

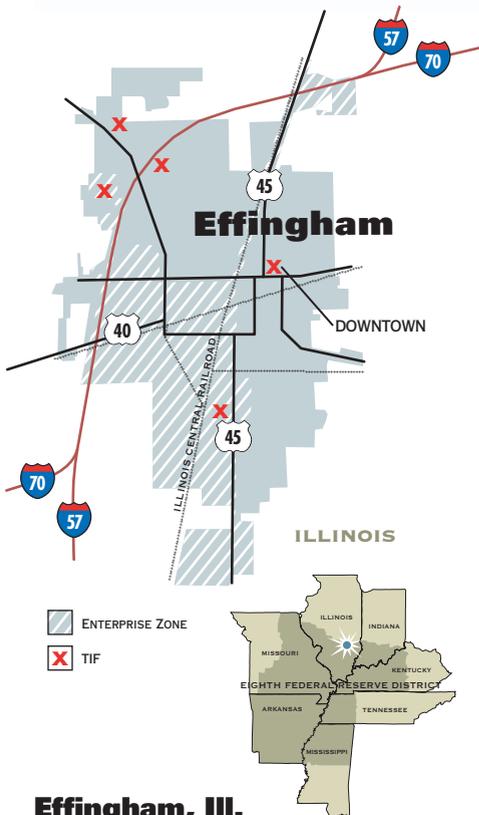
Effingham

Uses Tax Breaks To Bounce Back

By Glen Sparks



It isn't unusual at all to see a long line of trucks like this getting off Interstate 70 and turning on to Keller Drive, one of the main drags in Effingham. The Illinois Department of Transportation estimates that about 13,000 trucks pass through Effingham every day. The city lies next to the busy I-57/70 interchange.



World Color Press shut down at the end of 2003. Fedders, the air-conditioning manufacturer, already had shifted its production facility to China. Effingham lost about 1,200 manufacturing jobs *just like that*.

"There was a perfect opportunity for this town to die," says Kevin Day, vice president of commercial lending at Midland States Bank in Effingham. "Losing that many jobs is a huge hit for a town like this."

But the town didn't die. Today, "For a small town, this is a booming place," Day says.

Effingham is booming, thanks, in part, to an ambitious development plan. The city has built six industrial and businesses parks. Among the tenants is the largest Krispy Kreme mixing plant in the country. About 40 factories and warehouses have been built or expanded over the past decade.

The city has taken advantage of its central location and easy access to interstates 70 and 57.

"When you factor in the proximity of Effingham to much of the rest of the country, the low cost of doing business here compared to a major city and the overall labor pool, Effingham is a great place to do business," says Mike McConnell, an executive with Sherwin-Williams. The company ships

paint that it makes in Chicago to a 1.3 million-square foot distribution center that it built here 10 years ago. From here, paint is distributed to much of the Midwest.

Effingham also has attracted many businesses by offering Tax Incremental Financing, or TIF, and by establishing an enterprise zone. TIF money comes from additional tax revenue that is generated from an improvement or new development on a site. This tax increment money goes to the city, which can use it to make street, water and sewer improvements in the TIF district.

Businesses can use the TIF money to demolish a property or fix it up, but not for new construction. When the TIF term expires, all the subsequent tax revenue goes to the regular taxing bodies—more than they would have received without the TIF.

In 1986, the Effingham City Council voted to use TIF to strengthen the local economy. The Effingham TIF District No. 1 generates tax revenue from three sources: property tax, city sales tax and

Effingham, Ill.

BY THE NUMBERS

Population.....Effingham 12,413 (2004)
Effingham County 34,575 (2004)

County Labor Force.....18,654 (Aug. 2005)

County Unemployment Rate.....5.3 percent (Aug. 2005)

County Per Capita Income.....\$26,600 (2003)

Top Employers

Quebecor/Petty Printing.....860
St. Anthony's Memorial Hospital.....834
Sherwin-Williams Co.....454
Wal-Mart.....425
Effingham Community Unit #40 School District.....385

Highways Bring Money to Town

It shouldn't be any surprise that so many trucks clog the roads in and around Effingham. The city lies within a day's drive of about 65 percent of the nation's industry, Effingham officials say, and two interstates run through town. I-70 connects Washington, D.C., to Southern California. I-57 runs from New Orleans to Chicago.

About 38,000 vehicles, including about 13,000 trucks, pass through Effingham every day on the two interstates. Plenty of drivers stop for the night. The city has 18 hotels and motels, with about 1,200 total rooms, and more than 60 restaurants. "That's a goodly number of facilities for a town that size," says Mike Right, a spokesman for AAA.

Not surprisingly, Effingham usually finishes near the top every year among Illinois cities in per capita sales tax collected. Todd Hull, economic development director for Effingham, says the city was on pace to collect about \$6 million in sales tax revenue in 2005—about 55 percent of total revenue generated for the city.

state sales tax. Property and city sales taxes are collected by the city and are put into a special fund. Approximately 20 percent of the state sales tax is appropriated to the city and is again put into a special account.

Following the local economic downturn in the 1990s, city officials decided that Effingham needed more than just one TIF district. Four more have since been formed.

To provide an additional boost, Illinois state legislators voted in 1988 to create an enterprise zone, covering the southern, western and northeastern sections of Effingham. Businesses can take advantage of 100 percent property tax abatement (10 years for industrial projects and three years for commercial projects), sales tax exemption on building materials, a waiver on building permit fees, an investment tax credit, jobs tax credit and more.

Todd Hull, the economic development director of Effingham and city TIF administrator, says, "In an ideal world, if we didn't have TIF and enterprise zones, I would say that we could compete just fine because of our excellent geographic location. But we're competing against other cities, and you need to offer incentives."

But is Effingham giving away the farmland by putting so much of the city in a TIF district or enterprise zone? No way, says Greg Curl, president and chief executive officer of Crossroads Bank in Effingham.

"People here know what it takes to grow, and TIF is a part of the game," Curl says. "If another town is offering

A significant chunk of that money comes from the truckers and the five truck stops in town that serve them.

Donovan Smith, a trucker from North Dakota, rolls through Effingham once a week. He fills up with gasoline at the Flying J truck stop and gets a meal or a cup of coffee at the truck stop's restaurant. He doesn't need to sleep at a hotel if he stays overnight, though. Like some other truck drivers, he has a sleeper (plus a television, DVD player and microwave oven) in the cab.

Still, George Billows, executive director of the Illinois Trucking Association, says many truck drivers prefer sleeping in a hotel to sleeping in their rigs. He says Effingham makes life comfortable for truckers.

"The guys are on the road, and they need a place to go," Billows said. "Effingham accommodates them. It's a hub for truckers, but I don't think the people of Effingham realize how important trucking is to their city."

TIF and you aren't offering it, then, everything else being equal, the business will go to a town that has TIF."

Some economists argue that revenue from a particular TIF project may fall short of projections made before the project was started, forcing the community to forgo other expenditures while it makes up for the shortfall. Also, because the TIF area does not generate any revenue early on, residents outside the area can end up paying for municipal services inside the area.

Jon Schafer, the owner of the downtown Baseball Card Connection shop, says he wants no part of TIF. He says business owners should spend their own money, rather than rely on TIF, to make building improvements.

"TIF helps the business owners who are not keeping up their property. I have made improvements to this building, but I spent my own money to do it," Schafer says.

Hull counters that downtown is bustling, in part, because of TIF improvements. He also says that money collected from TIF has gone to help pay for local projects like the construction of a new high school.

Curl says the future looks good for Effingham. "The infrastructure is here, the transportation needs are here," he says. "We still need to knock on more doors, though. We need to talk to more companies and tell them why Effingham is a good place to be."

Glen Sparks is an editor at the Federal Reserve Bank of St. Louis.



The 24,000-square-foot Legacy Harley-Davidson dealership in Effingham stocks new motorcycles that range in price from \$8,000 to almost \$34,000.

Motorcycle Dealership Takes Different Path

Not every new business in Effingham is dependent on TIF or enterprise zone tax breaks. Take, for example, the new Legacy Harley-Davidson dealership that opened in April on the northeast side of town, near the I-57/70 interchange.

The city agreed to extend utilities to the new building, but only because the business planned to add employees. The owners had to pay for the extension but will be reimbursed if they generate enough sales tax in the next few years.

The limited incentive didn't dissuade the trio from Omaha—Paul Gutman, James Tonsfeldt and Bruce Auth—from acting on their dream to open a Harley dealership. Besides, they prefer their location—the site of a 150-year-old homestead—to being in a tax-break area. The owners hope the homestead's antique barn, already the site of several work events, can help turn the dealership into a destination. The three liked the site so much that they bought the new building for their business rather than lease it, as originally planned.

About 30 motorcycles sparkle inside the 8,000-square-foot showroom, which looks like a ski lodge from the inside and a rich man's barn from the outside. The business is about three times the size of the little-known shop that the trio bought on the other side of town and then moved at the suggestion of Harley executives.

"There are people from Effingham who come into this shop who didn't know there had been a Harley dealership (here) for decades," says Gutman.

Motorcycle sales are up 20 percent from a year ago. Merchandise sales are up 40 to 50 percent. A year ago, the dealership had six workers. Now, it has 26.

Bike sales could be higher, says Tonsfeldt, but the Milwaukee-based maker of the motorcycles limits the number of Harleys it stocks in each shop. Dealers must show over the long run that they can sell motorcycles before their allocations go up.

"Harley-Davidson knows exactly what it takes to run a dealership," Gutman says.

Someday, the owners may open satellite locations in the small towns around Effingham, as well as additional dealerships.

"That's a part of the dream," Gutman says.