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Sears explores move, but experts have their doubts
By Associated Press/Daily Herald
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[PHOTO] The entrance to the Sears Holdings Corp. Prairie Stone campus area in Hoffman Estates. Sears is narrowing its search to Washington, D.C. and Boston, but the company is using the discussions as leverage to sweeten the incentives to stay in Illinois. Mark Welsh/File

While Sears Holding Corp. is considering leaving its Hoffman Estates headquarters and taking more than 6,000 jobs out of Illinois, the costs — in money, lost employees and disruption — make moving an expensive proposition, one that some experts say they doubt the struggling retailer will undertake.

But when news broke that Sears was talking with other states, Gov. Pat Quinn quickly said Illinois would do what it could to keep Sears here. The town of Hoffman Estates, where the company is based, is doing the same.

Given Sears' struggles — it's lost \$174 million in the first quarter of this year — some critics of Illinois' reliance on incentives say it doesn't make sense for the state to offer the company much, if anything.

"Sears is a great name and a great company, but they are not on the upswing, they're on the downswing," said state Rep. Jack Franks, a Democrat from Marengo who has sharply criticized tax breaks given this year to Motorola Mobility when it talked about leaving Illinois.

The state's own poor financial position and unhappiness in the business community over tax increases this year, though, give Quinn and Illinois little choice but to play ball, say even some of those skeptical that Sears can afford to leave. In tough economic times another city or state might just make Sears an offer it can't refuse, said Brent Pollina, vice president of Pollina Corporate Real Estate in suburban Park Ridge.

"There are some places that are so desperate to get a win that they'll do whatever it takes to get a W to put in the win column," he said, adding that a headquarters like Sears' supports many other area businesses.

Sears, before the 2004 merger with Kmart that made it Sears Holding, moved to Hoffman Estates from Chicago in the early 1990s, thanks in part to local incentives that funnel property taxes to the company's headquarters rather than local schools. Those incentives are due to expire next year, and require state approval to be extended. Quinn has said the state will work with Sears, too, and local government officials and others who've been involved in talks with Sears say state incentives are part of the discussions.

Sears is one of the largest employers in Hoffman Estates, a city of

54,000, and employs people who live over a wide range of Chicago's suburbs. It provides about 8 percent of the town's property tax revenue while anchoring a business park that makes up close to 20 percent of that tax base, said Village Manager Jim Norris, one of those who's involved in the discussions.

The company's employment hasn't dropped below about 5,000 in the 14 years Norris has been there, and he doesn't look at its current struggles as anything more than a low in the business cycle.

"They're down now, (but) we look at it more from, 'What have they traditionally brought to our region, our community and our state?'"

Norris said. "Those are very, very strong reasons."

Sears, in printed statements, has only said it's considering its options, something it says it owes its shareholders and employees.

Gregg Majewski believes Illinois had better take the threat seriously.

Many of the customers who stream into his Jerseys Pizza & Grill a couple of miles from Sears headquarters work for Sears, and he argues that if the company leaves it'll be the fault of Quinn and the income tax increase.

"No matter how you look at it right now, the state can't lose any more jobs," he said, arguing that tax breaks like the \$100 million deal the state gave Motorola Mobility wouldn't be out of line for Sears. "The state has to do what they can to keep employers in the state. ...

Other states are more business friendly than we are."

One person privy to Sears' discussions says the company has narrowed its list of potential destinations to Boston and Washington, D.C. but is, not surprisingly, using its situation to try to squeeze more out of Illinois and Hoffman Estates.

"This is leverage to get more from their existing situation," said Faith Hope Consolo, chairman of retail leasing, marketing and sales with Prudential Douglas Elliman Real Estate in New York.

For Illinois, "this would be devastating" if Sears relocated, she said.

But other site-selection experts, including Pollina, say other states are almost certainly giving Sears and its track record a hard look.

"I assume a lot of the other states are asking themselves, is this really the company that we want to invest in?" he said.

And Sears, said another site-selection consultant, has to weigh its own financial situation against whatever offers it gets. It's tough to guess what it would cost Sears to move, said Jerry Szatan of Szatan & Associates Site Selection Consultants in Chicago, but even a financially healthy company would seldom be able to justify a move on tax breaks alone.

"If you're struggling financially and the move is going to cost you money, you would think that would make it a tougher thing to do unless you're very confident that there is some benefit down the road," he said. "It's tough to show the economic justification for a headquarters move."

Incentives critics like Franks say the tax breaks don't make sense, that as Szatan said, not many companies are going to make a decision based on them, anyway. The critics also argue that incentives are unfair to smaller companies that in many cases can't get them.

Franks said he's working on legislation he hopes to introduce this fall that he says would change Illinois' incentives system, including setting up a panel of independent academic and private-sector experts to vet each incentives deal before it's signed.

But some economists would like to go several steps further.

"I think it would be hard for a politician to just say no," said Therese McGuire, a professor at Northwestern University's Kellogg School of Management. "If McGuire would be king for a day, that's what I would like to do."

Short of that, she said, Illinois ought to at least think hard before signing a new deal with any firm with struggles like those facing Sears.

“If a firm needs this tax incentive to stay in Illinois, then it’s not clear it’s a viable firm for Illinois.”

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