

Economic Development Incentive Case Studies:
Examples of Incentive Usage and Effect from St. Louis County and Metro East

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for

The East-West Gateway Council of Governments

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I. INTRODUCTION

The TIF conundrum At a well attended public hearing in September 1998, when the Crestwood TIF commission asked residents if they supported or opposed a \$2.2 million TIF for a \$14.05 redevelopment being considered for a site at Watson and Sappington Roads that required asbestos abatement, underground petroleum tank removal, building demolition, and other site preparation, the vast majority indicated they opposed the TIF. When asked whether they supported or opposed TIF in general, most indicated they opposed TIF. When asked whether they agreed or disagreed that “something must be done” to revitalize the site, everyone agreed. This tension between interest in direct municipal engagement to stimulate economic development and a public perception that tax increment financing is too often a troubled mechanism to effect such development is a theme that runs through much of the data collected for this case study report.

St. Louis County was chosen as the focus for the metro-Missouri case studies because it has experienced the most significant use of TIF. In 2008 St. Louis County was ranked second in the state of Missouri for the value of tax diversions/abatements.¹ TIF projects in St. Louis County provide a range of examples of how the context for economic development shapes specific actions on the part of municipalities and the variability of experience of local government in the St. Louis metropolitan area with this economic development tool.

This report provides examples from cases in St. Louis County that either support or provide an alternative perspective on a number of previous statements made about the use of TIF by municipalities in St. Louis County. Among the previous statements about TIF are:

- TIF benefits the city by allowing it to avoid the red tape and delays of intergovernmental aid, and, in some cases, by avoiding both municipal debt limits and the need for voter approval. But the primary advantage of TIF, from the city’s viewpoint is that it allows the city to capture some of other taxing bodies’ income. Don Davis, “Tax Increment Financing” *Public Budgeting and Finance* Spring 1989
- The widespread availability of TIFs in Missouri has encouraged developers to play one municipality off against another in a contest to see which is willing to give the largest breaks and the best improvement package. Terry Jones, “Report backs Post on TIFs” *St. Louis Journalism Review*
- It is found that a city’s decision to adopt a TIF programme is influenced by a variety of factors such a fiscal pressures, economic distress, industrial composition, adoption of TIF programmes by neighboring cities, the presence of other economic development programmes, and the expected gains in property values from the TIF adoption. Joyce Man, “Fiscal Pressure, Tax Competition and the Adoption of Tax Increment Financing,” *Urban Studies*, 1999
- TIF is also frequently being used in the outer parts of regions—particularly in the St. Louis area. Most notably, only nine of the St. Louis region’s 33 TIF districts lie in the region’s core. Conversely, 14 of the region’s 38 TIF districts lie west of the region’s major

¹ Final Report: Inventory of 2007 Fiscal Impacts of Economic Development Incentives on Public Education in Missouri

ring road (I-270). Thomas Luce, "Reclaiming the Intent: Tax Increment Finance in the Kansas City and St. Louis Metropolitan Areas," April 2003

- Clarke and Gaile (1998, 61-62) note that entrepreneurial strategies tend to share the following characteristics: They seek to stimulate new growth, instead of protecting existing businesses; they use market criteria for success, such as financial feasibility, instead of political criteria in setting priorities for the allocation and investment of public funds; they leverage multiple sources of funding, instead of relying on one public or private source; they involve ad hoc, case-by-case negotiation, instead of across-the-board juridical standards; and they require the public sector to take fiscal and political risks, instead of avoiding them. Rachel Weber, "Equity and Entrepreneurialism," *Urban Affairs Review*, May 2003
- Focusing development incentives on expanding retail sales is a losing economic development strategy for the region. The future of sales taxes as a principal source of revenue for local governments should come into question for several reasons: its inherent volatility; the likelihood of a long-term restructuring of retail trade; increasing level of sales taxes discourages spending and local sales in favor of non-taxed internet sales; and, the motivation this tax source provides to focus scarce tax dollars on incentivizing a type of development that appears to yield very limited regional economic benefit. As local governments come under increasing fiscal stress, the impacts of billions of dollars in foregone revenue will become increasingly apparent. East-West Gateway Council of Governments, "An Assessment of the Effectiveness and Fiscal Impacts of the Use of Local Development Incentives in the St. Louis Region," Interim Report, January 2009

Considering the issues raised in these statements requires an historical perspective. Because this report examines several cases, the time frame is not uniform across cases but generally includes the period from the mid-1980s to the present, although economic conditions in St. Louis County as far back as the 1960s are included in order to identify causal factors for many of the developments.

The research team proposed a central question to EWG staff for the case study element of the overall TIF research project, which was approved, so this report will specifically address the question:

Can municipalities use development incentives to manipulate the location of retail business to achieve their own financial objectives?

In addition to this question, these case studies will include evidence that relates to the previous statements about TIF cited above.

II. THE RETAIL CONTEXT

THE EVOLUTION OF THE RETAIL INDUSTRY

The Industry

One factor stimulating development of retail real estate in St. Louis County has been changes in the retail industry over the past 30-40 years. In the 1960s retail sales occurred through department stores, discount stores, and local shops. That profile changed radically over the next 40 years. As shown in Table 1, Chinta 10 'channels' or different types of business structures through which retail sales are

made, each of which has a different need for real estate space. This affects the size of the space, the number of outlets, and their location. The case studies will detail how this changing space need impacted real estate development in St. Louis County municipalities.

Table 1
Retail Channels

Channel
National Big Box
Regional Big Box
Wholesale Clubs
National Chains
Convenience
Wholesalers
Regional Chains
Local Stores
Dollar Stores
Internet

Source: Ravi Chinta²

Richard Muhlebach has traced the cyclical nature of the retail industry and how over the decades of the 1970s (comfort = malls), 1980s (convenience and value = big boxes in power centers), and 1990s (life style and entertainment centers), changes in the industry and changes in customers have produced different property types. In addition the industry has had to respond to the impacts of consolidation, technology, and non-store competition.³

The St. Louis County Marketplace

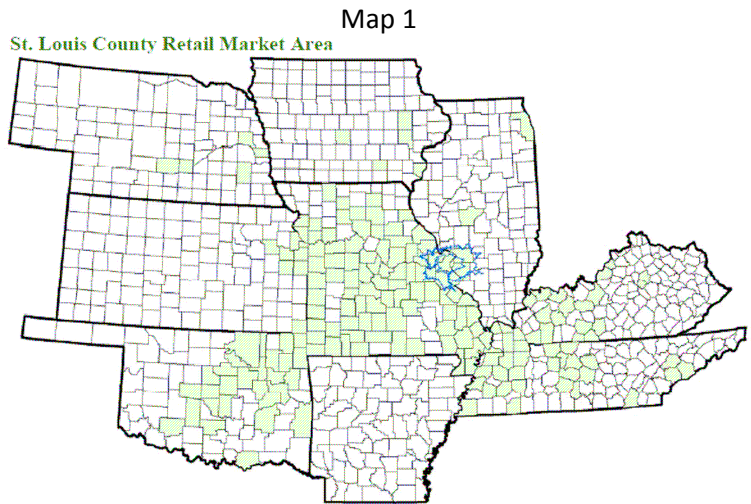
Given the political fragmentation in St. Louis County, there is a tendency to think of the retail market as equally fragmented. When considering retail sales in St. Louis County, however, there is a bigger picture depending on the channels identified in Table 1. As shown in Map 1, St. Louis County draws sales from a multistate area in the apparel, furniture, general merchandise, and miscellaneous retail goods categories.

A criticism of the St. Louis area public funds invested in retail development through TIF is the lack of job growth compared to the level of investment. Comparing metropolitan St. Louis to other metropolitan areas, with just over three percent growth in retail employment, St. Louis did better than Cleveland's 12 percent decline, Pittsburgh's 1.5 percent, Milwaukee's 1.9 percent, and Indianapolis' 2.9 percent. Showing more robust retail growth were Oklahoma City at 7 percent, and especially Kansas City at 10 and Baltimore at 12 percent. For retail employment, St. Louis was statistically right at average for this group. St. Louis did show a slight gain in the number of establishments, whereas all of the other metropolitan areas had fewer retail businesses.

² Ravi Chinta, "Retail Marketing Trends in USA and Their Effects on Consumers and the Global Workforce," *Business Renaissance Quarterly*, Summer 2006, pgs. 65-79

³ Richard F. Muhlebach, "Retail Cycles Through the Decades," *Retail Traffic Magazine*, May 1, 1998

http://retailtraffmag.com/mag/retail_retail_cycles_decades/



Source: Missouri Economic Research and Information Center, 2009⁴

Table 2
Metropolitan Comparison of Retail Employment Trend

	Employment			Establishments		
	2006	2001	1998	2006	2001	1998
St. Louis	150,478	149,293	145,681	9,989	9,605	9,827
Baltimore	146,645	134,217	130,815	9,486	9,376	9,530
Kansas City	115,681	109,510	104,439	6,748	6,797	6,773
Cleveland	108,456	123,736	124,347	7,418	8,621	8,774
Milwaukee	87,311	83,200	85,658	4,992	5,210	5,251
Pittsburgh	134,311	129,811	132,363	9,026	9,241	9,493
Oklahoma City	62,438	59,917	58,206	4,337	4,399	4,448
Indianapolis	99,725	103,446	96,877	5,851	6,028	6,125

Table 3
Change in Employees and Establishments by NAICS Category, St. Louis County 1998-2007

RETAIL TYPE	PAID EMPLOYEES		ESTABLISHMENTS	
	1998	2007	1998	2007
TOTAL RETAIL	74,037	71,352	4,256	4,110
MOTOR VEHICLE AND PARTS DEALERS	8,201	7,899	406	361
FURNITURE AND HOME FURNISHINGS	2,971	3,541	280	286
ELECTRONICS AND APPLIANCE	2,532	3,537	197	250

⁴MERIC, *St. Louis Workforce Investment Area Retail Trade Analysis, January 2009*
http://ded.mo.gov/researchandplanning/pdfs/stl_wia_retail_trade_analysis.pdf

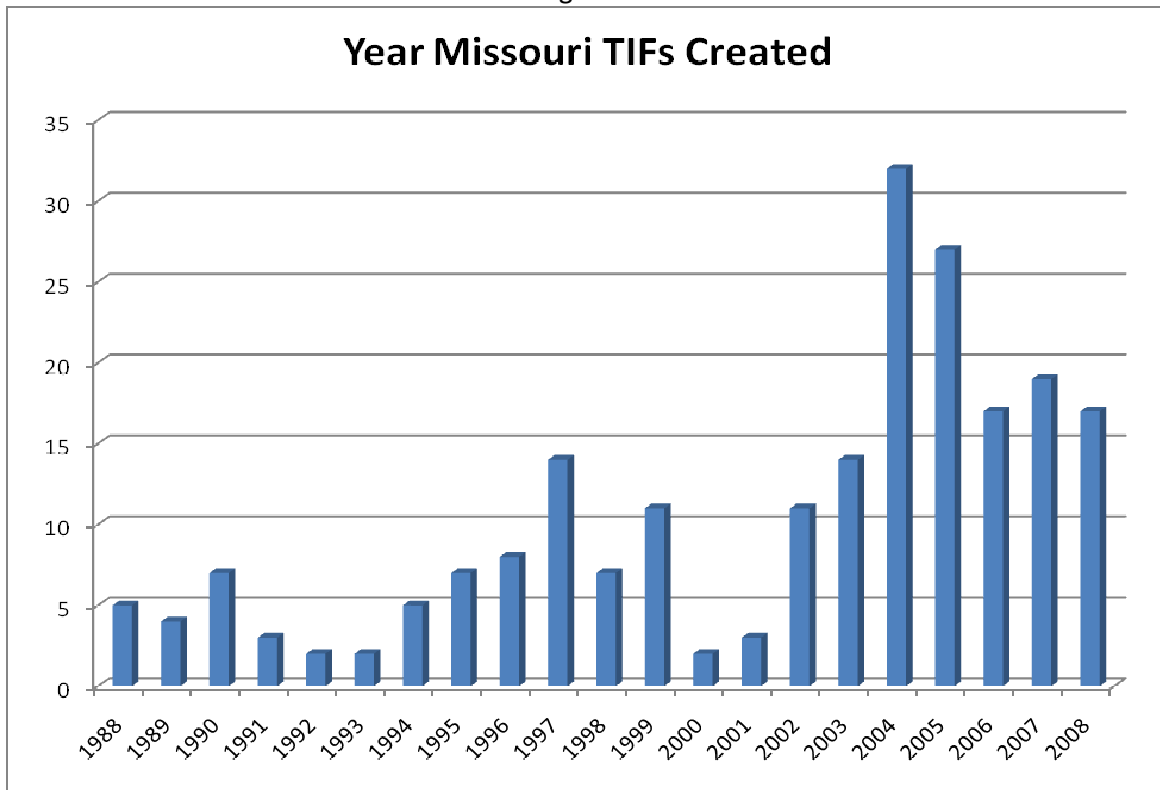
BUILDING MATERIAL & GARDEN EQUIPMENT	4,730	5,760	330	265
FOOD AND BEVERAGE	12,370	10,086	363	385
HEALTH AND PERSONAL CARE	5,463	4,846	336	362
GASOLINE STATIONS	3,525	3,297	370	330
CLOTHING AND CLOTHING ACCESSORIES	6,858	8,421	758	760
SPORTING GOODS, HOBBY, BOOK, AND MUSIC	3,980	4,006	355	308
GENERAL MERCHANDISE	15,110	12,265	121	157
MISCELLANEOUS STORE RETAILERS	4,568	3,860	565	462
NONSTORE RETAILERS	3,729	3,834	175	184

Source: County Business Patterns

In St. Louis County there was a decline in retail employment in the past decade, but that was most influenced by food and beverage, specifically grocery, and general merchandise, specifically department stores. Clothing added over 1,500 jobs, and electronics/appliance and building material/garden equipment each added 1,000 jobs.

A frequently expressed concern about the retail use of TIF is one municipality providing tax incentives to ‘poach’ or ‘siphon’ retailers or retail sales from municipalities in the same market. Figure 1 records the year the various TIF districts in St. Louis County were established. While the use of TIF stretches back two decades, the graph shows a majority (63 percent) of the St. Louis County districts were created between 2002 and 2008. This coincides with a period during which there was substantial expansion of national big box and national chain retailers in the St. Louis County marketplace, shown in Table 4.

Figure 1



Source: East-West Gateway data

Table 4
Retail Expansion

Year	Type	Retailer
2002	new comers	Ultimate Electronics, Costco, Home Goods, Bang & Olfsen, Stein Mart, Bass Pro Shops, Whole Foods, REI, Orvis, Coldwater Creek, Nordstrom, Galyon Trading Company, Llardro's, Home Expo
	Expansion	Wal-Mart, Home Depot, Kmart Superstore, Lowe's, Value City, Deal\$-Nothing Over a Dollar, Dollar General, Dollar Tree, Family Dollar, Factory 2-U, Walgreens
2003	Expansion	Kohl's, Circuit City, Best Buy
2004	Expansion	Home Depot, Pier 1 Imports, Barnes & Noble, Pets Mart
2006	new comers	Crate & Barrel, Trader Joe's
	Expansion	Shop N Save, Save A Lot

Source: Heartland Real Estate Business

Retail Taxation

Of the 30 municipalities in St. Louis County with active TIF projects, 19 (63 percent) are 'point of purchase' jurisdictions and 11 (37 percent) are 'pool' jurisdictions. The development of these two categories is an important consideration in understanding the dynamics of retail TIFs in St. Louis County. The Missouri Legislature in 1970 gave municipalities the option to propose to voters a one-cent tax on retail sales. The tax option proved particularly popular with municipal officials in St. Louis County as the council in numerous jurisdictions put a sales tax measure on the ballot. It also proved popular with voters; in every jurisdiction that was given the option the sales tax was approved.

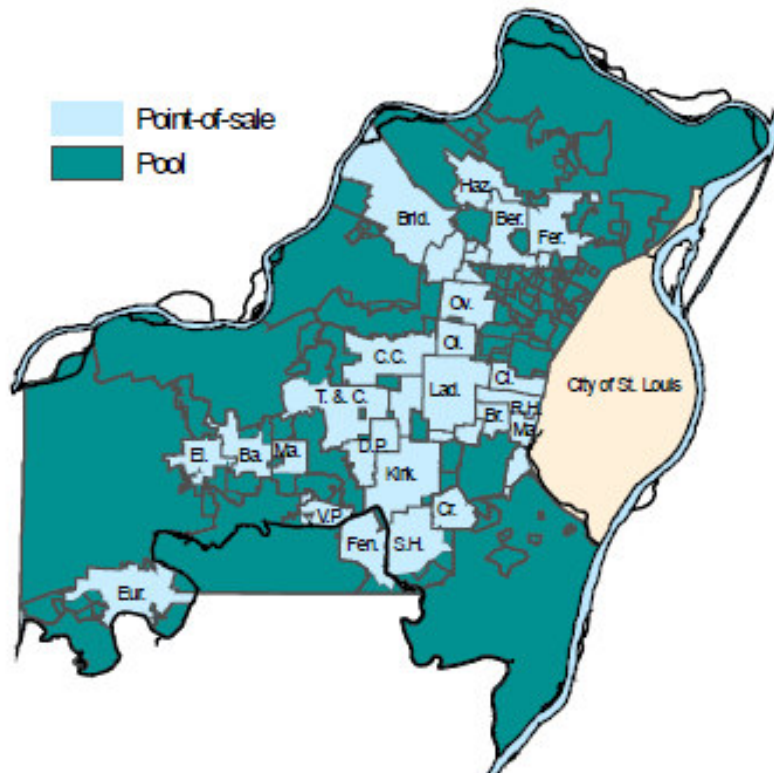
It was not long, however, before the disparity in access to sales tax revenue became an enflamed policy issue. As originally approved the tax on sales in a jurisdiction was due to that jurisdiction. It was not long before the differences in development across municipalities in St. Louis County exploded into a contested policy crisis in the Legislature. Retail activity was (and is still) not evenly distributed across the political landscape.

In 1970 there were 93 municipalities in St. Louis County ranging from the smallest with a few hundred residents to a few large cities with over 30,000 residents. Many of the small cities had limited commercial development; some had no commercial development. There were about a dozen that had older business districts. At the same time municipalities were pursuing sales tax as a major new revenue source, however, retail activity was relocating from the central city to dispersed nodes of development in the suburbs. Regional shopping malls became the sales tax bonanza. There were a few of these spread around St. Louis County and they richly rewarded their host municipality. It was not long before the large number of disenfranchised municipalities was putting considerable pressure on their state legislators to develop a mechanism by which some of the sales tax earnings in the commercially rich municipalities would be redistributed to those that were primarily, or exclusively, residential.

By the late 1970s St. Louis County wanted to collect sales tax on retail sales in its unincorporated areas. The legislators were sympathetic to the County's interests, but they needed to address the rising chorus of complaints from municipal officials about access to sales tax revenues. The solution was an application of Turnbull's 'pure sharing' model.

The Missouri Legislature approved a scheme whereby a one-cent county-wide sales tax was authorized. It created two classes of municipalities, the so-called 'A' and 'B' cities. 'A' cities were the grandfathered point-of-sale cities that were allowed to keep all of the revenue generated in their commercial and industrial areas. A pool was created for the sales taxes collected in all the remaining, or 'B,' cities plus the unincorporated area of the County. The revenues in the pool were distributed based on population. There was no equity test to determine if certain cities were better off or worse off and allocate funds to meet their needs. The funds were distributed percapita as a proxy for receiving their fair share of what they contributed to sales tax paid.

Map 2



Point-of-sale and Pool Areas for the 1% Countywide Sales Tax

This fiscal (and political) solution proved to be temporary. By the early 1980s tension arose between the 'A' and 'B' cities when some of the 'A' cities proposed to annex adjacent areas of unincorporated St. Louis County that had concentrations of commercial development. This would have removed the sales tax collected in those areas from the pool and added it to the point-of-sale collections of the annexing municipality. The Missouri Legislature in 1984 amended the sales tax statute to permanently establish the boundary of the sales tax pool area as that including the existing 'B' cities and the existing unincorporated area. The Legislature provided that if an 'A' city annexed an area in the pool geography, it would receive the appropriate per capita distribution received by 'B' cities, based on the population of the annexed area. Annexations by 16 'A' cities over the past twenty years has created a third class of cities, those that are both 'A' and 'B.'

Nearly a decade passed without change to the tax-base sharing structure, but in 1993 there were several changes to adapt it to a maturing urban county. As the eastern portion of the county aged, and along with it the retail centers that had been built in the 1960s, or earlier, commercial sales steadily declined due to competition from newer retail development in the western portion of the county. Some 'A' cities' point-of-sale collections were falling below what they would receive if they were 'B' per capita distribution cities. In response to appeals from a number of older communities, the Legislature provided in 1993 that 'A' cities could make a onetime decision to switch to the 'B' pool, but that 'B' cities could not elect to drop out of the pool and become 'A' cities.

The most significant change in 1993 was a complex adjustment to the distribution formula. Over time the amount of sales taxes received by the 'A' cities, considered on a per capita basis greatly exceeded both the actual per capita receipts of 'B' cities and what the 'A' cities would receive if all sales taxes were allocated on a per capita basis to all cities in St. Louis County. In response the Legislature introduced the principle of redistribution to normalize sales tax income across the municipalities in St. Louis County. Based on a logarithmic formula 'A' cities with higher per capita sales tax receipts pay a portion of those sales taxes into the pool for redistribution to the 'B' cities. The redistribution formula was phase in, but the result was a 54 percent increase in per capita receipts by 'B' cities over the next several years. As shown in Table 5 the formula has redistributed more than \$132 million over the past decade.

Table 5
General Sales Tax Receipts and Redistribution
(in millions of dollars)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Net Receipts	73,338	72,806	71,841	73,508	73,999	75,953	73,489	70,431	68,489	67,574
Redistribution	14,548	14,029	13,448	13,867	13,543	14,973	13,278	12,453	11,459	10,900

(Source: St. Louis County Department of Revenue)

Not content to quietly have their coffers raided, the 'A' cities argued for inclusion in the 1993 changes in the sales tax law a provision allowing an additional one-quarter or one-eighth cent sales tax. While providing for this option for revenue recovery, the Legislature required a minimum of 12.5 percent of the additional sales tax be shared through the pool. As shown in Table 6 this provision redistributed approximately an additional \$16 million to the 'B' cities from 1996 to 2005.

Table 6
Revenue Recovery Sales Tax Receipts and Redistribution
(in millions of dollars)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Net Receipts	11,465	11,406	11,158	11,433	11,468	11,769	11,321	10,930	10,740	10,546
Redistribution	1,665	1,629	1,588	1,622	1,627	1,672	1,579	1,495	1,452	1,420

(Source: St. Louis County Department of Revenue)

Since 1993 the general purpose sales tax-base sharing structure in St. Louis County has been stable. Sales tax collections have begun to vary across municipalities in the last decade, but not due to a

'fairness' issue based on the physical location of retail centers and the home location of shoppers. As St. Louis County has matured various demographic trends influence the number of residents in a given municipality. Municipalities with an aging citizens experience a decline in average household size and a resulting decline in total population. Municipalities experiencing racial change often have an increase in vacant housing units. A large number of municipalities in St. Louis County experienced these and other demographic changes. When an important revenue stream is redistributed on a percapita formula, demographic trends can determine the size of the city budget.

Demographic transformation over time is not a property Turnbull included in his tax-base sharing analysis. He was concerned about the factors influencing the structure at the time the sharing structure was established. The only temporal dynamic he incorporated was the potential for growth, needing to adjust the geography of the tax sharing area, not the life-cycle dynamics that communities experience. Further research should incorporate long-term demographic influences on tax-base sharing structures.

The case studies included in this report will focus on the dominant 'point of purchase' jurisdictions.

III. APPROACH TO ST. LOUIS COUNTY CASE STUDIES

TIF IN ST. LOUIS COUNTY DEVELOPMENT DISTRICTS

The St. Louis County Department of Planning has designated eight areas in St. Louis County based on economic activity characteristics. As shown in Map 3



Source: St. Louis County Department of Planning

TIF usage has not been uniform across the development districts. Whereas the 2003 Brookings study identified 14 TIF districts in St. Louis County, the data received from East-West Gateway approximately 70. Aggregating them by development region indicates three regions (Manchester/Southwest, Airport/North, and Clayton/Mid-County) account for 72 percent of the approved TIF funds across the County.

Table 7
TIF Projects by Development Regions

County	TIF funds	Project Cost	Total Flow
<i>Far North</i>			
	\$27,450,000	\$84,700,000	\$2,415,365
<i>Bridgeton/Northwest</i>			
	\$102,629,000	\$669,557,845	\$51,678,750
<i>Airport/North</i>			
	\$188,763,000	\$1,000,578,290	\$41,970,086
<i>Olive/Westport</i>			
	\$3,580,000	\$7,700,000	\$5,888,663
<i>Clayton/Mid-County</i>			
	\$180,071,294	\$833,287,461	\$70,858,550
<i>Chesterfield/Highway40</i>			
	\$72,507,000	\$275,000,000	\$91,354,235
<i>Manchester/Southwest</i>			
	\$218,785,000	\$1,431,461,750	\$100,537,345
<i>South</i>			
	\$18,035,000	\$95,379,268	\$3,670,604

DEVELOPMENT REGION CASE STUDIES

A brief synopsis is provided for each development region, and selected case studies are included for some of the specific projects within regions.

FAR NORTH – As of 2000 this region had the least commercial development in St. Louis County, but the largest percentage of commercial development that was retail. There were four TIF projects in this region, all of them retail. Two were in Florissant (the redevelopment of Cross Keys and a strip center anchored by an expansion Shop ‘n Save), a Walgreens in Hazelwood, and the redevelopment of Mayfair Plaza in unincorporated St. Louis County.

AIRPORT/NORTH – Commercial development in this region is dominated by industrial/warehouse space, but it had the largest investment of TIF projects of any of the eight St. Louis County development regions and accounts for 23 percent of the TIF funding approved in St. Louis County. As shown in Table 7 it lags substantially, however, in the flow of tax dollars. It also has the largest number of TIF areas where a project never started (Bellefontaine Neighbors, Bel-Ridge, Jennings (5), Normandy, St. Ann) TIF developments in this region range from single store retail projects (Cool Valley Schnucks, Country Club Hills Walgreens, and Moline Acres Shop ‘n Save) to the 550-acre multijurisdictional, mixed-use

NorthPark. More detail on NorthPark is provided in the attached case study from the *Tax Increment Finance Best Practices Reference guide*.

Jennings and St. John have made the most use of TIF with multiple projects in both municipalities.

Jennings

The Northland Shopping Center was rebuilt in 2007 by Sansone Group as Buzz Westfall Plaza on the Boulevard, a 400,000 square foot, 67-acre mixed use development. The 63,600 square-foot Schnucks grocery store built for the project did replace two grocery stores, one a 47,000 square foot store at another location in Jennings and the other a 35 year old, 52,000 square-foot in Delwood. In addition to the Schnucks, the Plaza is anchored by a 127,000 square-foot Target. Northland Shopping Center opened in 1955 and suffered the most significant blow to its commercial viability in 1994 when the Famous-Barr closed. Jennings issued an RFP in 2000 to start what became a complex real estate development involving the State of Missouri, St. Louis County and the City of Jennings. The Economic Council of St. Louis County's Land Clearance for Redevelopment Authority acquired much of the property and secured state Brownfield Remediation Tax Credits for asbestos and underground tank removal. The Economic Council provided extensive technical assistance to Jennings in the process of using TIF, CID and 353. More detail is provided in the attached case study from the *Tax Increment Finance Best Practices Reference Guide*.

Jennings had solicited proposals for redevelopment of the River Roads mall. The mall had closed in 1995. The City had a redevelopment agreement with Pyramid for a largely residential project with some commercial at the intersection of Jennings Station Road and Halls Ferry. Pyramid completed demolition of the mall before going out of business in April 2008, leaving over \$2.4 million in unpaid demolition costs.

Jennings other TIF projects are industrial.

St. John

St. John's first TIF district in 1991 was an industrial development at I-170 and St. Charles Rock Road.

The second TIF district was created for development of a strip center anchored by a Shop 'n Save grocery store. The City approved a proposal from Walpert Properties for St. Johns Crossing, a \$17 million project supported by both TIF and TDD.

BRIDGETON/NORTHWEST – Commercial development in this region is also heavily industrial/warehouse. Most of the TIF projects in this region are mixed-use not purely retail.

WESTPORT/OLIVE – this region has made the least use of TIF. Monsanto's headquarters and Westport Plaza were developed in this region from the 1950s to the 1980s. Creve Coeur has two TIF districts, both over a decade old. There was an attempt to develop a large retail TIF project in Olivette.

Olivette

After several years of declining sales tax revenues as a point of purchase jurisdiction, the City of Olivette in 1998 issued an RFP for the Fairlight Downs and Arrowhead Park subdivisions, an area of about 80 acres with 209 homes, adjacent to the intersection of I-170 and Olive.

They received two proposals:

1. THF Realty proposed a \$92 million project requesting \$37.7 million in TIF funding anchored by Wal-Mart and Sam's Club .
2. Sansone Group proposed a \$100 million project requesting \$29.9 million in TIF funding.

Both developers had started negotiating buyout agreements before submitting a proposal. By June 1998, with each developer having a substantial number of buyout agreements executed, they proposed a joint venture to Olivette to develop 'Centre Town Plaza.' They were both offering property owners about two and one-half times appraised value. Indicating increased costs, the joint venture increased the TIF required to \$41 million.

In August two issues surfaced that influenced negotiations. First, the City expressed reluctance to provide more than \$20-25 million in TIF support. The other issue related to the type of development proposed. "We're not willing to accept a big concrete space with big boxes setting along the periphery. We want a development that's aesthetically pleasing, and we should be able to get it," said Mayor Melvyn Sharkewitz.

Negotiations between the City and the joint venture continued for months. In April 1999 the TIF Commission scheduled a public hearing, but did not have a redevelopment agreement to present. Residents expressed frustration that they were not part of the negotiations. In June 1999 the TIF Commission recommended the City accept the proposed project. In August the City Council unanimously voted to end discussion on the proposal. They indicated three reasons for the breakdown of negotiations:

1. The developers could not guarantee Wal-Mart/Sam's Club would be in the development
2. The proposed roadway reconfiguration required taking homes on the south side of Olive and the City was committed to limiting property acquisition to north of Olive.
3. The developers requested a one-year suspension of property acquisition while they determined exactly what to commit to on the project.

The developers responded in October by committing to four major tenants for the project – Wal-Mart, Sam's Club, Home Depot, and Shop 'n Save. In the meantime opposition to the project grew among city residents and a referendum was scheduled for February 2000 as a result of initiative petitions.

The project became a political imbroglio. In addition to the February ballot question whether or not the City should stop the proposed development; there were ballot measures that asked whether the Mayor and one of the council members should be removed from office. Although the Mayor and council member were not recalled, 54 percent of voters supported stopping the redevelopment project (with 60 percent of registered voters voting). The City Council acted on their pre-election commitment to abide by the voters decision and at their next meeting terminated the project.

CLAYTON/MID-COUNTY – Office and retail are the dominant commercial property developments in this region, which has the highest concentration of up-scale retail in St. Louis County. The municipalities in this region have been using TIF for two decades to support retail redevelopment.

Maplewood

In 1992 the K-Mart located in Maplewood closed and relocated to the TIF-supported St. Louis Marketplace in the City of St. Louis. As a point of sale or 'A' group municipality, this caused a \$400,000 gap in Maplewood's budget.

Maplewood responded by pursuing two projects, redevelopment of the recently abandoned K-Mart and a 20-acre new development at the northeast corner of Big Bend and Manchester. The new development was a THF Realty retail project that proposed a Wal-Mart and Sam's Club. By May 1993 the proposed project came to an end. During the process of initiating the project Wal-Mart Corporation bought Pace Membership Warehouse. There was already a Pace Warehouse at St. Louis Marketplace, making the proposed Sam's Club redundant. This left only a Wal-Mart for the Big Bend/Manchester development which would not by itself generate enough TIF revenue to pay for all the proposed TIF costs. And by August 1994 Maplewood abandoned plans for redevelopment of the K-Mart site after two efforts at securing a developer fell through.

In 1996 the Shop 'n Save located in Maplewood was looking to develop a new store. It negotiated with both St. Louis Marketplace and with Maplewood. The former K-Mart site was the location under consideration in Maplewood.

After protracted negotiations, Maplewood in January 1999 issued \$5.4 million in TIF bonds for the \$14.2 million Shop 'n Save project.

A more expansive economic redevelopment initiative began in 2001. In June Maplewood issued a request for proposals. The site was a 36-acre largely residential area (260 residences) with modest housing units appraised at \$40-70,000. Two developers responded. Pace Properties submitted a proposal anchored by COSTCO and a Home Depot. COSTCO had recently attempted to locate in the area (at I-64/I-170). THF submitted a proposal anchored by Wal-Mart and Sam's Club. Pace was seeking \$19.5 million in TIF financing for a \$74.5 million project. THF was requesting \$40 million in TIF financing.

In July 2001 Maplewood selected Pace Properties as developer for the site. The Board of Aldermen selected Pace for several reasons, including the lower TIF requested by Pace, meaning higher financial return to Maplewood, and a belief in a more long-term stability with the proposed Pace tenants. COSTCO must less frequently relocated a store once opening in a community.

Pace began making buyout offers at twice the appraise value, averaging about \$150,000. Although not selected as the developer, THF began making buyout offers averaging \$200,000. In addition THF allowed residents longer to relocate. Both developers were giving residents a deadline of September 14, 2001 to respond to the buyout offers.

In January 2002 THF announced they would commit to the project and not require TIF funding. They only subsidy they indicated would be necessary would be \$10 million for road improvements, paid off with a 1-cent TDD sales tax.

In February 2002 the City Council took the first step to approve a redevelopment agreement with Pace Properties with \$24.5 million in TIF funds and \$5 million from a TDD. Over the next several months the Council postponed final action on the Pace redevelopment agreement. A particular problem in negotiations with Maplewood was Pace's requirement for a provision granting them a 2-year period to withdraw from the agreement. Pace withdrew their proposal by April.

In May and June 2002 the TIF Commission scheduled public hearings on proceeding with the THF proposal. Strong opposition quickly developed in the community. Two initiative petitions with sufficient signatures to require an election were submitted to the City. A petition on whether the City should enter into a redevelopment agreement with THF was submitted with 757 signatures and a petition on whether the area should be declared blighted was submitted with 756 signatures.

The election was held November 5, 2002. Campaign resources supporting and opposing the ballot measures came largely from outside Maplewood. THF provided \$125,000 to support the campaign, which included \$8,700 for a public opinion poll, \$35,500 for a telemarketing campaign, \$12,500 for campaign staff, \$31,527 for printing, and \$2,895 for yard signs. Several unions, including grocery workers, provided \$15,000 to oppose the ballot measures. Maplewood voters by a 2-to-1 margin approved the THF redevelopment agreement and the declaration of blight for the project area.

Later in November 2002 the City Council attempted to approve a resolution to issue an RFP for redevelopment immediately south of the Wal-Mart/Sam's Club site. The resolution failed on a tie vote. In December an alderman who had been absent at the November meeting was present and the resolution was approved.

By November 2003 the TIF Commission was holding a public hearing on a proposal for a \$43.9 million project of 135,000 square feet anchored by a Lowes. This second phase of an overall development today known as Hadley Commons required a \$9.5 million TIF.

Brentwood

The largest TIF project in Brentwood is Brentwood Promenade, a 300,000 square-foot, \$70 million power center with a Target Greatland that opened in 1998 as its largest store. The project received \$20.5 million in TIF assistance, the bonds maturing in 2019.

Brentwood Square is a 20-acre site with 200,000 square feet with \$14 million in TIF funding plus a TDD. The TIF bonds mature in 2022.

Brentwood Pointe is a 17.8-acre, 170,000 square foot center anchored by a Dierberg's supermarket. Dierberg's owns the development. It includes 18 additional retail spaces. The \$6.8 million TIF bonds for this project have a term ending in 2023.

Richmond Heights-The Municipal Perspective

Richmond Heights is another municipality that has made extensive use of TIF to support retail developments. The following editorial was written by Carl Schwing for the February 3, 1997 St. Louis Business Journal. It is representative of the municipal perspective on the use of TIF.

The John Buck Co. of Chicago has proposed a redevelopment plan for the east side of Brentwood Boulevard in Richmond Heights, which calls for building a 370,000-square-foot, mixed-use facility that offers entertainment (including movie theaters), restaurants and retail establishments.

Critics claim this area will develop on its own if the city would just "let it happen." But in the last two decades, no development has occurred.

Why is this so? Part of the answer lies in the history of the area -- specifically the seldom-mentioned and virtually "unseen" side of the land that's located between the Brentwood Boulevard business strip and Interstate 170. This area was part of the Sheridan Hills subdivision over 25 years ago. A tiny portion of the neighborhood was cut off from the rest of the subdivision, leaving relatively few residential structures landlocked between the highway and the commercial strip on Brentwood Boulevard.

No longer appealing to potential home buyers, the remaining houses were purchased by land speculators, who use them as rental residences and, recently, for a few business applications. Despite city code enforcement efforts, the buildings are perpetually in some state of disrepair. As a result, this semi-isolated, patchwork quilt of an area attracts neither residential owners nor commercial users. As a result, assessed values on the site have actually decreased over the last six years!

Though no one would argue that the businesses now facing Brentwood Boulevard are anything less than successful, it becomes clear that the total area will not develop further without assistance and comprehensive planning from the city.

A few years ago, the city placed a Planned Development zoning classification on the area to ensure that any development considered would address the city's major concerns about the site.

One concern revolves around the fact that all but one of the businesses on Brentwood Boulevard are rental properties. Steak 'n Shake, Burger King, Blockbuster and Shell Oil Co. all rent their facilities from mostly nonresident landowners.

The very existence of these leases prevents the landowners and tenants from redeveloping without mutual agreement. In addition, these diversified tenants typically have equally diverse business agendas, so it's unlikely that they will find common ground for creating a comprehensive development plan for the area as a whole.

Traffic is another issue. Any substantial redevelopment will require widening Brentwood Boulevard. But St. Louis County -- which owns Brentwood Boulevard -- will not improve the roadway because of private development.

The costs of these needed improvements are too high for any one of the business tenants to take upon themselves. But these kinds of comprehensive solutions are included in the Buck Co.'s plan.

The city also wants to be sure that the property owners are treated fairly. Unfortunately, they may have an unreasonably high expectation as to what their property is worth. Typically, no developer comes in, offers the landowners precisely what they want for their property and still has a viable, finance-able project.

Finally, the Buck Co.'s proposed development project will complement -- rather than detract from -- the Saint Louis Galleria. The project taken as a whole will stop the downward spiral of property values in this area and will generate tremendous benefits for the residents of Richmond Heights, as well as the rest of the region.⁵

CHESTERFIELD/HIGHWAY 40 – Although there is only one TIF project in this region where there is significant office space development, this region produces the second-highest TIF tax flow among the eight development regions. The 389-acre, 2.5 million square-foot Chesterfield Commons developed in the Chesterfield Valley flood plain was supported by \$50.9 million in TIF and \$22.42 in TDD funds, both used for infrastructure improvements, the TIF for a levee and the TDD for a highway interchange. The TIF bonds were paid off in six years from a district with over \$450 million in annual sales.

⁵ Carl Schwing, "Why is TIF (tax increment financing) needed to redevelop the property across from the Saint Louis Galleria?" <http://www.bizjournals.com/stlouis/stories/1997/02/03/editorial4.html>

SOUTH – retail space is the dominant commercial space in the South development region. The City of Crestwood, the City of Sunset Hills, and St. Louis County government each have two TIF projects in the South region. Although there has been significant retail development in this area, it accounts for only two percent of the TIF funding use in St. Louis County.

Crestwood-Sunset Hills: A Tale of Two Cities

A three-mile commercial corridor runs through Crestwood and Sunset Hills. This section of Watson Road originally developed to provide services along Route 66. Hotels, fast food restaurants, and other retail business established commercial land use for the properties fronting on Route 66.

Building on the retail activity established by its location on Route 66, Crestwood had benefited from an early wave of development of big boxes: Builders Square, Sears Home Life, Service Merchandise and K-Mart. Crestwood lost Circuit City and Office Depot to outmigration, but the majority of its vacancies on Watson Road were business casualties. Service Merchandise, for example, founded in 1970 in Tennessee, and quickly expanded into 11 states. It was one of several catalogue showroom companies, printing and mailing 6.5 million catalogues to customers, with jewelry as its lead line. By 1984 it operated 183 showrooms in 35 states. In the 1980s it ventured into the computer and hardware retail areas, but without success. In the 1980s and 1990s it had management turnover for various reasons and retail customer buying habits were evolving. In 1997 it closed 60 stores. The retail sales base of Crestwood thus began to shrink due primarily to private sector decisions and retail patterns.

Crestwood established a TIF Commission in August 1997. Redevelopment initially focused on the northwest corner of the intersection of Sappington and Watson Roads, a site with a 1960s era office building with a bank and retail buildings including a vacant grocery store. For several years the City had solicited interest from developers without offering economic incentives, but without success. With the vacant grocery, the original plan was to expand the office building but the location proved to be of no interest to office space developers.

In February 1998 the TIF Commission received proposals from the Sansone Group and THF Realty. The proposals were very similar. Both would reconfigure the site but not substantially change the land use: three new buildings – one office and two retail. At a September 1998 meeting, the TIF Commission received a consultant's report that the site qualified for TIF as a conservation district. Site work included removal of asbestos and an underground petroleum tank and installation of a new sewer system.

The Commission recommended \$1.9 million in TIF financing to the Board of Aldermen. At a December 1998 meeting the Board considered the Commission's recommendation but initially voted 5-3 not to approve the financing. After statements from three of the aldermen who voted in favor of providing TIF financing, a second vote produced a 5-3 majority supporting the use of TIF. From that point the project evolved over several years with THF eventually developing a \$13 million Kohl's department store which opened in October 2003.

In July 2002 the Board of Aldermen adopted a comprehensive redevelopment plan for Watson Road. The plan identified five sites that encompassed 51 parcels of property. Four of the sites were retail, one was an industrial park.

The first proposal received among the sites in the redevelopment plan was from Mills Properties for conversion of the retail site at Watson and Grant Roads to multifamily. In March 2003 the Board approved proceeding with the \$26 million project on the 19-acre site, providing Mills Properties cover the cost of a blighting analysis and related project expenses. Mills had not acquired ownership nor buyout agreements from the owners of the two properties at the site. Mills had not specified an amount of TIF financing pending the acquisition cost.

While a consultant's report certified that the site qualified as a conservation area, one of the two property owners was not willing to sell and came to a March 2003 Board of Aldermen meeting with a petition signed by 125 Crestwood residents opposing the use of eminent domain to acquire his property. Eminent domain quickly became the focal point of the project, eventually causing the City to end consideration of Mills proposal.

Crestwood's next action on the 2002 redevelopment plan was a January 2004 RFP for the 15-acre Watson Plaza site. A consultant's report detailed the need for redevelopment of the site.

"Some of the buildings on the site were developed simultaneously, while others were developed at later stages. This center was designed as a so-called "community shopping center". By its very definition, the occupants of such a center are typically those businesses that cater to the everyday retail and service commercial of a community. This typically means that they are anchored by a grocery store and other retailers and small businesses catering to a smaller market area. Watson Plaza was always different in that regard in that it was anchored by Service Merchandise. This retailer was unique, and until recently, was alone in the St. Louis market (and maybe nationally) as a "catalog showroom retailer". The liquidation of the Crestwood Service Merchandise is a reflection of the inability of "catalog showroom retailing" to compete with recent developments in retailing.

In the years after Watson Plaza was built, the nature of retailing and the design of shopping centers began to change dramatically. Retailing began to be dominated by major regional or national chains using big stores to sell merchandise in two ways. One involves sales of merchandise in more discrete categories. These so-called "category killer" merchandisers target their markets very carefully and carry items only within certain retail segments. The size of "category killer" stores typically range from 20,000 to 50,000 square feet. The other category called "big box" retailers fall into two subgroups. One of these is the discount department store (Wal-Mart, Target Greatland, etc.). The other is the home improvement retailer (Home Depot and Lowes). These "big box" retailers occupy buildings of 120,000 to 170,000 square feet. In neither of the category of retailers discussed previously, is the grocery store. The typical grocery store footprint today for any of the St. Louis area grocery retailers involves a store of between 60,000 and 65,000 square feet.

Watson Plaza's problem is that it is designed in such a way that cannot easily be converted to accommodate the newest retail building concepts without significant demolition of existing improvements. The Center, as designed, has more than half its space (51.6%) most suitable to small tenants. The Center's east and west wings have a front to rear depth of only 80 feet (average) – a dimension too small for many or the larger retailers interested in locating in Crestwood. Most of the larger, national retailers want a floor plan for their space that is squarer and with a greater front to rear store depth. For example, if a typical "category killer" retailer were to locate in Watson Plaza, they would need one entire wing of the center (about 25,000 sq. ft.). This would mean their space configuration would be long and narrow. This type of retailer simply will not accept this configuration. In today's retailing environment, there are simply fewer, very small, local business-type tenants to fill Watson Plaza. Therefore, there are sizable spaces in the Center that have been vacant. In addition, the current tenants represent professional service related businesses (i.e. dentist, eye wear center, computer repair, etc.) which is another indication that the original layout of the facility is outdated for today's retail climate."⁶

In March 2004 the Board of Aldermen selected G.J. Grewe as the developer, in July the TIF Commission recommended a redevelopment plan and TIF financing, and in November the redevelopment plan was executed. The new strip center is anchored by a Shop 'n Save and Walgreens with about 25 other small retail spaces. The Watson Plaza project used both TIF and TDD funding.

In 2004 Gordman's department store opened in the former K-Mart location on Watson. Other building conversions include the 2007 Crestwood Square project that, using Community Improvement District funding, subdivided two large single-tenant buildings (a 40,000 square foot former Sports Authority and a 33,000 square-foot former Office Depot) into two-tenant spaces. Sappington Square, a 36,950 strip center, was built in 2008, also using CID support.

A 2007 effort to redevelop the 48-acre, 1.1 million square-foot Crestwood Plaza did not move as quickly. In August 2007 the Board of Aldermen unanimously voted to issue an RDP (request for development proposals), which was sent to 120 developers. At the March 2008 deadline the city had received no proposals.

In addition to municipal officials, citizens, retailers, and developers the other decision maker influencing retail real estate is the property owner. Westfield America had an agreement in 2006 to sell the mall to Somera Capital Management of California but did not complete the sale. Westfield put the property up for sale again in August 2007, about 60 days before the closing of the mall's Dillard's department store. By this time Crestwood Plaza was the last of the six St. Louis malls owned by the Australia-based company.

⁶ PGAV Urban Consulting, *Watson Road Redevelopment Project Areas*, July 2002, pgs. 2-3.
http://www.ci.crestwood.mo.us/docs/departments/econ_dev/July%202002%20Technical%20Memo%20-%20%20Watson%20Rd.pdf

Westfield purchased Crestwood Plaza in 1998 from Crestwood Plaza Shopping Center, LLC, successor to Hycel Properties which built the mall in 1968. While Westfield invested in their nearby properties, they didn't provide comparable support for Crestwood Plaza. Although they announced a redevelopment plan in 2005, including an AMC megaplex, no action was taken. The impact of Westfield's disinvestment in Crestwood Plaza is documented by comparing the \$99.3 million price Westfield paid in 1998 to the \$17.5 million price Chicago-based Centrum Properties (with partner New York-based Angelo, Gordon & Co.) paid in March 2008.

Centrum changed the mall's name to Crestwood Court and repositioned it as a life-style center. An interim repositioning strategy, called ArtSpace, filled 200,000 square-feet with art galleries, dance studios, sculpture and pottery workspace, meeting a need left by the successful redevelopment of Washington Avenue. The below-market rents produce limited income for the mall and negligible sales tax for Crestwood. The increased foot traffic has benefited existing mall tenants and attracted a few new small tenants.

Sunset Hills

In October 1994 Sunset Hills created a 46-acre redevelopment area at Lindbergh and Watson Roads, 34 acres west of Lindbergh and 12 acres east of Lindbergh. The City first solicited proposals for the redevelopment of the troubled Sunset Plaza. Sunset Plaza had a history of disengaged absentee owners and weak retail businesses.

1968: Arlen Realty Co. of New York, a subsidiary of E.J. Korvette, a national discount-department store, develops Sunset Plaza. In advance of the department stores, E.J. Korvette, a Manhattan-based retailer, had found suburban success beginning in the mid-1950s with their concept of a membership-store that allowed them to avoid the anti-discounting provisions of the Robinson-Patman Act. While entrance to the store required a membership card, the cards were eagerly distributed outside of the store and in areas around the store. By the time the Sunset Hills store was built, the company was already in decline and merged with Spartan Industries. The Sunset Hills store closed a few years after it open and all E.J. Korvette's were shuttered by 1980.

Early 1970s: South Plaza Ventures of St. Louis, a group of five partners, buys the plaza. After the partnership dissolves in 1975, Orin Neiman, who owns Transcontinental Truck Lines of Los Angeles, becomes the principal player in Sunset Hill's negotiations to renovate the plaza.

1980-1991: Neiman gradually sells property west of the Sunset Plaza for office buildings. The original property, including the plaza, was 60 acres.

1985: Neiman allows construction of the retail center where Fuddrucker's is located on Lindbergh Boulevard and which is separate from the main shopping center.

1992: American Home Savings of Los Angeles, a savings and loan association, which held the mortgage on Sunset Plaza, fails and is taken over by federal regulators. Neiman sits on the board of directors.

October 1992: Neiman files for bankruptcy. His trucking business also goes out of business. Sunset Hills officials, who sought developers, learn they must wait until the case is resolved in court before proceeding with redevelopment of the plaza.

November 1993: Neiman bankruptcy case is heard in federal court in St. Louis.

November 1993: the Brasso Group of Dallas buys Sunset Plaza at an auction as part of a \$ 2 billion portfolio of bankrupt property.

February 1994: The Koll Co. of Newport Beach, Calif., a company that manages the pension plan for the California State Teachers Fund, buys Sunset Plaza in a billion-dollar portfolio package from the Brasso Group.⁷

Sansone Group of St. Louis proposed the Plaza at Sunset Hills, a \$40-50 million redevelopment with \$7.48 million in TIF. They developed a 328,000 square foot 'power center' with Home Dept, Marshall's, Borders, PetsMart, and Bed, Bath and Beyond as anchor tenants.



Source: Sansone marketing sheet

In 1995 Sansone followed up with a proposal for the 12-acre site to develop the Shoppes at Sunset Hills. The property had been on the market for a half-dozen years. The Shoppes site required relocation of 32 households from the Sunset Hills trailer park. Relocation benefits of \$6,000 for owners and \$4,000 for renters were offered. The develop Shoppes includes a Toys R Us and World Market.

⁷ This history taken from Barbara Yount's December 1, 1994 St. Louis Post-Dispatch article "Sunset Plaza redevelopment to begin in early '95."



Source: Sansone marketing sheet

When the City in 2002 requested proposals for redevelopment of the 254-home Sunset Manor subdivision, Sansone Group submitted the only proposal. They proposed a \$115 million phased development requiring \$46 million in TIF. Phase I would develop 22 acres of retail. Phase II would include 16 acres of office space and 19 acres of residential units (112 apartments, 44 villas, 56 condominiums). Sansone had started making buyout offers in 2000, initially at \$110,000, later raised to \$150,000. They succeeded in negotiating contracts with almost half of the homeowners. While Sansone had secured tenants for the Plaza and Shoppes, they were much less successful in securing commitments from retailers for the Sunset Manor project and never reached a redevelopment agreement with the City.

In a second effort to redevelop Sunset Manor, Novus Development in 2004 submitted a proposal for a 60-acre \$140 million 800,000 square-foot traditional Main Street development. It was the sole respondent to the City's RFP. At the time the proposal was submitted, Novus had options on 70 percent of the homes at 175 percent of market value. The proposal identified \$42 million in TIF funding and \$15 million in TDD required to make the project viable. The public funding was to be used for property acquisition, asbestos abatement, demolition, utility removal and relocation, and road improvements.

Among the controversial elements of the proposed project, before it died two years later:

- A complicating aspect of Novus' plan was the identification of Famous-Barr (Macy's) as an anchor tenant. From one perspective this is 'poaching' a major tenant from Crestwood's sales tax base; from another it is giving the department store a viable option to Westfield's disinvestment in Crestwood Plaza. Westfield Corporation was a member and financial supporter of "Stop the Sunset Hills Land Grab," formed to promote opposition to the Novus project.
- In April 2005 the Sunset Hills TIF Commission voted 6-5 that the City not approve the proposed project.
- In May 2005 the Board of Aldermen voted 7-1 to approve the Novus project.

- That same month Stop the Sunset Hills Land Grab submitted petitions call for a referendum on the project (which the Board did not proceed with) and in June filed two lawsuits challenging the City's approval of the Novus proposal.
- Novus disclosed in August 2005 that the commitment it had from banks to finance the project had been withdrawn, causing Novus to fail to act on buyout agreements it had in place. In addition there were a number of property owners Novus had not been able to sign on to a buyout agreement and eminent domain became a high-profile aspect of the project.
- In December 2005 the Board of Aldermen voted to send the project back to the TIF Commission for further study.
- In February 2006 a St. Louis County Circuit Court ruling determined the City was in violation of state law in not following certain TIF procedures and having inadequate information to determine the financial feasibility of the project.

MANCHESTER/SOUTHWEST – the growth areas of Eureka and Fenton have made the most frequent use of TIF in this region. This region has produced the largest sales tax flow among the eight St. Louis County regions. Two projects account for two-thirds of the TIF flow in this region: Fenton's Gravois Bluffs/Old Town 2 and Des Peres well-known West County Center project. The 1968 560,000 square foot mall built on the site of the Manchester Drive-In was rebuilt in 2002 as a 1.1 million square foot mall in a \$300 million project with a TIF of approximately \$30 million.

Fenton

Gravois Bluffs East and West are two retail centers at the intersection of Highways 141 and 30. Gravois Bluffs West has 613,000 square feet anchored by Target, Lowe's, and Kohl's. It opened in 2000. Gravois Bluffs East has 372,000 square feet anchored by Wal-Mart, Garden Ridge and Gordman's. The East development also includes 43,000 square feet of out-lot retail and 119,000 square feet of industrial space. It opened in 2001. The projects received \$50.9 million in TIF funding and \$20.5 million in TDD.

IV. THE APPROACH TO METRO-EAST CASE STUDIES

The Illinois portion of the St. Louis metropolitan area obviously falls under a very different governance structure, but also exists within a different political culture. The Illinois legislature, due to the dominance of Chicago interests, tends to be more favorable to urban issues—though the particular needs of downstate Illinois are given a lower priority than Chicago-area needs. The individualistic nature of Illinois makes it very amenable to interaction with the private sector, and the economic development opportunities are extensive. The cases selected for Metro East were specifically chosen to represent the different types of incentive usage (industrial, mixed-use including housing, retail), as well as different types of incentives (TIF bonds, Sales Tax Bonds, state credits). These cases were also chosen to illustrate the economic growth that is emerging on the eastern side of the region. Recently, developer Bruce Holland announced plans for a \$1 billion development on a 900-acre site in Glen Carbon. While St. Charles County has enjoyed multi-faceted growth over the last two decades, there are indications that Metro East may well be to the next twenty years what St. Charles County has been to the past twenty years.

Three clusters of economic development were chosen to be representative of the more aggressive application of economic development incentives.

THE GATEWAY COMMERCE CENTER AREA, MADISON COUNTY, IL—The Gateway Commerce Center (GCC) is a major industrial development in Madison County, Illinois. It is a 2,300-acre development at the intersection of Interstate 270 and Illinois Route 255 (a continuation of Interstate 255, which technically ends at I-270, but the state roadway at this point is built to interstate standards). The current development is in a zone north of Interstate 270, east of Illinois Route 111, and west of Illinois Route 255. There is planned expansion to the east side of 255 and infrastructure access has already been built to this location. A much smaller competing development, Lakeview, is opening on the west side of Illinois Route 111, but is only about one-fifth of the size of GCC. The combined development has 16 buildings, 10.4 million square feet of space, and an average building size exceeding 650,000 square feet.⁸ It is estimated to have generated over 2,000 jobs.⁹

Gateway Commerce Center was the site of the largest real-estate transactions in the region for the years 2000, 2001, and 2002.¹⁰ Between 2003 and 2007, GCC nearly doubled its square footage from 4.7 million¹¹ to 9 million.¹²

Major warehouse tenants of GCC include¹³:

- Dial Corporation (2000) 1.3 million square feet
- Procter and Gamble (2001) 1.75 million square feet
- Unilever (2002) 1.2 million square feet
- Hershey (2003) 1.1 million square feet

⁸ Stieve 2008, 16.

⁹ Herzog interview, 2009.

¹⁰ Sciranko 2003, "Gateway Largest Real Estate Deal"

¹¹ Sciranko 2003, "Gateway Commerce Center Exceeds Forecast"

¹² Brown 2006.

¹³ Stieve 2008, 8-9.

Major trucking tenants of GCC include¹⁴:

- Flying J, the nation’s largest retailer of diesel fuel, built an \$8 million travel plaza on the western edge of GCC that can accommodate 300 trucks
- Lanter Co., a freight logistics firm, operates 600,000 square feet of warehouse space with planned expansion
- Buske Lines, operating 365,000 square feet of warehouse space and with a 300,000 square-foot expansion, moved its headquarters to St. Louis from Litchfield, IL

Funding—The Gateway Commerce Center Area is supported by a variety of state, county, and local economic development incentives. Locally, a portion of the site is within a TIF district established by the City of Pontoon Beach in 2000. TIF dollars were instrumental in locating the Procter and Gamble facility.¹⁵ State incentives used for the project were the Illinois EDGE program (salary-based tax credits) and the Illinois industrial job training program. The entire GCC area sits within a state Enterprise Zone that was especially created by the authority of the Southwestern Illinois Development Authority (SWIDA) and is managed by Madison County.¹⁶

Market—This development is unique in the St. Louis region in that it offers modern high-tech “big box” warehouse space. Certainly there are other warehouse districts in the region, but none are on the scale of GCC. As retailers consolidate into a core few mega-operations (Wal-Mart, Sams Club, Target, Costco), manufacturers of retail products are seeking to have large distribution centers spread across the United States in locations with easy access to various regional markets. Of the major tenants at GCC, Unilever, Dial, Procter and Gamble, and Hershey all have major three main distribution centers—on the West Coast, the East Coast, and in the Midwest (at GCC). Hershey and Unilever have fourth distribution centers in the southeast and Unilever has a fifth center in the southwest.¹⁷

The built development at GCC is either owner-occupied, leased, or owned awaiting subleasing. Less than half the allocated land is developed. GCC seemingly did not “rob” its major tenants from elsewhere in the region and, according to major tenants, it is the right kind of development in the right location to take advantage of market demands.¹⁸ Its reported vacancy rate in 2007 was 5.9%.¹⁹

¹⁴ Sciranko 2003, “Gateway Commerce Center Exceeds Forecast”

¹⁵ IGNN 2001

¹⁶ Herzog interview 2009.

¹⁷ Stieve 2008, 10.

¹⁸ Sciranko 2003, “Gateway Commerce Center Exceeds Forecast”

¹⁹ Stieve 2008, 6.

Developer—This was a developer-initiated site. Mike Towerman, President of TRiSTAR Business Communities approached government officials about developing the site approximately ten years ago. The original vision for the site was to be comparable to the mixed-use example found in the Earth City development in St. Louis County. However, the surprising success of GCC’s large-scale warehouse space quickly shifted the focus from mixed-use to industrial warehouse operations.²⁰

Legal Matters—There have been no significant documented legal challenges to the GCC development. There was a measure of reported opposition on the County Board to Madison County’s \$9 million assistance for the construction of a dedicated exit for the GCC development on Illinois Route 255.²¹ However, there was enough support on the County Board for the measure to pass and the roadwork was completed in 2005. According to Oates Associates (the engineering firm for the project), the work was funded 50/50 by public dollars and the GCC developer.²²

THE HIGHWAY 157 CORRIDOR, COLLINSVILLE (MADISON COUNTY), IL—The land at the intersection of Illinois Highway 157 and Interstate 55/70 in the City of Collinsville is being aggressively developed and marketed by the city. This area has become Collinsville’s “front door.”²³ While there are multiple developers willing to work with the city, Collinsville is clearly initiating the development. The area surrounding this intersection is probably one of the most diverse development corridors in the St. Louis region—employing a variety of subsidies for a variety of uses.

In the northwest quadrant of this intersection (north to Horseshoe Lake Road and west to Interstate 255) is a mixture of hospitality, office, and light industrial space that is given the name “Eastport Plaza.” In the center of this quadrant is the Gateway Center, a regional convention center. In the southwest quadrant of this intersection is the Collinsville Crossing shopping center. The northeast quadrant is a small land space that has complementary businesses to the Eastport Plaza development and is functionally a spill-over of that land use. The southeast quadrant is both new and existing residential.

- Northwest (and Northeast) Quadrant(s)
The Eastport Plaza area has a considerable amount of office space. Major tenants of this zone include:
 - the regional headquarters of the Illinois Department of Transportation,
 - the Southwestern Illinois Development Authority,
 - a Sanford-Brown College facility, and
 - the Madison County office of the Suburban Journals.

²⁰ Herzog interview 2009.

²¹ Pierce 2003.

²² Oates Associates 2005.

²³ Mann interview 2009

To the north of this is warehouse/light industrial space that fronts Horseshoe Lake Road. The institutional anchor of this zone is the Gateway Center, a regional conference center encompassing over 50,000 square feet and a seating capacity of at least 5,000.²⁴ The conference center is surrounded by hotels:

- the Doubletree Hotel (previously a Holiday Inn that had become infamous for bankruptcy and default on state development bonds),
- Hampton Inn,
- Extended Stay Suites,
- Super 8 Hotel, and
- a Drury Inn that occupies much of the adjacent northeast quadrant.

Nearly a dozen restaurants ranging from White Castle to Porter’s Steakhouse can be found in the Eastport Plaza development.

- Southeast Quadrant
There is one notable residential development underway here, Westview Condominiums at the Collinsville Crossing. This is a 5.02-acre redevelopment of an existing restaurant area that is situated on the river bluff commanding an impressive view across the American Bottom to the St. Louis skyline. It will contain 28 “upscale” condominiums, 13 of which are already built and ready for occupancy. The developer has sought assistance from the city for demolition of obsolete buildings on the parcel.²⁵
- Southwest Quadrant
The Collinsville Crossing shopping center is anchored by Wal-Mart and Home Depot, and is a 444,107 square-foot development. Space is available in the shopping center and there is room for outlot development, but the center is largely occupied by tenants.

Funding—The funds used to build all of these developments were largely local, supported by a property-tax TIF or Business District sales tax bonds (see Legal Matters for detailed explanation). The only non-local participation was the sale of the Collinsville Crossing sales tax bonds by the Southwestern Illinois Development Authority (SWIDA), which could offer more favorable bonding terms than the city (specifically, exemption from state taxes).²⁶

Market—This development is consistent with the trend of big-box retailers moving toward transportation arterials. As these “anchor” retailers move, so do the peripheral retailers that rely

²⁴ Gateway Center Facilities 2009

²⁵ Collinsville Community Development Department 2009, 2-3.

²⁶ Gasparich and Lundy interview, 2009.

heavily on the traffic generated by the anchors. Collinsville has seen several examples of firms located in its inner-city commercial district (along Belt Line Road and Vandalia Street) moving to the arterial development being made around the Highway 157 corridor.²⁷ This has had two distinct effects on the Collinsville local economy. First, the city successfully retained large retailers such as Wal-Mart (and other smaller retail and restaurant traffic that follows these large retailers) in the new development. According to the City of Collinsville, Wal-Mart employs 232 people.²⁸ In this sense, the city has been responsive to market demands. Second, the vacancies left behind by these moving firms require the creation of new public incentive districts to fill vacant or abandoned properties. At the time of this writing, the City of Collinsville was in negotiation with a major national retailer to move into the long-vacant Wal-Mart site on Belt Line Road, but public financing was going to be required to demolish the existing building as a condition of the new store's location decision.²⁹

This market situation is complicated because public funding located some of these businesses in the initial locations that are now being abandoned by the market. According to a Wal-Mart watch group, the Collinsville Wal-Mart benefited from a \$2.4 million public investment of Illinois Industrial Revenue Bonds to secure its initial location on Belt Line Road in 1991. This is the same Wal-Mart that moved to the Collinsville Crossing location that benefited from the 2007 sale of approximately \$20 million³⁰ in sales tax revenue bonds by SWIDA.³¹

Developer—All of these developments are city-driven, which makes Collinsville somewhat unique. The city's director of Community Development, Paul Mann, was formerly with the City of Hazelwood when that community built the St. Louis Mills development, and was also formerly with PGAV, one of the region's prominent economic development consulting firms and was active in the Sunset Hills development. He is experienced in dealing with large-scale developments, has considerable contacts in the development field, and brings formidable capacity to the job.

The Community Development Department has a significant vision for the city, and is willing to leverage public dollars to accomplish this vision. Considerable progress has been made toward the city's development plans, and the city has proven successful in its strategy to shuffle businesses between locations. Despite the internal movement of businesses within Collinsville, there has been noteworthy success in drawing new businesses to the city.

²⁷ Mann interview 2009.

²⁸ City of Collinsville 2006.

²⁹ Mann interview 2009.

³⁰ *Southwestern Illinois Development Authority Local Government Program Revenue Bonds* (draft), 2007.

³¹ Not all of this money was dedicated to the Wal-Mart portion of the development; according to an anecdotal source on Walmartwatch.com, the amount of the Collinsville subsidy was \$9.4 million. This number has not been confirmed and should be treated as anecdotal evidence only.

Legal Matters—The subsidy for Collinsville Crossing was originally to be TIF bonds, but this was challenged in court. In an effort to have the case dismissed, the city switched financing mechanisms by creating a Business District that would allow for sales tax bonds to be used instead.³² The TIF challenge came from two grocery union members who were challenging the blight definition used for TIF designation that would benefit Wal-Mart. After the switch from a TIF model to a Business District model, the litigants filed suit again.

The definition provided in the Illinois Business District Act (65 ILCS 5/11-74.3-5) provides a definition of blight that have a formal finding that “the business district is a blighted area that, by reason of the predominance of defective or inadequate street layout, unsanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existing of conditions which endanger life or property by fire or other causes, or any combination of those factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals, or welfare in its present condition and use...”³³ According to one official, these criteria are functionally the same as TIF.³⁴ According to another, these are somewhat broader than TIF.³⁵ The City of Collinsville prevailed in the legal challenge to the Business District designation under this definition.

THE HIGHWAY 15 CORRIDOR, BELLEVILLE (ST. CLAIR COUNTY), IL—This economic development cluster spans Illinois Route 15 from Frank Scott Parkway to the intersection of Illinois Route 158, and follows Route 158 to Green Mount Road. The City of Belleville occupies an odd shape tract of land that stretches over nine miles in length. Route 15 represents the piece of infrastructure that lends itself best to development, and the city has designated it as its “front door.”³⁶ This corridor forms a crescent that cradles the city along its southwestern edge.

The institutional anchors along this corridor are the Shrine of Our Lady of the Snows on the west (attracting about 1 million visitors annually³⁷) and Southwestern Illinois College on the east (with an enrollment over 16,000³⁸). Route 15 has been expanded to four lanes running at 55 MPH for long

³² Ortvals 2006 and Mann interview 2009.

³³ PGAV 2008, 2-1.

³⁴ Mann interview 2009.

³⁵ Gasparich interview 2009.

³⁶ Eckert et al interview 2009, and Buss 2009, 1

³⁷ National Shrine of Our Lady of the Snows 2009

³⁸ SWIC Fast Facts 2009

stretches, and is a main arterial for residents in outlying St. Clair County communities such as Mascoutah, Smithton, and Freeburg.

There are two major developments along this corridor: Belleville Crossing (on the western end) and Green Mount Center (on the eastern end), and some noteworthy peripheral development: the Belle Valley Industrial Park off Route 158 and two automobile dealerships along Route 15.

The Belle Valley Industrial Park, 90 acres located at Center Plaza and Route 158, is one of the oldest economic development projects in Belleville, but has seen significant growth in the last ten years. Phase One of the development is full, there is only site left in Phase Two, and the city is currently working on implementing Phase Three development. Major tenants of the industrial park are the Belleville Shoe Company (a major military contractor making combat boots) and the printing operations of the *Belleville News-Democrat*. These firms would have left Belleville to expand to larger facilities if the industrial park did not exist.

The City of Belleville acknowledges its reliance on sales tax dollars. It accounts for \$6 million of the city's \$24 million general fund.³⁹

Funding—The retail development along the Highway 15 Corridor is funded through local TIF dollars only. A state Enterprise Zone exists in Belleville, but these funds were not used in the development of retail establishments such as Belleville Crossing or Green Mount Commons.

The city has also engaged in Economic Development Agreements, simple contractual arrangements on the division or expenditure of revenues with a developer on a project basis.

The Belle Valley Industrial Park qualifies for state-level funding in addition to local TIF. SWIDA sold the bonds for the location of King Foods in the industrial park.

Market—All of the development in the Highway 15 Corridor was developer-driven. The Belleville Crossing project was initiated by DESCO, and the Green Mount Commons project initiated by THF. Two automobile dealerships located in Belleville's city center also moved to the Highway 15 Corridor under pressure from automobile manufacturers wanting dealers to have locations on traffic arterials.

Automobile sales in Illinois are taxed at the point-of-sale (unlike Missouri), making car dealers significant sales tax generators for local governments. The loss of the Elder/Jack Schmitt Cadillac dealership in 1998, when the offer of help from the city was deemed "too little, too late,"⁴⁰ motivated a new generation of city leaders to be more proactive in maintaining Belleville's economic base. The Oliver C. Joseph Chrysler dealership and the Wagner Buick/Pontiac/GMC dealership both were being pressured by the manufacturers to move to locations closer to major traffic arterials. The Wagner dealership recently lost its franchise with General Motors and its future is unclear.

³⁹ Eckert et al interview, 2009.

⁴⁰ Eckert et al interview, 2009.

The west end of the Highway 15 Corridor has shown a degree of land speculation. The local school district built the new Belleville West high school, which makes the area more attractive to home builders.⁴¹ The Belleville Crossing development is on the edge of the Belleville population and clearly is poised for growth to the city's southwest.

The east end of the Highway 15 Corridor (along Route 158) has shown considerable investment in and around the SWIC campus and the Green Mount Commons development. Wal-Mart and Lowe's serve as anchors of this development. The Green Mount Commons Wal-Mart is expected to do \$115 million in sales this year.⁴²

Major developments have been planned within a five-mile circle of the Green Mount Commons. These include a \$70 million proposal from Koman Properties at SWIC, a \$140 million development by Gundaker Commercial Group in Shiloh, and a \$750 million concept from McEagle Properties for 586 acres closer to O'Fallon.⁴³ The status of these proposals is unclear given the current economy.

The smaller retail firms occupying the new retail centers are new to Belleville, with the exception of the Hallmark store in Belleville Crossing—which relocated from another Belleville location. The old Wal-Mart store remains vacant after its move to Green Mount Commons.

Developer—In the case of Green Mount Commons, Wal-Mart approached the city asking for assistance in moving to a new location that would allow for significant store expansion. Wal-Mart came to Belleville in 1976, made a significant expansion to its site in 1986, and made it known to city officials that the store wanted to remain in Belleville but was prepared to leave if the city was uncooperative. Belleville worked with THF, the developer of Wal-Mart's facilities, and the Green Mount Commons opened in 2008. According to a study by a Wal-Mart watch group, the City of Belleville provided \$7 million worth of infrastructure improvement for the previous Wal-Mart location at Carlyle Plaza.⁴⁴ This earlier deal was also with THF.

The Belleville Crossing development was initiated by DESCO, which had secured significant land holdings on the western end of the Highway 15 Corridor. DESCO had secured Target, Home Depot, Petsmart, and Office Max as primary anchors of the development. DESCO is working on peripheral development adjacent to the site.

The city of Belleville has been the primary developer and marketer of the Belle Valley Industrial Park.

Legal Matters—The only legal challenge presented to the Highway 15 Corridor was to the Wal-Mart development. The Green Mount Commons development was challenged in court by representatives of

⁴¹ Eckert et al interview, 2009.

⁴² Eckert et al interview, 2009.

⁴³ Brown 2007.

⁴⁴ Mattera and Purinton 2004, 41.

the United Food and Commercial workers, arguing that Wal-Mart should repay its \$19 million subsidy because the land on which the development took place did not meet the conditions of blight.⁴⁵ The city annexed the site in 1995 anticipating development.⁴⁶ A final decision in the case has not been made as of this writing.

V. DISCUSSION

Several aspects of TIF usage in the St. Louis area are highlighted by these case studies:

1. Eminent domain – the period of time covered by this report coincides with a transition from the use of Chapter 353, a more classic urban redevelopment tool, to TIF, a more broadly-based tool that has seen significant suburban as well as urban application. With 353 the local government transferred to the developer authority for the project. With TIF there is a more engaged role for the municipality. One aspect of redevelopment projects that seems to have engendered an almost visceral response is the prospect of the use of eminent domain. Because of the municipalities’ active role in a TIF project any notion that eminent domain may be considered was directed at local officials.
2. Multiple stakeholders – reviewing these case studies it would appear that the need for and use of TIF is not just based on a city government strategy to expand revenues. The retail industry is very dynamic and over time there are changes that affect real estate needs. Retailers and developers sometimes make bad decisions that leave a municipality with unusable real estate. Environmental laws have changed since many early suburban shopping centers were built and this increases redevelopment costs.
3. Urban development legends – while there may be evidence found elsewhere for some of the previous statements about TIF quoted at the beginning of this report, several of the statements cannot be substantiated through these case studies.
 - The statement that TIF avoids red tape and delays of intergovernmental aid may be true, but not that it allows the city to ignore voters. Voters were very engaged in the decision making process in some of these cases.
 - The statement that developers can play municipalities off against one another in order to maximize their gain from a project did not occur in these cases studies. The evidence indicates developers frequently would begin making buyout offers even before submitting a proposal, but not in multiple jurisdictions. And while there is an identifiable small group of developers who have multiple projects in St. Louis County, they appear to have been done one at a time in response to each municipalities RFP, not ‘shopped around.’ And the Wal-Mart that was built in Kirkwood was a result of several failed attempts in other municipalities. That project may be considered to have been ‘shopped around’ but not to the advantage of the developer. In the case of Collinsville and Belleville, retailers and developers had existing relationships with the cities and functionally gave the cities a right-of-refusal before approaching other locations.
 - The statement that TIF is predominately used in outer suburban areas is not supported by the St. Louis County data. While the usage is not evenly distributed across the eight development regions in St. Louis County, there is extensive inner-suburban application of TIF.

⁴⁵ “Belleville Wal-Mart Suit to Proceed,” 2009

⁴⁶ Buss 2009.

4. The structure of sales tax collection and distribution in St. Louis County does motivate municipalities to pursue real estate development/redevelopment. The decision whether to be a point of purchase or pool jurisdiction was made at a time when the retail landscape in St. Louis County was very different. Whether or not municipal revenue can be held accountable as the sole motivator may be called in to question by the example of Chesterfield which has one of the most tax productive developments in St. Louis County, but is a 'pool' jurisdiction. Consideration of what and how to change regulation of TIF might best consider change in the structure of sales tax distribution.
5. Timing Incentives and Markets—it is evident from these case studies that businesses need to grow and expand regularly, about every ten years. Many incentive districts have life spans of fifteen or twenty years, which is incongruent with market needs. The time frame of these incentives and the planned obsolescence of developments may be worth considering in any discussion of incentive reform.

TERMS

What are the different types of big-boxes?

There are four major subgroups used to categorize big-box retail formats: discount department stores, category killers, outlet stores and warehouse clubs.

Discount Department Stores

Discount department stores, ranging from 80,000 square feet to 130,000 square feet, offer a wide variety of merchandise including automotive parts and services, housewares, home furnishings, apparel and beauty aids. This group includes retailers such as Target, Wal-Mart and Kmart. A new generation of “supercenters” in this retail category range from 100,000 square feet to 210,000 square feet.

Category Killers

Category killers, ranging from 20,000 square feet to 120,000 square feet, offer a large selection of merchandise and low prices in a particular type of product category. This group includes retailers such as Circuit City, Office Depot, Sports Authority, Lowe’s, Home Depot and Toys “R” Us.

Outlet Stores

Outlet stores, ranging from 20,000 square feet to 80,000 square feet, are typically the discount arms of major department stores such as Nordstrom Rack and J.C. Penny Outlet. In addition, manufacturers such as Nike, Bass Shoes and Burlington Coat Factory have retail outlet stores.

Warehouse Clubs

Warehouse clubs, ranging from 104,000 square feet to 170,000 square feet, offer a variety of goods, in bulk, at wholesale prices. However, warehouse clubs provide a limited number of product items (5,000 or less). This group includes retailers such as Costco Wholesale, Pace, Sam’s Club and BJ’s Wholesale Club.

Other useful retail development terms

The term “power center” is often used to describe groupings of the various forms of big-box retailers. Power centers generally contain 250,000 square feet to 1 million square feet of retail space. Retailers that locate in power centers may be freestanding, structurally attached to another retailer, or a combination of both types. The trade area from which most power centers draw consumers ranges from five miles to ten miles.

The term “regional center” is often used to describe a small grouping of big-box retailers, typically developments of two or more anchor stores. Regional centers range from 400,000 square feet to 800,000 square feet. They are generally enclosed with an inward arrangement of stores connected by a walkway. The trade area from which most regional centers draw consumers ranges from five miles to fifteen miles.

The term “shopping center” describes a group of retail and other commercial establishments that is planned, developed and often managed as a single property. The orientation and size of the center is typically determined by the location of the center and the market characteristics of the trade area. Shopping centers are generally configured as enclosed malls and open-air strip plazas.

From “Big Box Retail Development” Maryland Department of Planning October 2001
http://www.mdp.state.md.us/mgs/bigbox/bigbox_v3.pdf

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