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SUNDAY POST-DISPATCH

CAN ST. LOUIS COMPETE? • THE EDIFICE COMPLEX • PART ONE OF THREE

IF YOU BUILD IT ... JOBS STILL MAY NOT COME

In a global economy that thrives on ideas and innovation, why do we keep spending so much public money on concrete and steel? Are we getting our money's worth?

ROBERT COHEN • rcohen@post-dispatch.com

The Laurel building, most recently Dillard's department store, is reflected in windows from the new Seventh Street Garage. The garage was formerly part of St. Louis Centre.

Concrete won't grow economy

But developments get billions in tax incentives.

BY TIM LOGAN • tlogan@post-dispatch.com > 314-340-8291

For decades now, St. Louis has been trying to build its way back to prosperity.

We've built mall after mall, big box upon big box. Chopped up empty warehouses into $300,000 loft condominiums. Rehabbed tired office buildings in the hope that someone will fill them. We've paved acres of parking lots and carved suburbia from the paths of our rivers.

This has cost taxpayers billions of dollars. It gobbles up a huge chunk of the money our region spends trying to grow its economy — far more than we spend investing in high-tech startups or teaching workers new skills, more than we spend luring big companies to St. Louis or helping the ones already here to grow. In short, we have made real estate development the overwhelming focus of our economic development, even during a time of stagnant population, anemic job growth and persistently high vacancy rates for commercial real estate.

The strategy raises simple but troubling questions. In a global economy that thrives on ideas and innovation, why do we keep spending so much public money on concrete and steel? Are we getting our money's worth?

There's no simple answer. The

See COMPETE • Page A12

IN THIS SERIES

SUNDAY
St. Louis has spent $3.5 billion in taxpayer money on private real estate development in the last decade. Yet the region's economy stagnates.

MONDAY
Zero Sum Game: How St. Louis' most popular development tool has shuffled shoppers around, with little net gain to the region's economy.

TUESDAY
A look at the politically potent industry that has grown up around tax incentives and fights to preserve them. How might we get more bang for our bucks?

The Edifice Complex

'Silver bullet' projects miss the mark.

DAVID NICKLAUS
dnicklaus@post-dispatch.com > 314-340-8213

In discussions about St. Louis economic development, the word "stadium" always cranks up the heat.

Get ready to dial things up a few degrees, then, as 2015 approaches. That's when the Rams have the option of abandoning the Edward Jones Dome if it's not among the top quarter of National Football League stadiums — as it almost certainly won't be. Twenty of the NFL's 32 venues are newer than the 15-year-old Dome.

Neither Rams owner Stan Kroenke nor the public officials who manage the Dome have said much about what might happen next. If Kroenke asks for a new stadium, local leaders will have to decide whether to funnel millions more in taxpayer dollars into a high-profile private business.

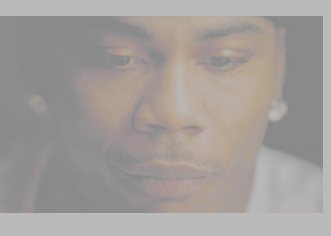
It would be nothing new if they did: St. Louis has no shortage of stadiums, shopping malls, hotels and office buildings financed with public money. What we don't have are the economic benefits that developers promised in exchange for the taxpayers' largesse.

Yet the region clings to what might best be termed an Edifice

See NICKLAUS • Page A13

VISIT STLTODAY.COM FOR MORE OF THIS SERIES, WHERE YOU WILL FIND:

A narrated slideshow of the rise, fall and rebirth of St. Louis Centre • Slideshows of some of the region's biggest TIF and historic tax credit projects



The underdog?

Nelly's new single is No. 1, but St. Louis rapper says he still gets no respect.

IN A&E • D1

A big build-up

Earmarks battle may halt flow of funds

Bond secured big dollars for Missouri in a process many criticize.

BY BILL LAMBRECHT • blambrecht@post-dispatch.com > 202-298-6880

WASHINGTON • Congress returns this week staring at an unfinished budget that includes tens of millions of dollars in earmarks for Missouri — from highway projects to far-flung research into nanotechnology and computer security — courtesy of retiring Sen. Christopher "Kit" Bond.

All that money may not be headed Missouri's way amid new worries about spending as Congress ponders the future of earmarks, lawmakers' practice of directing expensive projects back home to their districts and states.

Sen. Claire McCaskill, D-Mo., is among senators pushing to remove earmarks from the budget to begin slowing the growth of the nation's debt. And 14 GOP senators are pushing for a vote among Republicans for a two-year freeze on earmarks, a move that Bond intends to fight.

Sen. Christopher "Kit" Bond is leaving the Senate in January after 24 years.

Bond, a Republican, is leaving the Senate in January after 24 years, but he remains a fierce advocate of earmarks as a way to help Missouri and promote technology.

As a senior appropriator, this year he has steered dozens of projects totaling more than $150 million to the point of passage — in addition to the $380 million in earmarked projects he engineered with colleagues for add-ons such as breast cancer research and better medical treatment for veterans.

See BOND • Page A10

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Billions spent here since 2000

$3.5 billion.

That's roughly the tab for real estate-related tax incentives given out by state and local governments in the St. Louis region since 2000. It's a conservative estimate, gathered from public records on seven major programs. It does not include tax abatements or state bond programs, which would make the total figure substantially higher. Here's how the $3.5 billion breaks down:

MISSOURI STATE PROGRAMS

Historic tax credits
Reimburses 25 percent of rehab costs on historic buildings. Often paired with 20 percent federal credit on commercial or multifamily buildings. Credits are often sold to banks or investors to finance a project.
The tab
$664 million issued in St. Louis area from 2000 through 2009.

Low-income housing tax credits
Reimburses either 9 percent or 4 percent of the cost of building affordable housing, and is paired with an equal credit on federal taxes. Is paid out over 10 years and can be sold or transferred.
The tab
$611 million issued in St. Louis area from 2000 to 2009.

Brownfield remediation tax credits
Reimburses up to 100 percent of the cost of cleaning up polluted and abandoned sites, called "brownfields." Often paired with other tax credits to help finance projects.
The tab
$136 million issued in St. Louis area from 2000 to 2009.

LOCAL PROGRAMS

Tax-increment financing (Missouri)
Local governments approve TIF districts where new property, sales and other taxes generated by a project can be used to help pay for the work over 23 years. Often, developers issue bonds in advance and pay down debt with the tax proceeds.
The tab
$1.3 billion worth of projected TIF costs have been approved since 1999.

Tax-increment financing (Illinois)
Cities can set up broad TIF zones and use new tax revenue generated within them to pay for road and sewer work, to buy land, and to give incentives to companies to locate there. As in Missouri, they last up to 23 years.
The tab
$386 million in funds were diverted from 2000 through 2007.

Transportation development districts
TDDs are special districts where an extra sales tax of up to 1 percent is collected to pay for road improvements and parking lots. Unlike TIF, a TDD doesn't affect property tax revenue, though the two are often used together on the same project.
The tab
$366 million in anticipated TDD costs approved since 1999.

Community improvement districts
Similar to a TDD, but CIDs can be used to fund a broader range of improvements. Some new property tax revenue can also be collected.
The tab
Historic data was not available, but 44 St. Louis-area CIDs collected $5.8 million in tax revenue in 2009.

Sources: Illinois Department of Revenue (TIF), Missouri Accountability Portal (tax credits), Missouri Auditor's Office (TDDs), Missouri Department of Economic Development (TIF), Missouri Department of Revenue (CIDs)

Inside the industry

Missouri's historic tax credit industry includes a wide range of specialists. Meet a few.

THE CONSULTANT

If you want to rehab a historic building, it helps to have someone like Karen Bode Baxter on your team. A historic preservation consultant, Baxter is among a few dozen people around the state who help shepherd projects through Missouri's biggest tax credit program. Some help to get buildings qualified for the National Register of Historic Places. Some help make sure the actual rehab meets historic standards. A few, like Baxter, do both.

The consultant helps a project run smoothly, which saves time and money for everyone involved. The key, said Baxter, who has more than 160 rehabs under her belt, is making sure that all the work is done by the book, so that a project qualifies for all the credits its developer is counting on.

"My goal is to help my clients be able to sleep at night all the way through the project," she said.

THE BANK

When it comes to financing historic tax credit deals in Missouri, no institution is busier than Commerce Bank.

The bank, which has large operations in both St. Louis and Kansas City, has handled more than 250 projects from 2006 through 2009, buying and selling credits for everything from downtown loft projects to rehabs of brick two-families in Benton Park West.

Its Tax Credit Division takes in credits in exchange for a bridge loan to help pay for construction. Sometimes, the bank uses them to help write down its own taxes, but often it sells them to brokers or wealthy customers, earning a few cents on each dollar sold.

U.S. Bank and National City (now PNC) also have big tax credit operations, key gears in the wheels of financing historic rehabs in St. Louis.

THE BROKER

Have some credits you want to turn into cash? Have a big tax bill you want to whittle down? Meet Art Weiss.

Weiss is president of Lisart Capital, in Chesterfield, and is one of 15 or 20 people around Missouri who specialize in the business of swapping tax credits. Accountants and bankers by trade, most of these brokers buy credits from developers and banks for cash, then sell them to wealthy individuals with a big tax bill to pay down. For every dollar's worth of credit sold, the broker makes a few pennies, and the end buyer knocks a few cents off their taxes.

In this business, Weiss said, timing is everything. After all, real estate deals don't always close just before tax day on April 15.

Sometimes, he said, he has more tax credits than he can sell. "Then around tax season, there are people calling around in a panic, looking to buy."

— Tim Logan

COMPETE • FROM A1

The past decade has seen $3.5 billion in development incentives but only 19,700 new jobs in St. Louis

relationship between buildings and jobs remains fluid and hard to measure. But two basic numbers should frame the debate.

The first is $3.5 billion — a conservative estimate, drawn from a variety of public records, of development incentives doled out by governments here in the past decade. It includes local programs such as tax increment financing (TIF) and transportation development districts (TDD), and four real estate-related Missouri tax credits, but not property tax abatements or development bonds.

The second is 19,700 — the number of jobs generated in St. Louis in the same time period, before the recession wiped them all out and more. (That represents less than half the rate of job growth nationally during those years.)

Divide the amount spent by the jobs gained, and each cost $177,665.

The incentives have produced other benefits, of course. They have helped clean up polluted factory sites and built homes for the poor. They have unquestionably improved the face and feel of downtown St. Louis, helping, in theory at least, to make the city more attractive to other businesses.

But as a strategy to promote regional growth and wealth, government-subsidized real estate deals have proved sorely lacking. Once they are built, after all, buildings employ no one. They don't establish new companies, or turn ideas into products the world needs and sell them on global markets.

They don't make St. Louis relevant in a fast-evolving global economy, said Mark Muro, policy director at the Brookings Institution's Metropolitan Policy Program in Washington. That takes growing vital industries that innovate, employ people, make things.

"There has been a lot of focus on the appearance of places," Muro said. "Maybe not enough on the nitty-gritty mechanisms of how value is created."

Tim Flook, a Missouri state representative who chaired the House committee on Job Creation and Economic Development last session, puts it another way. We have economic development backward: The state ought to concentrate on growing employers and high-tech industries, he said.

"We need to create primary jobs. Manufacturing, high-tech, insurance and banking. Those kind of things," said Flook, R-Liberty. "Hotels, restaurants, condos, all that stuff will follow."

REMAKING DOWNTOWN

Builders and developers counter that we need to make St. Louis a place where those primary jobs will happen — and that real estate is an essential piece of that equation.

Without tax credits and other incentives, they say, the deals won't work in areas such as downtown. The gap between the cost of rehabbing projects and what developers can charge in rent is just too high. Without TIF or tax credits, they say, developers would just build on the fringes, where it's cheapest. And the region's core would hollow out.

Barbara Geisman fought that hollowing out for years. She was, until retiring this month, the deputy mayor for development in the city of St. Louis, which in the past decade has given out $585 million in TIF and issued property tax abatements on thousands of properties. Geisman acknowledges the cost of these subsidies but takes a pragmatic view. Her city simply has too many vacant buildings and not enough demand.

"We've lost 500,000 people," she said. "We've got to do what we've got to do to rebuild the market for real estate."

And that takes money. In the city, a main vehicle for that money has been historic tax credits, which have financed everything from swank lofts to gated-street mansions to single-family rehabs in middle-class neighborhoods.

They have had a huge impact, particularly downtown, which a decade ago contained 70 large vacant buildings, such as offices or warehouses, Geisman said, and today has about 10. Life and business has returned to the streets.

Without the help of incentives those buildings would still be vacant, said Zack Boyers, president of the U.S. Bancorp Community Development Corp., which finances tax credit deals nationwide.

"I've been a part of 60 or 70 deals in St. Louis," Boyers said. "But for maybe a couple of exceptions, those deals wouldn't have happened without the historic tax credit."

Some in the industry point out that there are aren't many big buildings left to rebuild. "Historic" rehabs are a finite resource, after all, and most of the major ones have been done.

"We are at a point now where we're transitioning" said Amos Harris, a downtown developer who has done several big projects, including the rehab of the old Dillard's building, now under way on Washington Avenue. "There just aren't that many historic buildings left. We've got to get the jobs going, and create the environment that jobs will grow in."

Real estate tax credits still have a role in financing the tough projects that remain, Harris said, but it's natural to expect a shift, a more balanced approach, in the years ahead.

Still, that balancing seems a long way off. Last year, Missouri's three big real estate-related tax credit programs — historic, low-income housing and brownfields — consumed $321.5 million. That's eight times what Missouri spent on all its tax credit programs for business recruitment and entrepreneurship, combined.

NO NET GAIN

Historic tax credits aren't the biggest slice of the incentive pie. That title goes to TIF, which lets developers capture new tax revenue generated by projects they build, then use it to pay back the cost of development. In the past 10 years, local governments in the St. Louis region have authorized $1.7 billion worth of TIF districts. If the TIF for Paul McKee's massive NorthSide project — which would remake 2 square miles of north St. Louis but is for now mired in legal trouble — can get back on track, that number would hit $2.1 billion.

This money has built a lot, TIF supporters say. And without it, many projects wouldn't have happened.

But the deals come with tradeoffs. The subsidies translate into less money for a school district or fire department — at least in the short run. They can mean extra fees for city services, such as trash pickup. In our region, they often have meant that the store near your house closes and moves to a new TIF-financed shopping center in the next town.

Mostly, critics say, the way Missouri cities use TIF results in billions of public spending just to move things around, with no net gain to the economy at large. And it saps money that could help do that, said St. Charles County Executive Steve Ehlmann.

He doesn't issue TIFs, but cities in his county do, and they cost his county budget $1.6 million a year. That money means missed opportunities, Ehlmann said.

"If someone came to me and said they want to build a factory in St. Charles County, how can you help? Well, I can't," he said. "If I had that $1.6 million that I'm giving away to build retail stores, maybe I could. But I'm broke."

Ehlmann is not the only one. The strapped state of Missouri's budget is forcing some tough conversations in Jefferson City about the best ways to invest in our economy, about whether the building projects are worth the tax revenue they consume.

For two months, a commission appointed by Gov. Jay Nixon has been studying these issues. On Wednesday, the panel is expected to finalize its recommendations for tweaking all 61 of Missouri's tax credit programs.

Flook has a seat on the commission. He's been pushing for a major overhaul.

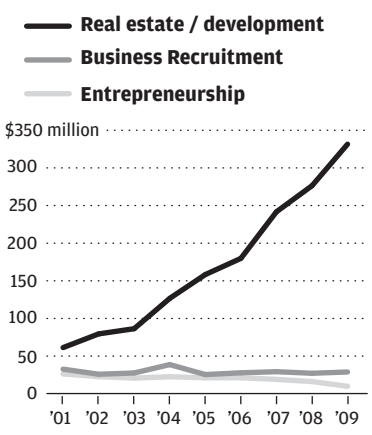
"Is rehabbing old buildings the most important economic development event in our state?" he asked. "No. Its agriculture. It's manufacturing. It's the chemical industry. It's banking. But we've got these two programs (historic and low-income housing tax credits) that have basically hogged all the space for incentives, and they don't want to share."

ROBERT COHEN • rcohen@post-dispatch.com

Skylights inside the Laurel building, left over from the St. Louis Centre complex downtown, will be removed. The Laurel is being redeveloped into an Embassy Suites hotel, apartments and retail space.

A RISING BILL

State spending in Missouri on tax credits under four real estate-related programs — historic, brownfield and two affordable housing tax credits — has soared in the past decade, far outpacing spending on programs for business recruitment or entrepreneurship.

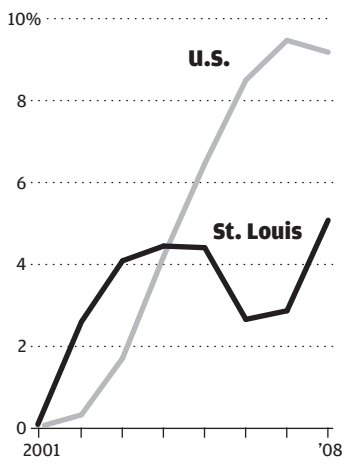


SOURCE: Missouri Auditor's Office | Post-Dispatch

ST. LOUIS, GROWING SLOW

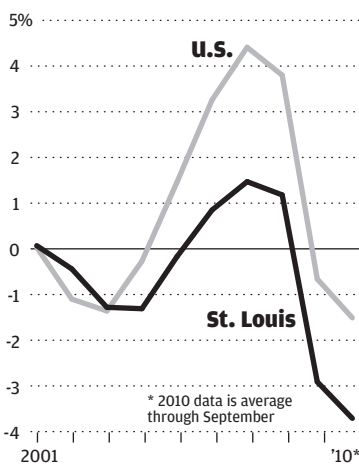
By two major measures — jobs and economic output — growth in the St. Louis region lagged the nation as a whole in the 2000s, even as the region poured at least $3.5 billion in public money into private real estate projects in the hopes of growing the economy.

Gross domestic product, percent change since 2001



SOURCE: Bureau of Economic Analysis

Jobs, percent change since 2000



SOURCE: Bureau of Labor Statistics | Post-Dispatch

Big projects, little return

St. Louis has built its share of "silver bullets" — big real estate projects that, we were told, would transform the region and spark new growth. But often, these efforts have missed the mark.

ST. LOUIS CENTRE

When it opened to much fanfare in 1985, the $95 million St. Louis Centre mall was intended to bring new life to downtown St. Louis. Instead, it sucked retail off the streets and then died its own long, slow death. In 2006, the looming eyesore finally closed. Now it's being rebuilt, as a parking garage with stores back out on the street. The shopping center was built with the help of tax abatements and city and federal money.

DAVID CARSON • dcarson@post-dispatch.com

LAMBERT'S NEW RUNWAY

Remember when St. Louis was a bustling airline hub? The good old days faded fast, disappearing entirely in the eight years it took to build a huge new runway at Lambert, one that cost $1.1 billion and displaced thousands of residents in Bridgeton. Now TWA is long gone, American Airlines is a shadow of its former presence, and the runway sits, underused, waiting for Chinese cargo jets that no one is sure will come.

DAVID CARSON • dcarson@post-dispatch.com

RENAISSANCE HOTEL

Turning two empty Washington Avenue hotels into an 1,100-room complex was supposed to cure what ailed St. Louis' convention business. But almost from the day it opened in 2002, the $270 million Renaissance Grand Hotel and Suites has struggled. In a downtown glutted with hotel rooms, and a city that is still struggling to lure big meetings, the Renaissance has been unable to pay down its debt. Last year, it was taken over by its bondholders, who continue trying make the place work financially.

STEPHANIE S. CORDLE • scordle@post-dispatch.com

BUSCH STADIUM/ BALLPARK VILLAGE

When the Cardinals built their gleaming new Busch Stadium downtown in 2006, they received about $88 million in help from the state, city and St. Louis County. In exchange, they promised to put a six-block complex of new office buildings, condos and restaurants next door, on the site of the old Busch. They planned to call it Ballpark Village. Today, the new stadium hops all season long, but Ballpark Village is nothing more than a parking lot.

CHRIS LEE • clee@post-dispatch.com

EDWARD JONES DOME

Building the Edward Jones Dome in 1995 helped bring the NFL back to St. Louis. But 15 years later, the $280 million stadium, paid for by taxpayers, is showing its age. With the Rams under new ownership, and a lease agreement set to expire in 2015, talks are beginning about a new home for the team, or at least upgrading the current dome to match the league's best arenas. The bar is high. Costs for new NFL stadiums in Dallas and New York each topped $1 billion.

DAVID CARSON • dcarson@post-dispatch.com

— Tim Logan

NICKLAUS • FROM A1

If the projects had lived up to the hype, we would have a boomtown

Complex: an unreasonable faith in grand building projects to spawn economic development and generate jobs and wealth. We subsidized a convention center and a hotel next door, the Renaissance, which never drew the crowds of visitors envisioned by their promoters. The failed St. Louis Centre shopping mall, heavily subsidized when it opened in 1985, now is again soaking up tens of millions of taxpayer dollars to be turned into a parking garage.

Much of our traditional infrastructure is also built with private — but not necessarily successful — businesses in mind. Consider our two underused airports: We built a $1.1 billion runway at Lambert for Trans World Airlines' hub, and added MidAmerica as a reliever airport because Lambert was so busy. Both projects looked foolish after American Airlines, which took over TWA, drastically cut its flight schedule here.

The region apparently didn't learn its lesson, though, about overbuilding transportation infrastructure: At least four local municipalities are launching port expansion projects along the Mississippi River, in anticipation that a widening of the Panama Canal will lead to more barge traffic.

If all the projects had lived up to the hype, we would be living in a boomtown. Instead, measured by job growth, over the past 20 years the St. Louis area has grown only half as fast as the nation. And downtown, where most of the megaprojects are situated, has gradually lost jobs.

What went wrong? Did government officials simply back the wrong projects, or is there a fundamental flaw in the notion that we can grow the economy by putting public tax dollars into buildings used by private companies?

Todd Swanstrom, professor of public policy at the University of Missouri-St. Louis, says it's natural for politicians to embrace quick-fix, "silver bullet" projects. After all, the region's economic problems are deep-seated and can't be solved during a two- or four-year term in office. But public officials can bask in the credit for a shiny new stadium or hotel or shopping center.

"It's not that the projects are so wrong, it's that they are not integrated," Swanstrom says. "A 'silver bullet' project is a relatively easy thing to do, rather than planning out a healthy downtown."

Actually, the bets often are completely wrong. The Admiral riverboat, which was turned into an entertainment complex in 1986 with the help of $7.6 million of tax money, lasted less than two years before closing. It eventually became a casino, which also failed. The Renaissance, unable to make money in a crowded hotel market, fell into foreclosure six years after it opened in late 2002.

Gateway International Raceway, a Metro East edifice built in 1997 with the help of tax abatement and tax-exempt bonds, was just closed by its owner.

Even the megaprojects that succeed on one level are hard to justify as economic engines. Built in 1995, the $280 million Edward Jones Dome — paid for entirely by taxpayers — brought Rams football to town. Cardinals fans seem to enjoy the new Busch Stadium, which received $88 million of public money. But economists say professional sports don't generate many direct or indirect jobs.

In spite of this track record, the Edifice Complex still has many devotees. Atop current leaders' megaproject wish list are Ballpark Village, NorthSide and a redesigned landscape around the Gateway Arch.

The Cardinals promised to build Ballpark Village, a neighborhood of offices, restaurants and residential buildings, when they made their pitch for the new stadium. Their chosen developer, Cordish, has been unable to arrange financing. NorthSide, Paul McKee's vision for reviving a 2-square-mile area near downtown, has received $19.6 million in state tax credits and is fighting in court over $390 million in tax-increment financing.

The Arch project is at an even earlier stage. A design competition this summer got some people excited, but no one knows where the money will come from for a museum expansion, ice rink and other proposed improvements. Cost estimates start at $300 million.

Each project would make a part of the city more attractive. Backers say none could be built without tax dollars. Each would generate some construction jobs, but it's hard to say whether they would bring any permanent jobs. In all likelihood, companies that lease space in Ballpark Village or NorthSide will simply relocate from elsewhere in the region — producing no net gain.

To be fair, megaprojects haven't been St. Louis' only development strategy. The loft renaissance along Washington Avenue, which two decades ago was lined with empty former garment factories, was mostly driven by individual developers, although they benefited from state tax credits and city streetscape improvements.

The 1999 Downtown Now plan explicitly disavowed the "silver bullet" approach. Planners identified areas that they thought were ripe for reinvestment, and a big part of their vision has been realized. The successor Downtown Next plan also sets some lofty goals, such as attracting 2 million square feet of new office space, but doesn't target any specific projects.

That goal could be met by a megaproject such as Ballpark Village or NorthSide, and the need seems obvious in a downtown that hasn't attracted a new office building in 20 years. We should ask ourselves some basic questions, though, before handing out more money to developers.

First, why build more office space when current buildings are 20 percent empty? Why subsidize restaurant and retail space that will lure customers away from other St. Louis businesses?

Finally, if a project has such great potential, then why aren't developers willing to finance it without tax dollars? The bigger the promises, the more closely taxpayers need to watch their wallets.

St. Louis' economy won't turn around until we get out of the Edifice Complex mindset and focus on generating demand for real estate instead of more supply. If we educate and train top-notch workers, companies will want to hire them. If we nurture entrepreneurs and help them establish thriving companies, developers will build space to house them.

We may think we're competing with other cities when we build a shiny new stadium or some other structure, but we're deluding ourselves. Talent, not tall buildings, will determine whether St. Louis succeeds or stagnates.

CHAT WITH OUR WRITERS ABOUT THE SERIES

Share your thoughts with Post-Dispatch business writers David Nicklaus and Tim Logan in an online chat Tuesday at 11 a.m. on **STLtoday.com**

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ST. LOUIS POST-DISPATCH

CAN ST. LOUIS COMPETE? • THE EDIFICE COMPLEX • PART TWO OF THREE

AREA STUNTS GROWTH BY FEEDING ON ITSELF

How local government incentives for private businesses have pitted city against city in a race to hand out the most tax money, creating as many losers as winners — but no net jobs or wealth for St. Louis.

LAURIE SKRIVAN • lskrivan@post-dispatch.com

FROM TOWN AND COUNTRY ... The former home of Walmart in a Town and Country Mall strip mall. Wal-Mart opened the store in the 1980s.

LAURIE SKRIVAN • lskrivan@post-dispatch.com

... TO MANCHESTER The new home for the Walmart store in the Manchester Shopping Center in Manchester, which offered tax increment financing incentives.

BY TIM LOGAN • tlogan@post-dispatch.com > 314-340-8291
AND DAVID NICKLAUS • dnicklaus@post-dispatch.com > 314-340-8213

When Wal-Mart moves two miles west to a new store in Bridgeton, the once-thriving Cypress Village shopping center will shrivel into just another dying strip mall.

The anchor tenant now occupies more than half of the space, and leasing agent Jeff Eisenberg fears that the remaining stores won't survive without the traffic Walmart brings. "That space could be dark for the next four to 10 years," he worries.

It's a familiar pattern across metropolitan St. Louis, where the inventory of retail space has grown more than twice as fast as the population over the last decade. The difference shows up in "for lease" signs dotting corridors like St. Charles Rock Road, where Cypress Village straddles the border between Bridgeton and St. Ann.

This isn't merely a case of capitalism at work, with dowdy old stores closing to make way for glitzy new ones. The free market's invisible hand is being guided by local governments, which compete with one another to dole out tax incentives to companies dangling the prospect of jobs and — more important to local politicians — sales tax revenue. Like Bridgeton, most area municipalities eagerly hand taxpayer money to private businesses through a tool called tax increment financing, or TIF, which allows developers to use new tax revenue the stores generate to help finance their construction. Another increasingly popular tactic: special taxing districts, which allow the shopping centers to charge an extra sales tax to finance infrastructure such as roads or decorative fountains.

In a slow-growth region like St. Louis, these government giveaways amount to a zero-sum game. Dozens of municipalities pilfer business from one another — mostly retail outlets, with their low-wage jobs — while the metropolitan area at large gains little in the way of employment or wealth. Rather than luring new investment, the economic ecosystem essentially feeds on itself.

"For the most part, it's just stealing from the next guy," says

See COMPETE • Page A12

IN THIS SERIES

SUNDAY
St. Louis has spent $3.5 billion in taxpayer money on private real estate development in the last decade. Yet the region's economy stagnates.

MONDAY
Zero Sum Game: How St. Louis' most popular development tool has shuffled shoppers around, with little net gain to the region's economy.

TUESDAY
A look at the politically potent industry that has grown up around tax incentives and fights to preserve them. How might we get more bang for our bucks?

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Previous installments of our yearlong "Can St. Louis Compete?" series.

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ALSO, SHARE YOUR THOUGHTS WITH DAVID NICKLAUS AND TIM LOGAN IN AN ONLINE CHAT TUESDAY AT 11 A.M. ON STLTODAY.COM

Obama's Asia trip nets early success, notable failures

BY BEN FELLER AND ERICA WERNER • Associated Press

WASHINGTON • President Barack Obama left Asia with a greater foothold in the emerging nations that could help shape the American economy for years. But his failure to deliver on his own high expectations on key economic issues served notice that the global stage is not nearly his for the taking.

The president returned to Washington on Sunday with mixed results to show from his longest foreign trip abroad as president, an exhausting 10-day tour through India, Indonesia, South Korea and Japan.

His first two stops yielded dramatic diplomatic successes and memorable images in two booming Asian democracies that will only become more important strategically to the U.S.

But the narrative soured once Obama arrived in Seoul, South Korea, for a meeting of the Group of 20 developed and emerging economies. Obama failed to achieve a free-trade deal with

See TRIP • Page A8

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ANOTHER TOUGH DEFEAT

The Rams' frustration on the road continued Sunday with a 23-20 overtime loss to the San Francisco 49ers. The Rams have lost seven in a row away from home.

IN SPORTS • B1

EZRA SHAW • Getty Images

San Francisco wide receiver Michael Crabtree celebrates after scoring a touchdown that gave the 49ers a temporary lead over the Rams in the fourth quarter of Sunday's game.

OT KO

Permanent death penalty freeze sought

Opponents add economic argument to moral, philosophical reasons for removing it from the books in Illinois.

BY KEVIN McDERMOTT
kmcdermott@post-dispatch.com > 217-782-4912

SPRINGFIELD, ILL. • Ten years after then-Gov. George Ryan halted all pending executions in Illinois, putting the state at the center of the global debate over capital punishment, death penalty opponents say the time has come to make the "temporary moratorium" permanent.

Their effort this time will focus not just on the philosophical and legal arguments for removing the ultimate punishment from the state's books. With Illinois swimming in debt and Illinoisans more concerned than ever about government waste, the advocates will argue that the state simply can't afford to keep spending millions of dollars a year to maintain a capital punishment system that it has in effect stopped using.

"It's like having a taxi in your garage with the meter running," said Jeremy Schroeder, executive director of the Illinois Coalition to Abolish the Death Penalty. "Just having this on the books is something that hurts our system. It's time."

Schroeder's group on Tuesday plans to introduce legislation seeking to remove the death penalty from state law, as legislators return to Springfield for the start of their brief fall veto session.

The political timing is clear: It's as far from the

See DEATH PENALTY • Page A9

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PHOTOS BY CHRISTIAN GOODEN • cgooden@post-dispatch.com

Shirley Harris, who retired from her job as a sales rep at UPS, opened Brinell's Christian Headquarters LLC on Oct. 1 at the Jamestown Mall. She rents space in a former GNC location just outside the entrances to the Macy's and J.C. Penney Outlet store at Jamestown and is very hopeful about the retail space in the mall fitting her needs as a new entrepreneur.

COMPETE • FROM A1

Area feeds on itself as incentives lure retailers from municipality to municipality, resulting in no economic growth for region

Kenneth Thomas, an associate professor of political science at the University of Missouri-St. Louis.

On St. Charles Rock Road, the new Walmart is getting $7.2 million in incentives from Bridgeton to move up the street. In the long run, both Wal-Mart and Bridgeton will emerge winners in the deal. Wal-Mart wins for obvious reasons — the company spends far less on real estate, thanks to taxpayer money. Bridgeton benefits from increased sales tax revenue, even considering the sizable cut it must hand over to the Walmart developer.

Yet for every winner in the incentive game, there's a loser, in this case St. Ann, which will lose an estimated $100,000 a year in revenue. Eisenberg's client, an investor from Chicago, also will suffer a big financial loss.

Eisenberg understands why Wal-Mart wants to move. Its new site is larger and closer to Interstates 70 and 270. "Wal-Mart's job is to generate sales and generate profits for the stockholders," Eisenberg said. "It's not Wal-Mart's job to improve the community."

ADDING IT UP

The big picture on tax incentives can be elusive, emerging from hundreds of separate local decisions, each focused narrowly on a certain neighborhood or strip mall. But it adds up.

Since 2000, according to state records, local governments in our region have authorized $1.7 billion in tax increment financing. Of that, $1.3 billion has been in Missouri, and nearly half of that has paid for suburban shopping centers. Through transportation development districts, local governments also have approved $340 million in new sales taxes to pay for roads and parking, mostly at retail centers.

That's the biggest chunk of the $3.5 billion in public money the region has spent to fuel private real estate projects in the last decade. It's also a prime example, critics say, of how development incentives have run amok in St. Louis, gobbling up money we could have used to help the region compete in an increasingly complex and knowledge-based global economy.

"We're subsidizing consumption. We don't subsidize production," said Todd Swanstrom, a professor of public policy at the University of Missouri-St. Louis.

TIF and similar incentives can be used to build office buildings and factories, which arguably would bring new and better jobs to the community. Academic research, Thomas said, has found that 90 percent to 95 percent of jobs in TIF-financed retail centers are not new to the metro area, but moved from somewhere nearby.

"The whole idea of subsidized retail is nuts," says Greg LeRoy, executive director of Good Jobs First, a research and advocacy group in Washington. "Retail is what happens when people have disposable income. It's not an economic-development strategy."

SPRAWLING DEFINITION

TIF has drifted from its original intent, critics say. When the Missouri Legislature authorized it in 1982, the point was to draw investment to so-called "blighted" areas: rundown urban neighborhoods; struggling shopping districts; places the free market won't fix. It lets a developer borrow or issue bonds against a project's future tax revenue, then use a portion of that tax money to pay down the debt.

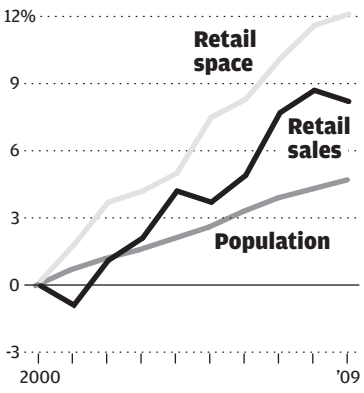
In some cases, TIF has helped to draw investment to vacant office buildings downtown, tired inner suburban malls and industrial parks around the region. But the definition of "blighted" has steadily sprawled — it has been used to describe the West County Center in affluent Des Peres, open fields in St. Peters and prime land by highway intersections. All so those sites would qualify for TIF and other incentives.

The rebuilding of West County Center in Des Peres was aided by tax increment financing as the definition of "blighted" expanded to include those in affluent areas.

ARE WE OVERBUILT?

The growth in retail space in the St. Louis area has grown faster in the past decade than retail sales, and almost three times as fast as the region's population.

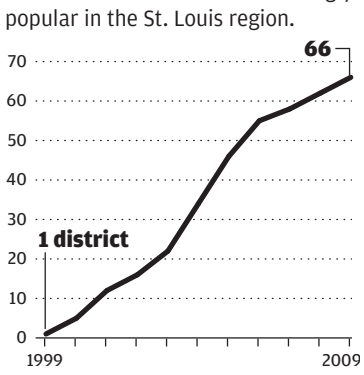
Percent change since 2000



SOURCE: CBRE | Post-Dispatch

TAXING DISTRICTS MULTIPLY

Transportation development districts – zones with a special extra sales tax to pay for roadwork and parking facilities – have become increasingly popular in the St. Louis region.



* In 2009, five TDDs in Brentwood and Richmond Heights merged into one

SOURCE: Mo. Department of Revenue | Post-Dispatch

Such programs invariably start small and grow as special interests find special ways to tap them, said David Stokes, policy analyst at the Show-Me Institute, a St. Louis-based libertarian think tank. "When you have lobbyists and accountants and lawyers who can help you interpret the rules, of course they'll do that," Stokes said.

Attributes of the program here contribute to TIFs' popularity in St. Louis. While the tax incentive tool exists nationwide, Missouri is one of just 14 states that allow TIF districts to capture sales taxes, according to the Community Development Finance Agency. And that, experts say, is what drives its use to build so many shopping centers.

Factor in the hunger of the 91 municipalities in St. Louis County for revenue — and the reality that every politician loves a ribbon-cutting — and you have an environment where developers and retailers can play one city off against another. And cities don't have much leverage.

"Once TIF starts, every developer feels he needs it," said longtime Maplewood City Manager Marty Corcoran. "If (we) say no, they'll just go down the street and use it somewhere else."

SELLING OUT CHEAP

In his 25 years running Maplewood's affairs, Corcoran has seen the good and the bad of TIF. In 1992, the city lost a Kmart, its second-biggest sales taxpayer, to a TIF-financed shopping center in St. Louis. Seven years later, Maplewood filled the hole that Kmart left behind, with a Shop 'N Save paid for in part by TIF.

The municipality saw growth as unsubsidized restaurants and the Schlafly Bottleworks moved in along its main drag of Manchester Road. It finally healed a long-ailing city budget with a controversial Walmart project on Hanley Road — which didn't use TIF but did claim 153 homes through eminent domain and required a $16.3 million, city-financed transportation development district.

The costly series of events stemmed almost entirely from the need for sales tax revenue to finance city services but did little to boost the health of the regional economy or to provide well-paying jobs. "Retail is not a place where the majority of jobs pay a livable wage," Corcoran said.

That's the trouble with TIF: It includes no incentive to create good jobs. Think about it from a municipality's perspective, said Bob Lewis, president of Development Strategies, a local economic development consulting firm. To most municipalities, economic development means growing the tax base to provide services to residents — the bread and butter of local politics. Aside from the city of St. Louis, local municipalities cannot tax earnings, so creating high-paying jobs has no direct impact on their tax base.

"So they focus on retail," Lewis said. "Mayors and city managers know this. And they know it's semi-wrong. But they don't have a choice."

GAP FINANCING

Developers say they don't have a choice, either. Their tenants — national retailers like Wal-Mart and Home Depot and Best Buy — operate on tight margins, and they won't pay a penny more for land than they have to. But once landowners hear a national retailer is interested in their property, they demand top dollar.

TIF bridges the gap between what the tenant will pay and what the property owner will accept, said Mark Sedgewick, managing director of Pace Properties, a leading retail developer in the region. It makes the site attractive to the retailer and satisfies property owner's demands.

Most big projects wouldn't have worked without TIF, Sedgewick said. The developer's "cost structure is too high," he said, "and the retailer's cost structure is too high. It just won't happen."

Increasingly, local governments are layering TIF and other subsidies on top of one another, sweetening the pot further. Chief among the enticements are transportation development districts and community improvement districts, which levy an additional sales tax on shoppers in a given area to finance roadwork, parking lots or other improvements. In Rock Hill, for instance, the new $38 million Market at McKnight shopping plaza, developed by Novus, has both an $11.6 million TIF and a $2.2 million transportation development district Manchester Highlands, developed by Pace Properties at Highway 141 and Manchester, tapped both programs to the tune of $55 million combined.

As TIF has grown more controversial, local officials have turned to the special districts. A decade ago, the St. Louis region had one transportation development district; today it has 75. Community improvement districts have proliferated, too. Five years ago, the region had just a handful. By last year, there were 44.

Supporters say these programs are a fairer way to finance development. The taxes, after all, are only paid by people who shop there, and who presumably benefit from the project. They don't rob funds from school districts or other local governments that rely on property taxes.

But critics say transportation development districts and community improvement districts effectively raise the price of everything sold at those stores, with little public accountability. The boards that run them are elected by property owners in the district — often the developers themselves. Besides a line on a receipt, consumers often get no notice they are shopping in one of these districts.

"In many cases, people are unknowingly paying higher taxes," said Tom Duda, a Show-Me Institute researcher who tracks these districts.

All this money to finance retail saps other efforts to grow our economy, said St. Charles County Executive Steve Ehlmann. He's been a vocal critic of this system for years, and says we need to focus more on regional efforts to create real jobs.

"You can't just call anything economic development and justify it," he said. "This is just one city at the expense of another, or St. Charles County at the expense of St. Louis County."

THE BLUFF

But that's the way our system works, TIFs defenders say.

Railing against TIF misses the point, said Greg Smith, a lawyer with Husch Blackwell in Clayton who has represented cities and developers in incentive deals. It's not designed to create jobs but rather to help St. Louis-area cities patch holes in their budget.

"The real issue is why don't we plan or deliver services regionally," Smith said. "That's the crux of it, not which tools we use."

Still, the high costs of TIF are clear, and all the sales tax money it attracts is just shifting around.

Consider Gravois Bluffs in Fenton, which got incentives totaling $80 million. Its success helped empty out Crestwood Plaza, just six miles away. St. Louis Mills, built in Hazelwood with a $18.5 million TIF and a $34 million transportation development district, helped finish off St. Ann's Northwest Plaza.

If incentives are available, said LeRoy, from Good Jobs First, they should be focused on older, low-income areas, where residents lack access to basic amenities.

"Start where people otherwise would have to take a long bus ride to buy dinner," he said.

But pouring public money into shopping plazas in places where the average household income tops $110,000 a year — as it does in the West County neighborhoods around Manchester Highlands — makes little sense. Wal-Mart, Target and Best Buy will find a way to tap the spending power of 2.8 million St. Louisans, said Les Sterman, a vocal TIF critic in the years he led the East-West Gateway Council of Governments. And maybe they won't leave so many empty shells — and dying strip malls like Cypress Village — behind.

"There's no reason you should ever subsidize a Walmart," he said. "Their customers are here. They have to serve their customers."

CHAT WITH OUR WRITERS ABOUT THE SERIES
Share your thoughts with Post-Dispatch business writers David Nicklaus and Tim Logan in an online chat Tuesday at 11 a.m. on **STLtoday.com**
Read previous installments of our year-long series on **STLtoday.com.com**

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Your tax dollars at work

Many projects these days get more than one round of incentives. Two, three, sometimes four different programs are often tapped to finance difficult development deals. Here are a few recent examples.

MANCHESTER HIGHLANDS — MANCHESTER
64-acre new shopping center, 2008
Developer • Pace Properties
Total Cost • $120 million
Portion publicly financed • 45 percent
Incentives used
Tax increment financing: $37.5 million
Transportation Dev. District: $17 million

HILLTOP PLAZA, BRIDGETON
16-acre shopping center redevelopment, 2006
Developer • THF Realty
Total Project Cost • $32 million
Portion publicly financed • 41 percent
Incentives used
Tax increment financing: $7.1 million
Community improvement district: $6 million

1225 WASHINGTON — DOWNTOWN
Loft/office / restaurant rehab, 2010
Developer • McGowan Brothers Development
Total Project Cost • $21.7 million
Portion publicly financed • 74 percent
Incentives used
Tax increment financing: $6.3 million • new markets tax credits: $2.6 million
State historic tax credits: $3.4 million • federal historic tax credits: $3.7 million

KIEL OPERA HOUSE — DOWNTOWN
Rehab of long-empty concert hall, 2010
Developer • SCP Worldwide / Optimus Development / Paric Corp.
Total Project Cost • $78.7 million
Portion publicly financed • 77 percent
Incentives used
Federal historic tax credits: $12 million • state historic tax credits: $12.5 million
New markets tax credits: $2.7 million • Brownfields tax credits: $872,400
Bonds (backed with city amusement tax): $32.6 million

Sources: Bond documents and redevelopment agreements filed with the city of St. Louis. **Note:** Tax credit figures reflect equity raised with the credits, not face value. Actual awards are likely higher.

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Gran Bahia Principe Coba 5 from $859.99*
Riviera Maya
6 nights, ALL-INCLUSIVE! SA, Jan 1, 8, 22, 29, Junior suite!

Sunset Jamaica Grande Resort & Spa 4 Plus from $899.99*
Ocho Rios
7 nights, ALL-INCLUSIVE! FR, Jan 28-Mar 4, 25

Iberostar Paraiso del Mar 5 from $999.99*
Riviera Maya
7 nights, ALL-INCLUSIVE! WE, Jan 5-26

Ocean Blue 5 from $1079.99*
Punta Cana
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Gran Bahia Principe Punta Cana 5 from $1099.99*
7 nights, ALL-INCLUSIVE! TH, Jan 6-27, Junior suite!

Gran Bahia Principe Jamaica 5 from $1149.99*
Runaway Bay
7 nights, ALL-INCLUSIVE! FR, Jan 28-Mar 4, 25, Junior suite!

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Punta Cana
7 nights, ALL-INCLUSIVE! SU, Dec 19

Barcelo Puerto Vallarta 5 Plus from $1499.99*
7 nights, ALL-INCLUSIVE! SA, Dec 25, Junior suite!

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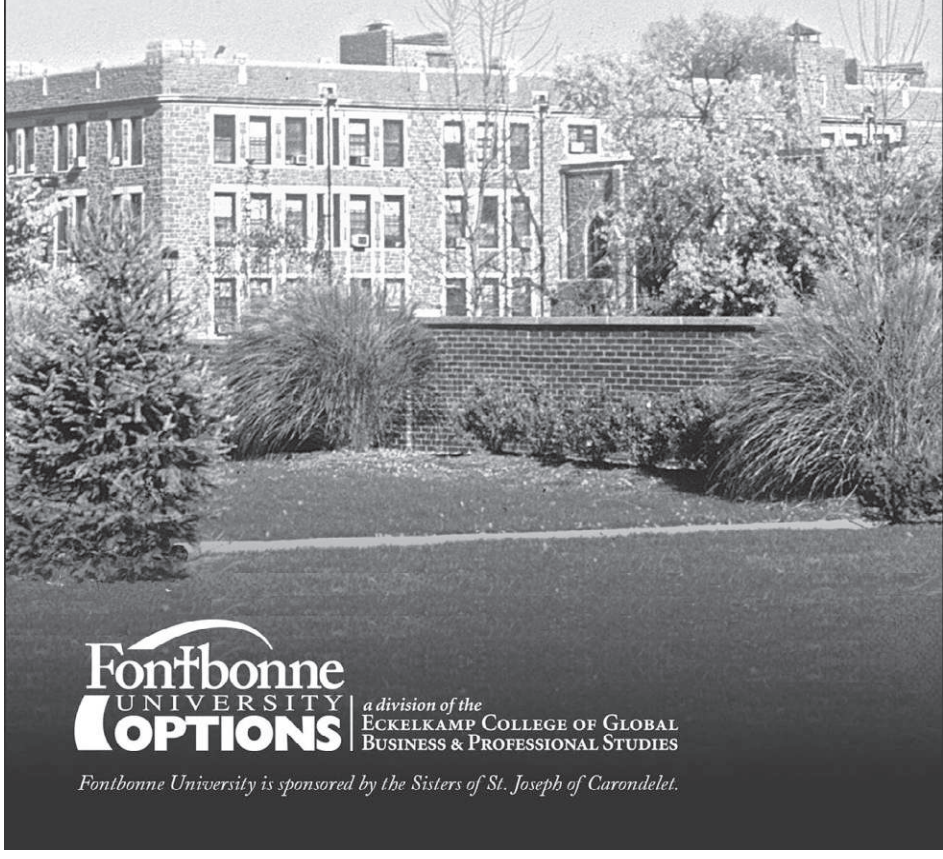

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ST. LOUIS POST-DISPATCH

CAN ST. LOUIS COMPETE? • THE EDIFICE COMPLEX • PART THREE OF THREE

A POWERFUL LOBBY BUILT BY INCENTIVES

When a city or the state cuts a tax deal with a developer, it enriches a slew of middlemen that together form a politically potent industry — which has succeeded in beating back reforms.

LAURIE SKRIVAN • lskrivan@post-dispatch.com

"We are looking for investors," said CEO Bob Cumings (center), of Freiezo, a wind energy startup. He was at Start-Up Connection, a networking event this month, at the University of Missouri-St. Louis' IT Enterprises.

Lawmakers find it hard to say no

Promises of jobs, fears of economic ruin keep the tax credits flowing.

BY TIM LOGAN • tlogan@post-dispatch.com 314-340-8291

Every time a building gets a tax break, a whole lot of people get paid.

Architects and engineers have a project to design. Tradesmen and laborers get something to build. The developer gets a cut, of course, if he makes a profit. And his lawyers bill by the hour whether he makes money or not.

When incentives enter the picture, so do an army of specialists, from consultants who help the projects qualify to brokers who turn the incentives into cash. A whole new layer of lawyers and bankers help work out the complicated financing of it all.

Taken together, these people form an industry, one that has flourished in St. Louis over the last decade. Thousands of skilled professionals have made good livings off the $3.5 billion in public money that cities and the state have poured into private real estate deals. And they regularly — and loudly — make themselves heard anytime someone tries to crimp the tap.

See COMPETE • Page A6

IN THIS SERIES

SUNDAY
St. Louis has spent $3.5 billion in taxpayer money on private real estate development in the last decade. Are we getting our money's worth?

MONDAY
Zero Sum Game: How St. Louis' most popular development tool has shuffled shoppers around, with little net gain to the region's economy.

TODAY
A look at the politically potent industry that has grown up around tax incentives and fights to preserve them. Also, how might we get more bang for our bucks?

How about building a bigger job base?

Entrepreneurship and education need a hand.

DAVID NICKLAUS
dnicklaus@post-dispatch.com
314-340-8213

Give less to landowners, more to workers and entrepreneurs.

In a nutshell, that's how the St. Louis region needs to rejigger its public investments in economic development. It won't be easy: The rules of the incentives game are determined mostly by state-level politicians, where a "growth lobby" of developers and bankers wields influence.

Witness, for example, the parade of Missourians testifying before a recent hearing of the state's tax credit overhaul committee. Speaker after speaker praised specific tax credits for real estate deals, but no one addressed the more important investments the state has been unable — or unwilling — to make, such as provide seed financing for startup technology companies.

Only one person at the tax credit hearing, an employee of the Show-Me Institute, spoke against the status quo. The free-market think tank argues that Missouri should wipe out all

See NICKLAUS • Page A7

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ALSO, SHARE YOUR THOUGHTS WITH DAVID NICKLAUS AND TIM LOGAN IN AN ONLINE CHAT TODAY AT 11 A.M. ON STLTODAY.COM

Figure in heist escapes from jail

The breakout • He, another inmate descended from roof of Lincoln County Jail.
The getaway • They stole truck about 5 miles away, reportedly with keys inside.
The manhunt • It was still on, but hours passed before public got word of escape.

BY CHRISTINE BYERS
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KIM BELL • kbell@post-dispatch.com > 314-340-8115
AND SHANE ANTHONY
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TROY, MO. • Police who were exasperated by St. Louis' largest cash heist Aug. 2, then lucky enough to capitalize on a suspect's mistake the next day, were back to exasperation Monday when he escaped from jail.

Neither the U.S. Marshals Service, which placed John Wesley Jones in the Lincoln County lockup for safekeeping, nor the sheriff's department, whose jailers may not have noticed the breakout for almost four hours, would provide much explanation.

A manhunt continued into Monday night for Jones, 36, and another inmate, Corey Durand Cross, 31, who is not believed to have been involved in the $9 million summertime robbery.

Shortly after the nightly head count late Sunday, Cross and Jones made their move. They reached the roof of the modern jail at about 3:30 a.m. — officials would not say how, or how they know the time — and somehow made a 30-foot descent to the ground and freedom.

Authorities believe the men reached a gas station about five miles away, in Moscow Mills, and stole a white 2007 United Rentals truck. The keys were reported to be in it, but U.S. marshals would not say whether the suspects carjacked the vehicle or whether it was parked. Officials said no one was injured in the theft.

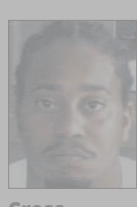
An employee of the Phillips 66 station, at 240 College Campus Drive, said she was not authorized to discuss the incident.

Jailers didn't realize that Jones and Cross were gone until Monday morning's head count, at 7:15 a.m., and officials did not alert the public until about four hours later.

Early on Monday afternoon, the truck was found abandoned along eastbound Interstate 70, east of Lucas and Hunt Road.

See ESCAPE • Page A3

Jones
Was arrested the day after a heist, and $1.25 million was found in his trunk



Cross
Escaped with Jones and had been in the Lincoln County Jail on a weapons charge

"This is a complete and total shock to me. He has been in relatively good spirits. He's been relatively cooperative, and I was hopeful we could work out an amicable resolution to this matter."

Joel Schwartz, Jones' lawyer

Metro East leaders sue FEMA over high-risk flood label

BY TERRY HILLIG • thillig@post-dispatch.com > 618-659-2075

EAST ST. LOUIS • For three years, the federal government has called much of the Mississippi River flood plain in the Metro East a high-risk area.

On Monday, Metro East leaders fought back.

Metro East officials sued the Federal Emergency Management Agency, challenging a process that could declare much of the flood plain in Madison, Monroe and St. Clair counties a special flood hazard area.

The designation would restrict development and could result in many property owners being required to buy costly flood insurance. The flood plain, known as the American Bottom, is home to more than 150,000 people, more than 7,000 businesses and more than 50,000 jobs.

The lawsuit was filed Monday in U.S. District Court in East St. Louis on behalf of the three counties, the Southwestern Illinois Flood Prevention District, several municipalities and other agencies and individuals.

See FLOOD • Page A8

McConnell joins call for end to much-maligned earmarks

Senate Republicans could vote on proposal as early as today for a moratorium; Obama says 'we can't stop' there.

BY BILL LAMBRECHT • blambrecht@post-dispatch.com >202-298-6880

WASHINGTON • Forces seeking to ban earmarks received a boost Monday when Senate Minority Leader Mitch McConnell, R-Ky., joined them and called earmarks "a symbol of ... waste and ... out-of-control spending."

Sen. Lamar Alexander, R-Tenn., chairman of the Senate Republican Conference, also signed up with the anti-earmarkers on Monday, as did GOP heavyweight Mitt Romney, who began an online campaign against the practice formally known as congressionally directed spending.

Their efforts were aimed toward a vote by Senate Republicans as early as today on a proposal for a moratorium on earmarks. It stands a strong chance of passing.

Among those not endorsing the earmarks ban was Sen.-elect Roy Blunt, R-Mo. A spokeswoman for Blunt said on Monday that he will vote against a prohibition.

"He thinks it's the prerogative of the legislative branch, not the bureaucrats, to fight for projects in their states after they've sought the lowest possible budget," said Burson Taylor, the spokeswoman. "If there are state-based projects of significance, he will fight for Missouri's fair share in an open and transparent way."

President Barack Obama said Monday: "I welcome Senator McConnell's decision to join me and members of both parties who support cracking down

See EARMARKS • Page A4

McConnell
Denounces earmarks

Blunt
Opposes ban on earmarks

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THE TOP 20 END PURCHASERS OF MO. HISTORIC TAX CREDITS, 2005-09

Purchaser	Amount
Ameren Corp.*	$18,157,279
State Farm Insurance*	$12,551,530
Progressive Insurance*	$10,954,991
Jack C. Taylor (Founder, Enterprise Rent-a-Car)	$10,318,520
Irl & Suzanne Engelhardt (Irl is former CEO, Peabody Energy)	$8,850,000
Joseph & Judy Roetheli (Founders of Kansas City dog treat maker S&M NuTec LLC)	$6,902,969
Northwestern Mutual*	$5,350,000
John Brunner (Chairman, Vi-Jon Inc.)	$4,977,680
Alwal Moore/Alice Moore Trust* (Alwal owns Moore Food Distributors)	$4,923,432
Hugh & Janice Grant (Hugh is CEO, Monsanto)	$4,632,000
Ernest & Louann Giddens (Ernest is CEO, Springfield-based Redneck Trailer Supplies)	$3,500,000
Richard & Jeanne Whiting (Richard is CEO, Patriot Coal)	$3,238,076
Ronald & Virginia Gingerich (Ronald is founder, Linco Diagnostics)	$3,100,000
Emily Pulitzer (Top shareholder of the old Pulitzer Inc.)	$2,998,280
Mrs. Adele Dilschneider (Philanthropist, Olin heiress)	$2,885,114
Douglas & Julianne Muhlemann (Douglas is former VP of brewing operations, Anheuser-Busch)	$2,850,000
Allstate Insurance*	$2,735,417
Patrick & Anna Stokes (Patrick is former chairman/CEO of Anheuser-Busch)	$2,716,102
MFA Inc/MFA Oil*	$2,500,000
Michael Roberts (Developer, owner of hotels and telecommunications companies)	$2,468,257

* Bought under multiple holding companies

Source: Missouri Department of Economic Development

Buying a dollar for 92 cents

Wealthy taxpayers, companies are among the biggest end users of tax credits; real estate developers in most cases sell them to finance their projects.

BY TIM LOGAN • tlogan@post-dispatch.com > 314-340-8291

So who uses all these tax credits anyway?

After all, Missouri in the last decade has handed $821.6 million in historic tax credits to developers, in exchange for rehabbing run-down buildings across the state. An additional $511.4 million has been issued to build affordable housing.

But the developers usually don't end up actually filing for the tax break. In most cases, they use the credits to raise cash to finance their projects, netting slightly less than their face value in the exchange. The credits then move into a secondary market of banks and brokers, who in turn flip them to someone looking to shave some dollars from a big tax bill.

In recent years, the biggest end buyer of historic tax credits has been Ameren Corp. The St. Louis-based utility purchased $18.2 million worth from 2006 through 2009, according to a Post-Dispatch analysis of tax credit transfer data obtained under the Missouri Sunshine Act. National insurance companies such as State Farm, Progressive and Northwestern Mutual are also big buyers.

But wealthy individuals use them heavily, too. Enterprise Rent-A-Car founder Jack Taylor purchased $10.3 million in those four years. Former Peabody Energy chief executive Irl Engelhardt bought $8.9 million. Many of the top individual tax credit buyers are executives or entrepreneurs who retired or sold a company in those years. Emily Rauh Pulitzer, who was the biggest shareholder in Post-Dispatch parent Pulitzer Corp. when it was sold in 2005, for instance, bought nearly $3 million in historic tax credits within the next year.

Others are just people with a high tax bill. Among the roughly 2,600 people who bought historic tax credits is a veritable who's who of the St. Louis business community. Everyone from broadcaster Bob Costas to Build-A-Bear boss Maxine Clark, from developers such as Gary Grewe and Paul McKee to members of big car-dealership families such as the Mungenasts and the Bommaritos.

To be clear, these people pay for the tax credits, typically buying them from a bank or broker or accountant. They pay slightly less than a dollar for the right to subtract a dollar from their taxes.

Pricing varies, but a historic tax credit usually retails for around 92 cents, said Art Weiss, a Chesterfield-based accountant and president of Lisart Capital, one of state's biggest tax credit brokerages. Of the eight-cent spread, a few cents are typically eaten by federal taxes, so the real benefit to the end purchaser may be only 4 or 5 cents on the dollar, $1,250 on $25,000 in credits, for instance.

But every bit helps when you're trying to whittle down a big tax bill, Weiss said. Finding buyers isn't hard — it's a guaranteed return, after all.

"I'm running around selling dollar bills for less than a dollar," he said.

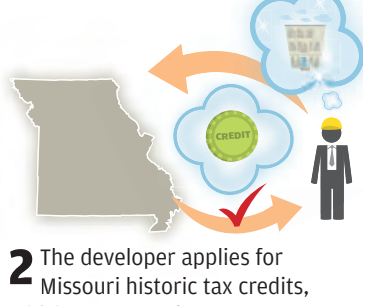
That kind of deal makes sense for a company like Ameren. It's also attractive to developers. As the utility said in a statement, all that tax credit buying also "demonstrates our commitment to revitalizing the communities we serve."

"In many situations, had Ameren not committed to purchasing these credits in advance, these projects may have had more difficulty receiving the necessary financing."

HOW A TAX CREDIT WORKS

Historic tax credits are a key piece of financing for many big real estate projects in St. Louis. But after the building is done, they get bought and sold in a secondary market, with each middleman taking a small cut, and wind up scattered among buyers all over the state. Follow the money through a typical large project.

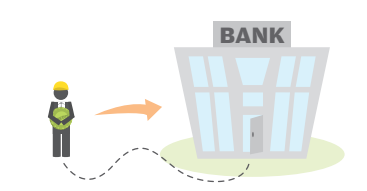
1 Developer wants to rehab an empty historic building.



2 The developer applies for Missouri historic tax credits, which cover one-fourth of the cost. The state approves them but won't pay out until the work is done.

3 The developer needs money upfront, so he goes to the bank and offers them the tax credits in exchange for a loan.

4 Work begins. Once it's done, the state issues the tax credits it had promised the developer.



5 The developer goes to the bank, and gives them the tax credits to pay off his loan.

6 The bank then resells the credits, this time to brokers or directly to individual taxpayers, for about 92 cents on the dollar.

7 In the end, people across Missouri use the credits to reduce their tax bill.

COMPETE

• FROM A1

Development tax incentives have built a powerful lobby that has succeeded in beating back reform

Members of this industry have for years beaten back efforts to reform tax-increment financing in the Missouri Legislature. Now others are taking their argument to the commission studying the state's 61 tax credit programs, and trying to reconcile a cash-strapped budget with a system that spent more than $320 million on real estate subsidies in 2009 alone. Without incentives, their beneficiaries argue, Missouri's economy will wither.

The lobbying isn't unusual. Every industry fights for its interests. But the real estate industry has more local clout than most — its bosses and workers all live here — and that, coupled with developers' promises of jobs and investment, gives them a huge influence in city halls and the Missouri Capitol.

"Developers, bond counsels, retailers, consultants — they have got a powerful lobby between them," said Les Sterman, former head of the East-West Gateway Council of Governments.

LAURIE SKRIVAN • lskrivan@post-dispatch.com

Jeffrey Jacks (right) talks with Derrick Weisbrod at Start-Up Connection at the University of Missouri-St. Louis' IT Enterprises. "Down the line, I am thinking about starting my own company," Jacks said.

BIG NAMES, BIG MONEY

Tim Green has run up against this lobby many times. A state senator from north St. Louis County, Green has long advocated reforms to Missouri's system of tax-increment financing, which critics say too often props up suburban shopping centers that don't need the help. The system wastes public money, he says — and many agree. But what little change has come has come slowly.

"The developers will fight you every chance they get," he said. "Wouldn't you fight it if the taxpayer pays for your development instead of you?"

The industry that depends on development incentives actually goes far beyond developers — many of whom have cut back sharply in the last two years. It includes some of the biggest names in the St. Louis business world. Financial services firm Stifel Nicolaus, for instance, underwrites many of the bonds issued by TIFs and transportation development districts in the region. In exchange for their services — basically finding investors to buy the bonds and carrying some risk if they don't sell — Stifel and other underwriters collect a fee, usually around 2 percent of the total. On one such project earlier this year, the $55 million bond issue for Pace Properties' Manchester Highlands shopping center, Stifel's take amounted to $1.1 million.

Another sizable cut goes to lawyers representing parties on each side of the deals. Big-name firms such as Thompson Coburn, Armstrong Teasdale and Husch Blackwell often have an important seat at the table.

Banks get a piece of the action, too, with a few in particular dominating the tax credit trade. Commerce Bank and U.S. Bancorp each buy and sell tens of millions of dollars worth of historic and other development tax credits every year. So did National City Bank, until it was bought last year by PNC Financial. These banks often accept credits from a developer as repayment for construction loans at one price — say, 84 cents on the dollar — then sell them to individual taxpayers or accountants at another, maybe 92 cents.

For these big companies, incentive programs are just a slice of their business. Peter Czajkowski, director of public finance at Stifel, noted that his firm managed 400 municipal bond sales nationwide in the first nine months of the year. Just a handful were TIFs.

"It's a small subset," he said. "But we are a market leader."

In fact, St. Louis is home to several national players in the incentives business. Law firms and consultants based here travel the Midwest, helping cities and developers craft deals. Minneapolis-based U.S. Bancorp runs its entire tax credit investing division out of a loft building on Washington Avenue; it employs 130 people who work deals nationwide.

That helps St. Louis get more than its share of those dollars, said Zack Boyers, president of the group. He has a pot of money to invest in housing and community development projects anywhere but keeps much of it in Missouri because of the opportunity to leverage historic tax credits for deals.

"Disproportionately, by a long shot, we are invested more in Missouri than anywhere in the country," Boyers said. "More than Minnesota. More than California. And that's telling."

COMPLEXITY ADDS COST

Still, people who handle these projects acknowledge that all this expertise comes at a cost. And the more incentives that are used, the more middlemen get paid and the more that cost grows.

Stephen Acree specializes in financing complex deals. As executive director of the St. Louis Regional Housing and Community Development Agency, he often combines different tax credits and other incentive programs to help neighborhood groups build affordable housing. For Crown Square, a $35 million redevelopment in north St. Louis, Acree recalls that more than 200 documents needed signing on closing day.

"These projects are very expensive, in part because of how complicated they are," he said. "Would it be nice to have it less complicated so it doesn't cost so much? I'd vote for that."

The trouble, said Wendy Timm, president of the Missouri Growth Association, is that the deals involve big money and multiple partners, each understandably seeking to protect their interests.

"I candidly don't know how you uncomplicate it," said Timm, who is also chief financial officer at Conrad Properties and has her own story about navigating 19 lawyers on a closing day. "But it's just good business practice to use these tools."

And they do sustain a lot of jobs, for everyone from historic preservation consultants to architects to contractors who specialize in rehabbing century-old St. Louis buildings. Even midsize construction firms get a lot of their work through these programs.

To drive that point home at a forum on historic tax credits last week, Kathy Sorkin, chief operating officer of E.M. Harris Construction, brought a table full of co-workers and asked each to stand up.

"We have 42 employees," she said. "And 100 percent of our jobs are dependent on tax credits. We have no projects right now that are not funded by tax credits."

That's precisely the problem, said Tim Flook, a Republican state representative from Liberty, Mo., who last session chaired the House Committee on Job Creation and Economic Development. The building industry has come to depend on these incentives and will keep using more unless they are reined in.

"It's become a way of life," he said. "And that's when it becomes too big for the budget, and it crowds out all other things."

PRESERVING STATUS QUO

There's a fierce debate under way about how to reform these programs. A 27-member commission, appointed by Gov. Jay Nixon, has been reviewing all 61 of Missouri's tax credit programs for two months, and is meeting today and Wednesday to finish hammering out recommendations.

Nixon formed the group after an attempt to rework tax credits failed in the Legislature earlier this year. He is widely expected to take new proposals to lawmakers in the spring.

"Let's not kid ourselves," Nixon said when he launched the commission in September. "The analysis here is long overdue."

As the commission has moved forward, the historic tax credit industry has made its voice heard, and taken a strong hand in crafting recommendations for their favorite program. In fact, the commission expanded the subcommittee that handled historic credits from its original six members to 21 — and all of the additions were people who either work with, or have long supported, historic tax credits.

When this came up at a recent commission meeting, Co-chairman Steve Stogel said the subcommittee was expanded to ensure the development industry supported whatever changes were made, in hopes of avoiding another fight in Jefferson City.

"Buy-in is critical, if we want meaningful legislative change," said Stogel, a veteran St. Louis developer and president of the consulting firm DFC Group.

Meanwhile, tax incentive insiders also have been working the Legislature. Even as the commission wrangles over its recommendations to Nixon, the Coalition for Historic Preservation and Economic Development — which lobbies for the historic tax credits — earlier this month held a fundraiser in St. Louis for Missouri's House Republican leadership. The guest of honor: Speaker-elect Steve Tilley.

Developers make no apologies for their full-throated defense of these programs.

Without them, they say, the St. Louis economy would suffer even more than it has. The decade of revival downtown would not have happened. Older suburbs would be scratching for tax revenue. The streams of private investment leveraged by tax credits and TIF bonds would simply flow to other places.

"If you didn't have these subsidies, our urban core would be a very unfortunate mess," said Greg Smith, a prominent local real estate attorney. "You get what you reward."

It's an argument that many legislators find persuasive. The development lobby has a long history of getting its way. For years, it fought off caps on historic credits, before last year agreeing to $140 million annually. And even the small changes that have been made to TIF have required significant compromise.

That has been Green's experience.

In 2007, the North County lawmaker got legislation passed to create countywide TIF commissions in the St. Louis area, to give such projects at least one broader review. The countywide commissions have little real power and can be easily overruled by a city.

But the only way to get even that modest reform passed, Green said, was to attach it to a larger economic development bill — which, among other things, created a $100 million tax credit to buy vacant land in poor neighborhoods, a program supported by powerful developer Paul McKee.

"You rein in one program," Green said, "and they just create another."

CHAT WITH OUR WRITERS ABOUT THE SERIES
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Developing our economy

Ideas include redirecting incentives, aiding startups, training work force.

BY TIM LOGAN • tlogan@post-dispatch.com > 314-340-8291

In the last decade, we have spent $3.5 billion on tax incentives for real estate development in the St. Louis area. The results are decidedly mixed. Nice buildings, but few jobs. New life in some spots, more decay in others. Little growth overall.

It's what you'd expect from our patchwork system of incentives, which funnels more public dollars to real estate projects than to worker training, small-business development and other efforts crucial to competing in a global economy. It's time to shift tax dollars to new priorities, many experts believe. When it comes to economic development, there are no cure-alls. But here are a few promising ideas:

1. Ensure that incentives directly create jobs

Among the main criticisms of development incentives is that they don't create permanent, high-paying jobs.

But those sorts of jobs are the main goal of the Missouri Quality Jobs program, which waives withholding taxes for companies that add employees with better-than-average wages and health insurance.

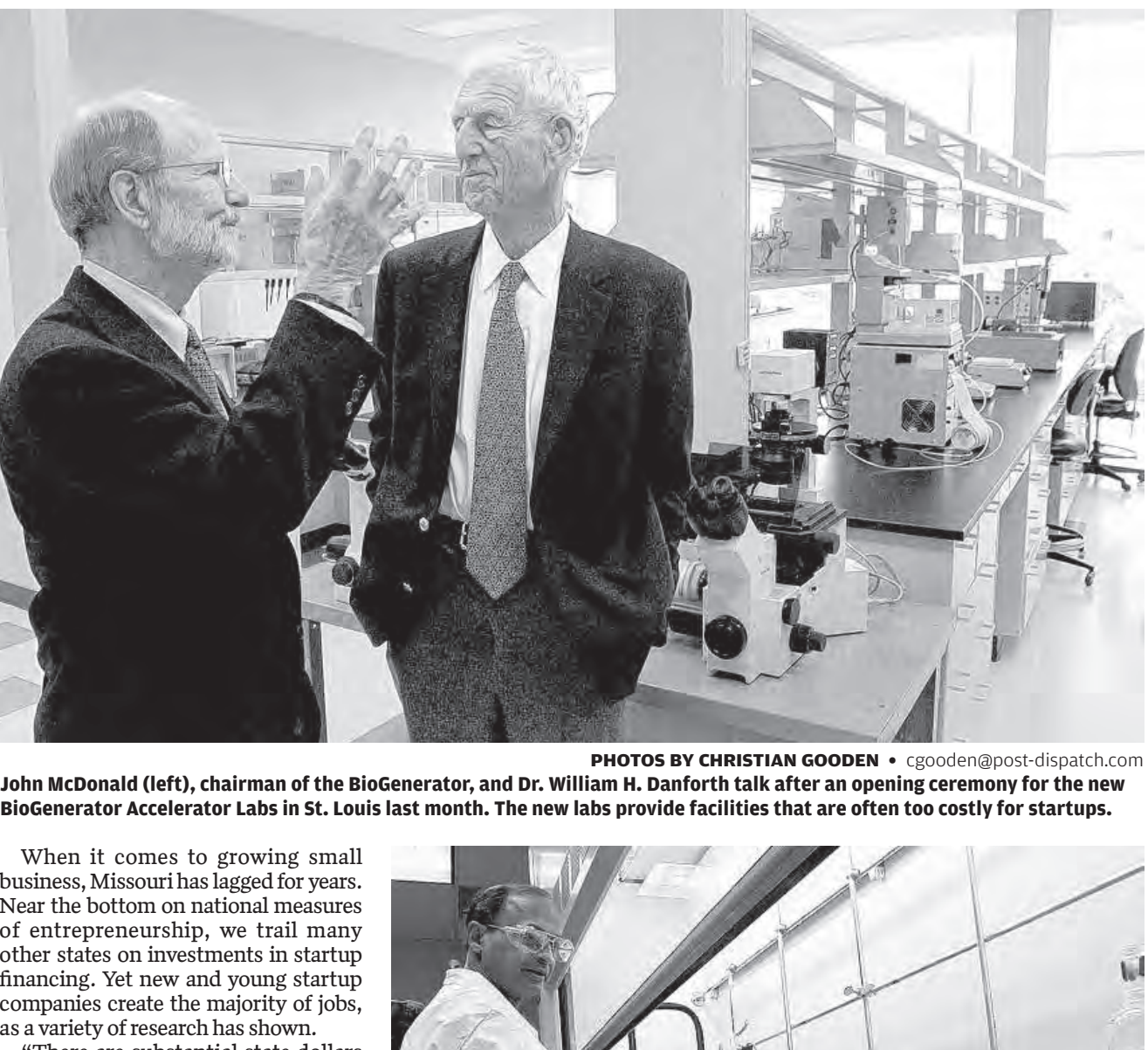
Both economic development types and state budget hawks praise Quality Jobs, in large part because it doesn't pay out the credits until employers do what they promise. "We think it's a very clear example of an incentive program that (rewards) the right kind of behavior," said David Kerr, director of the Missouri Department of Economic Development.

Yet the state caps Quality Jobs' budget at $80 million a year, compared with the $140 million cap put on historic tax credits just last year. And, as currently structured, Quality Jobs works mainly for large companies. In the St. Louis region, firms in most industries must add at least 40 new jobs to qualify — leaving out smaller employers that may add only three or four people at a time but collectively can pack a bigger economic punch.

The state's Tax Credit Review Commission is mulling tweaks to Quality Jobs — and the popular Build Missouri bond program — that would make it easier for smaller employers to qualify. It's also studying ways to use more of the money up front, to compete with states such as Texas and Mississippi that can simply write checks to companies that move there.

Whatever the tools, the focus should be on one thing, said Denny Coleman, president of the St. Louis County Economic Council: jobs. "That's what we should be all about," he said. "That is our primary emphasis."

2. Focus on building new companies



PHOTOS BY CHRISTIAN GOODEN • cgooden@post-dispatch.com

John McDonald (left), chairman of the BioGenerator, and Dr. William H. Danforth talk after an opening ceremony for the new BioGenerator Accelerator Labs in St. Louis last month. The new labs provide facilities that are often too costly for startups.

When it comes to growing small business, Missouri has lagged for years. Near the bottom on national measures of entrepreneurship, we trail many other states on investments in startup financing. Yet new and young startup companies create the majority of jobs, as a variety of research has shown.

"There are substantial state dollars going into these programs in our competing states," Coleman said. "Where is (Missouri) going to get the money to invest in entrepreneurship?"

One place to look: the hundreds of millions of tax dollars that now help finance real estate deals. Moving even a small share of that money into startup programs could have a major impact. As it stands, maintaining the current system has in some ways blocked state investment in high-tech ventures.

Last year, Gov. Jay Nixon proposed the Missouri Science and Innovation Reinvestment Act, or MOSIRA, which would have diverted a share of new tax revenue from science and research firms and used it to finance startups. Similar programs in Ohio and Kansas have helped high-tech industries grow there. MOSIRA had strong support from the state's bioscience industry and St. Louis-area business leaders. But it died in the Legislature — a casualty of the broader fight over tax credit reform.

Devadas Salekudru, a medicinal chemist, works in the new BioGenerator Accelerator Labs at midtown's CORTEX One building last month. The new labs were funded in part by the Missouri Life Sciences Research Trust Fund.

As a new, Nixon-led state review of tax credits nears its close, more ideas are popping up.

One proposal on the table: ending Missouri's $4.5 million-a-year tax credit for filmmaking and using the money to create credits for so-called "angel investors," to encourage spending on early-stage startups. Another idea: replace the state's incubator tax credit, which helps finance startup hubs like the Center for Emerging Technologies, with a more efficient grant program run by a state agency.

3. Spend on a smarter work force

Ask economic developers what it takes to compete in the 21st century, and one thing comes up a lot: brains.

Smarter regions grow wealthier, the thinking goes. They generate new ideas that sprout new companies. The most skilled workers still make products and provide services unique in the national and global marketplace.

While great buildings and a happening downtown might make St. Louis a bit more attractive to smart workers who can live where they choose, buildings themselves do little to boost the region's skill set. And with a tight budget, there's only so much money to go around.

Critics of the way Gov. Jay Nixon has handled tax credit reform say he has pitted education against economic development, in a scrum for state dollars. It's a false choice, they say, and they have a strong argument. The two are closely intertwined.

Still, some balance is needed. Missouri needs top-flight workers to grow and attract the companies that will fill all those buildings. "There is no business that is going to make a decision to expand or relocate in your state without a skilled work force," Kerr said. "No company's going to invest if we can't provide training. It's imperative that those resources are available."

Some are. Missouri has programs that give tax credits to employers for job training. State and local governments have partnered to help laid-off workers from Chrysler's Fenton assembly plants learn new skills. But much more money for these programs sits in the incentives we use now to finance building.

There are ways to tap it. In Chicago, for instance, many TIF districts divert a small stream of their revenue into funds for work force training. Hundreds of businesses in TIF districts have tapped those funds, training 3,200 people in just the last two years, according to the city.

The short-term problem in St. Louis — and nationwide — is the lack of good jobs to employ such retrained workers. But as the economy gradually recovers, that will change, and jobs will move to places that provide people to do them well.

That's why it makes sense to spend more, not less, helping people build skills now, said Greg Prestemon, president of the Economic Development Center of St. Charles County.

"Looking out over the next 10 or 20 years, there are some foundational investments we have to continue to make. Education from pre-K to postgrad," he said. "If we don't do those things, our regional economy will just flat-out not do well. We will be increasingly uncompetitive."

NICKLAUS • FROM A1

Taxpayer money should be aimed at job creation, with education and entrepreneurship at top of the list

special-interest tax breaks and use the money to lower tax rates across the board.

That's a defensible position: As business types often argue, low taxes are correlated with faster economic growth. But in the real world of politics, governors and legislators like to take credit for creating jobs, and they know that other states dangle plenty of incentives. They can't afford to lay down their arms in the economic war between the states.

"Incentives are a troubling subject," says Richard Ward, a veteran development consultant with Zimmer Real Estate Partners. "You wish you didn't have to think about them, but unfortunately we have a system of government that pits everybody against each other."

For a region like St. Louis, then, the goal should be to target incentives as effectively as possible, while minimizing wasteful competition. As my colleague Tim Logan has documented in this series, Missouri's economic development toolbox is overloaded with real estate subsidies. State and local governments have spent $3.5 billion on such incentives in the past decade, far outpacing the amounts they spend on job creation.

Developers argue their buildings create jobs, but their logic is suspect. Most net job creation comes from relatively small, young companies, while the state's subsidies more often benefit firms that have already grown large. Citigroup, for example, got $22 million of incentives in 2002 for a new mortgage headquarters in O'Fallon, Mo.

In the long run, the state's economic success depends on the quality of its work force. Some of the most frequently used development incentives, such as tax-increment financing, take money away from the schools that are charged with educating future workers.

As the state prunes back economic development programs that aren't working, its top priority should be strengthening schools, community colleges, universities and job training programs.

"We have been so concerned with real estate and development and so much less concerned with human capital," says Todd Swanstrom, a professor of public policy at the University of Missouri-St. Louis.

The biggest real estate subsidies, as this series has shown, go to shopping center developers. As a first step toward a more effective development policy, we should stop subsidizing retailers.

Local residents' spending power will support a finite number of stores — and produce a finite number of sales tax dollars — but municipalities fight over those dollars with an endless progression of TIF incentives. Missouri should end this wasteful competition by decreeing, as a majority of states already do, that sales taxes cannot be used in TIF deals.

If we want to invest taxpayers' money in ways that create jobs, the best place to look would be at homegrown, high-tech companies. Researchers at Washington University, the Danforth Plant Science Center and other institutions generate a lot of good ideas, and some of their companies are being nurtured at local business incubators. If they can't find enough money to support them, these companies will either wither or move elsewhere.

A state technology fund would help retain these companies, while acting as a magnet for talented, innovative workers from across the Midwest. Ohio's $2 billion Third Frontier Fund and Pennsylvania's Ben Franklin Technology Partners both parcel money out to regional entities, which invest in early-stage companies alongside private venture capital funds.

Bob Coy is president of CincyTech, a public-private program in Cincinnati that has received $17 million in Third Frontier grants. CincyTech has invested in 16 companies and has financed an executive-in-residence program that helps entrepreneurs whose companies aren't yet ready for private investment.

"It is not just the seed funds that are important. It's assembling a real high-quality team of people that is important," Coy says.

Coy formerly worked for the St. Louis Regional Chamber and Growth Association, and he feels certain that a similar fund would pay big dividends for St. Louis. He knows, however, that the Missouri Legislature hasn't been so receptive to such ideas.

"The St. Louis area is rich with opportunity for technology startup companies," Coy said. "I hope somebody can crack the code."

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