Construction	\$22,800,000
Soft Costs	\$3,900,000
Land	\$1,400,000
Financing	\$1,060,000
Developer Fee	\$844,000
Total	\$30,004,000



Before: Heavily polluted Brownfield site



After: HFHS Cardinal Health Distribution Center, a 270,000-square foot advanced warehousing facility that employs over 200 individuals

The new facility is built on a heavily-polluted industrial site, though through innovative remediation won two Brownfield awards in recognition of its vapor barrier which covers the entire foundation of the project. The barrier provides ventilation and mitigation of the portion of oil/gas contamination that was too costly to remove in a way that's fully Department of Environmental Quality (DEQ)-compliant.

IV. FUNDING

A combination of debt and private equity, layered with public incentives covered the project cost. State Brownfield Tax Increment Financing, Economic Development grants, a Port Authority and Environmental Protection Agency revolving loan fund, and tax

abatements filled the financial gap and helped moderate extraordinary site remediation costs.

HFHS owned half of the necessary land prior to the project being on the table and continued to facilitate property acquisition to amass the acreage needed. As a non-profit, HFHS was able to apply for and receive brownfield and economic development incentives as pass-throughs to the project. HFHS recouped the market value of the property assembled by selling it to Kirco, half for cash and the difference through the public grant proceeds that HFHS received and then kept which were realized over a five-year period.

V. PARTNERS

Four entities intertwined fates to build the warehouse resulting in this place-based anchor mission success: two regional health systems – Henry Ford Health System and Detroit Medical Center, one medical supply vendor – Cardinal Health, and a local developer – Kirco.

VI. LESSONS LEARNED AND TAKEAWAYS

Items without which the project would not have succeeded:

- **Identification of a major economic development opportunity** through alignment of anchor institution goals in Supply Chain Management
- **Long-term outlook of developer and supply partner** – each exhibited a willingness to tolerate delays and cost increases in support of the community goals of the project
- **Availability of, and ability to access, layered financing** – a sophisticated team was assembled with the know-how to apply for and manage brownfield and economic development incentives and grants for which HFHS was a conduit

