The Deal at 30: The lessons Sears teaches about tax incentives

In this get-together almost three decades ago, Homart Development's Daniel J. Hanesworth, left, Sears President Edward Brennan and Hoffman Estates Mayor Michael J. O'Malley viewed a model of the Sears headquarters prior to its construction in Hoffman Estates.
(Daily Herald file photo)

P **By David Bernstein**

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On a hot Sunday afternoon in June 1989, two of the most powerful men in Illinois met to watch a ballgame at Wrigley Field -- and, if all went well, to make a deal.

James R. Thompson, the state's four-term Republican governor, and Edward Brennan, chairman of Sears, Roebuck & Co., the world's largest retailer, had been deep in talks for months.

The stakes were high. Brennan was threatening to move Sears' corporate headquarters, located in downtown Chicago in what was then the tallest skyscraper in the world, to another state. The move would rob Illinois of thousands of good-paying jobs, tens of millions in tax revenues and its reputation as a business-friendly state.

As the two men watched the Montreal Expos blank the Cubs 5-0, dropping the "Lovable Losers" out of first place, Thompson told Brennan he'd do whatever it took to keep Sears from leaving. The state had crafted a package of financial incentives that the legendary political deal maker believed was too good to pass up.

After the game ended, Thompson called up one of his closest associates, Jay Hedges, director of the state's Department of Commerce and Community Affairs. In a recent interview, Hedges recalled Thompson delivering the news of his breakthrough.

"Well, Jay, Sears is staying in Illinois," Thompson told him. "And they want to move to Hoffman Estates."

The deal cemented that day would permanently change Illinois, as politicians embraced the use of taxpayer funds to stop a growing exodus of jobs from the state. Since 1989, state and local officials have given $5.3 billion in government incentives to corporations, according to Good Jobs First, a nonprofit that compiles data on tax deals.

In Sears' case, state and local officials awarded the company subsidies and tax deals worth more than $536 million over the past three decades -- the largest package of governmental incentives ever given to a single company in Illinois.

The tax breaks and credits would transform Hoffman Estates, then a suburb of 45,000. Sears worked with state and local politicians to build a sprawling corporate headquarters, new roads, tollway interchanges and other infrastructure in the growing village.

Today, Sears, which emerged from bankruptcy last year, is struggling to stay in business, battered by relentless competition and its own miscues and missteps. Billionaire hedge fund manager and former Sears chief executive Eddie Lampert purchased the assets of the company to revive it and avoid liquidation. Creditors continue to scrap over the corporate remains in a bankruptcy courtroom in New York City. Sears closed retail stores across the country in response to the COVID-19 outbreak, further jeopardizing the company's financial condition.

The corporate campus built in Hoffman Estates is largely vacant, a hollowed-out shell with a skeletal workforce surrounded by acres of unused parking.

Hoffman Estates Mayor William McLeod was a village trustee who voted for the original deal that brought Sears to Hoffman Estates in 1989. As the mayor in 2011, he lobbied for the state to extend tax benefits as Sears once again threatened to leave the state.

Today, he says the benefits of the Sears deal to the village and the state are obvious. Simply look around, he says. "We built another city out here."

ProPublica and the Daily Herald wanted to know whether the investment paid off. Where has the deal succeeded? Where has it failed? What did Illinois and Hoffman Estates taxpayers get for the half-billion dollars awarded to Sears?

The review of the Sears deal shows that 30 years of spending public money on private interests failed to deliver the economic bonanza envisioned by corporate, state and local officials.

When the deal was getting off the ground in 1989, an economic impact study forecast that a special tax district created for Sears would generate the equivalent of $626 million in total property tax revenues by 2012. Total revenues wound up actually being closer to $338 million, when adjusted to 1989 dollars -- 54% of what was projected.

The shortage prompted state and local officials to invest additional money into more development projects. For instance, Hoffman Estates worked with Sears and private developers to issue $55 million in bonds to construct Sears Centre, an 11,000-seat entertainment arena. One reason was to make up for the poor performance of the tax district by bringing in more revenue, according to a summary of a deposition from one of the arena's developers in court files. Instead, the arena was a financial drain, its costs increasingly borne by Hoffman Estates taxpayers.

In 2012, Illinois and Hoffman Estates officials negotiated a new deal that extended the life of the taxing district by 15 years. The deal was marked by loopholes that allowed Sears to continue collecting tax revenues even as job losses mounted, according to the Daily Herald and ProPublica review.

As part of the agreement, legislators required Sears to keep a certain number of jobs in Hoffman Estates to receive tax benefits. But as the company laid off thousands of workers in the years after the deal was inked, it began to count not only Sears jobs but any employment associated with the company's headquarters -- such as workers at the fast food restaurants in the building's front atrium. Legislators said they never intended to allow Sears to include other firms' employees in its tallies, but state officials did little to monitor the company's compliance.

The news organizations also commissioned an analysis to examine whether the incentives had any lasting economic effect -- the underlying justification for giving Sears the tax breaks in the first place. The study, conducted for the news organizations by the Center for Tax and Budget Accountability, or CTBA, a bipartisan research and advocacy organization focused on social and economic justice, found no evidence that Hoffman Estates wound up better off in terms of property values and employment than similar towns around Chicago that spent little or no money on tax deals for corporations.

Hoffman Estates would likely have experienced significant growth without Sears, the study suggested. Suburbs similar to Hoffman Estates saw gains in jobs and property values without giving hundreds of millions in incentives to a single company.

The CTBA used a statistical method known as a "difference-in-differences," which measured the economic impact of the Sears deal by comparing before-and-after economic trends in Hoffman Estates to similar, nearby communities over the same time period from 1980 to 2017.

The CTBA relied on nine economic variables, ranging from annual employment figures and median income to the taxable property values in each municipality.

The Sears deal "absolutely wasn't worth the money," said Ralph Martire, the CTBA's executive director. "None of the anticipated benefits came anywhere near materializing."

State and local officials maintain none of the development that happened in or around Hoffman Estates would have occurred if not for the incentives granted to Sears.

Sears money helped to pay for new roads, highway exits, police and fire protection -- all without the financial strain created by residential growth, they say.

The Sears Centre, McLeod said, was "working out successfully," attracting nearby retail stores and restaurants.

McLeod acknowledged that the deal may not have lived up to expectations. But he said that it generated, essentially, free money that put no extra burden on schools, libraries or parks. It attracted new businesses and brought tens of millions of additional tax dollars to the village.

"I can't figure out the downside," McLeod said.

Officials with the state Department of Commerce and Economic Opportunity, which awarded $230 million in tax credits and other incentives to Sears over 30 years, declined to comment. They noted that the tax arrangements had been made long before current Gov. J.B. Pritzker took office.

Thompson declined to comment. Brennan died in 2007.

A spokesman for Transformco, the current owner of Sears, declined to comment. Transformco is the company that Lampert and his hedge fund, ESL Investments, created to buy Sears out of bankruptcy in February 2019.

"We're a private company and don't comment on these sorts of details," a spokesman said.

Tax breaks don't deliver

Thompson and fellow politicians' willingness to provide substantial tax incentives and property improvements to keep Sears in Illinois set off a rush among big corporations to seek similar payouts from municipalities and states across the country. It wasn't the first such deal in the United States. But it was one of the biggest at the time.

Companies quickly learned to pit city against city to spark frenzied bidding wars. Every year across the United States, state and local governments now hand out an estimated $45 billion in tax breaks and other subsidies to attract business, according to Timothy Bartik, a leading scholar of tax incentives at the Upjohn Institute for Employment Research in Kalamazoo, Michigan.

In a highly publicized battle two years ago, Amazon, one of the world's richest companies, extracted promises of more than $2 billion in incentives from New York and Virginia to build a new corporate headquarters in a contest among hundreds of communities. The New York deal collapsed after fierce opposition from local critics.

The ProPublica review provides additional evidence to a growing consensus among economists: Tax breaks generally don't provide the expected benefits to local economies.

Contrary to the assumption that tax incentives are needed to keep corporations from relocating, government aid frequently does little more than reward businesses for moving where they already planned to move or for creating jobs they already planned to create, said Nathan Jensen, a professor at the University of Texas at Austin who studies economic development. Incentives spending, he noted, is inherently a zero-sum game: Every dollar awarded to Sears is one less dollar for public schools, roads and parks, or police and fire protection.

"That's one of the underreported things," Jensen said. "We can think about these deals as costs on society."

Those costs have real-world effects.

Nancy Zettler lives in Algonquin-based Community Unit District 300, which overlaps a portion of the Sears tax district, though there are no District 300 students living within the tax district's boundaries. District 300 is the state's sixth largest and serves 21,000 students at 26 schools covering 118 square miles, from wealthy Barrington Hills to working-class Carpentersville. Four out of every 10 students are low-income or qualify for free or reduced-cost lunches.

When her kids started going to school in the district, she couldn't understand why it was struggling financially.

Zettler's oldest daughter's first-grade classroom at Westfield Community School had 35 kids in it. In some cases, children attended classes in portable trailers, and special education classes met in storage closets because of overcrowding. Some buildings were also in serious disrepair. "It was horrible," she said.

When she learned that millions of dollars each year were flowing to Sears through the special tax district -- known as an economic development area, or EDA -- instead of going to the schools, she was angered. "I started researching it, and I was like, 'Whaaaat?'"

District 300, like every other Illinois school district, depends on local property taxes for revenue. But the school system's advocates, who long have challenged the extension of the Sears incentives, argue that with the majority of money from the special district going to Sears, the district received far less taxes over time.

Over the two-decade duration of the first Sears tax break, District 300 collected $26.5 million. The terms of the deal, they say, meant that the district may have missed out on as much as $270 million in property taxes that instead financed the Sears development.

Today, District 300 is suing Sears and Hoffman Estates to try to claw back some of the funds. District attorneys argue that Sears failed to maintain enough jobs under the terms of the 2012 agreement. They say that Hoffman Estates failed to police the company. The lawsuit seeks the return of $43 million in taxes.

Attorneys for Sears said they met all the conditions of the deal.

McLeod said it was the state's job to hold Sears accountable. He noted that District 300 had received tens of millions of dollars from the Sears deal, even though Hoffman Estates children don't attend its schools.

"I have no mechanism to measure how many people are in those buildings," McLeod said. "We just follow the law that the legislature passed."

But Zettler, who now serves on the District 300 school board, said the tax money should have gone to education.

"These deals that the state and local governments make with these businesses are flat-out bad," Zettler said.

The Deal at 30: Sears squandered an opportunity, ex-village manager says

For Sears, a chance to escape the Tower. For Hoffman, a chance to put itself on the map.

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In the years after Phoenix homebuilders Sam Hoffman and his son, Jack, bought a 160-acre farm 30 miles northwest of Chicago in 1954 and split up the land into a neat subdivision of half-acre lots, the village that would come to bear the family's surname grew at a steady clip.

Sprawl came remarkably fast to Hoffman Estates, as returning veterans and city ex-pats scooped up the modestly priced homes in the tract developments that were taking over the suburban landscape. In 1960, a year after the village was incorporated, more than 8,000 people called Hoffman Estates home.

Village leaders were quick to catch on to Chicago-style pay-to-play politics. In 1973, two former mayors, Roy L. Jenkins and Edward F. Pinger, along with four trustees on the village board, went to prison for accepting bribes in exchange for favorable zoning.

Emerging from those scandals in the mid-1970s, Hoffman Estates was a town with an identity crisis. Spanning five townships and crossing two counties, the village had no traditional "Main Street" downtown, and its students were spread across six school districts. It was less of a cohesive village than an amalgamation of subdivisions dotted with shopping plazas.

While the village had become a flourishing, if sleepy, bedroom community, its fast growth came with a price: More people meant higher costs for more municipal services like schools, parks and police.

The village lacked much of a commercial tax base to help pay the bills. Officials wanted to attract more business not only to keep residential tax rates down but to bring more jobs for locals.

They looked with envy at Schaumburg, their rapidly expanding neighbor to the east, as it cemented itself as the economic powerhouse of the Northwest suburbs. It had the Woodfield Shopping Center, the area's destination shopping mall, along with retail stores and restaurants. It filled up with office buildings, including the headquarters of Motorola, which arrived in 1976.

Schaumburg was so flush with commercial tax cash that its residents didn't even pay local property taxes until 2009.

Hoffman Estates had one thing Schaumburg didn't: thousands of undeveloped acres of land. One site contained nearly 800 acres of rolling farmland between Beverly Road and Route 59, just off the Northwest Tollway.

It was just what Sears wanted.

CEO Edward Brennan was looking in 1989 to leave Sears Tower, which dominated Chicago's skyline as a none-too-subtle reminder of the company's reach and riches. He was looking for a less expensive headquarters in a sprawling suburban campus. The land had to be cheap and shovel-ready. The location needed to be next to an interstate, with an easily accessible interchange, and close to an airport.

Gov. James R. Thompson's administration identified Hoffman Estates as a probable site.

The details of the deal, worth $261 million in 1989, are complex.

In exchange for agreeing to move its headquarters to Hoffman Estates, the company received a state promise to spend more than $61 million -- a sum that later grew to $80 million -- for infrastructure improvements. The state built two new tollway interchanges to connect the Sears headquarters to Interstate 90 and handle the thousands of vehicles that would be going in and out of the complex each day.

The company was also given the 800 acres along the tollway paid for by $181 million in bonds issued by Hoffman Estates and funded by increased property tax revenues in the district.

The company used 200 acres for its new campus-like headquarters -- more than 2 million square feet of office space in low-slung buildings with blue-mirrored glass, designed to hold 5,000 to 6,000 employees.

More than half the size of the Pentagon, the complex was a self-contained world. There was a main concourse with a coffee shop, hair salon, drugstore, travel agency and sundry shop.

There was a 1,000-seat auditorium, a fitness center, and a huge cafeteria and fast-food dining that rivaled the big food courts found in shopping malls.

Surrounding the headquarters was a tranquil, natural setting of reconstructed prairie, indigenous plants, wildflowers, wetlands and lake-like retention ponds.

"It was a beautiful facility," recalled Ron Culp, Sears' former vice president of public relations. "But you felt like you were being held captive in a kind of remote location."

Under the deal, Sears planned to develop the remainder -- nearly 600 acres -- for itself. Plans called for a business park, with additional office buildings, hotels, restaurants and shops, which officials likened to a town center.

To pay for the new development, state and local officials established two special tax districts drawn around the company's new corporate headquarters.

One district designated the land around Sears as a state enterprise zone, which provided millions of dollars in tax breaks on sales, construction materials and the cost of utilities.

The second was called an Economic Development Area, or EDA. Property taxes within the district were frozen from 1989 through 2012, when the agreement expired. Additional tax revenue -- raised by the growth of property values in the area during that 23-year period -- was funneled into projects designed to mutually benefit Sears and Hoffman Estates.

For instance, Sears paid to offset additional village expenses associated with Sears' move, including hiring more police officers and firefighters and building a new water tower. The revenue raised in the special tax district was used to reimburse the company.

Similar districts, often called tax increment financing districts or TIFs, are frequently used to improve blighted urban areas. But Hoffman Estates was a comfortable, middle-class suburb. So Thompson spearheaded a special law that allowed the financing mechanism to be used for Sears.

The majority of the revenue raised went to Sears. The rest was distributed to more than a dozen other local taxing bodies within the economic development area. Hoffman Estates alone was guaranteed $57 million through 2012.

When the EDA district expired in 2012, the thinking was, Sears would have recouped all of its costs. The local government agencies -- after functioning for more than two decades without increased property tax revenue -- would suddenly see a flood of new money with the lifting of the tax caps.

But by the time 2012 rolled around, Sears was in serious trouble. Over the decades, the company had lost ground to other retail competitors such as Amazon and Home Depot. The company had fired tens of thousands of employees and shuttered retail stores across America.

With billionaire hedge fund manager Eddie Lampert as its majority shareholder, Sears approached the state with a new, if familiar, threat: Without an extension of the deal, the company would leave. Despite the company's dismal outlook, state and local officials agreed to Sears' demands.

They approved a 15-year extension of the EDA worth an estimated $125 million. The state's economic development agency also kicked in another $150 million in payroll tax credits through the state's flagship jobs initiative, Economic Development for a Growing Economy, or EDGE.

The new deal required Sears to retain 4,250 employees.

Experts acknowledge that it may appear ill-conceived for Illinois and local governments to award hundreds of millions of dollars in tax breaks and incentives to a financially troubled company.

But back in the early days, it was all too easy to ignore the warning signs.

Three days after Thompson and Brennan announced the original deal, Sears laid off 400 managerial employees. By the time Sears opened its new headquarters at Hoffman Estates in the summer of 1992, the company had shed a reported 1,600 office jobs at the headquarters and had eliminated more than 43,000 jobs across its empire.

The losses did nothing to dim the enthusiasm. Illinois was keeping Sears. Hoffman Estates was vaulting onto the map.

All of it seemed to come at no cost -- free roads and free services.

Peter Burchard was the 34-year-old village manager of Hoffman Estates when the deal was signed. He counted himself as one of the true believers in its promise to turn the city, the entire region, into an economic powerhouse.

Today, Burchard says Sears squandered a half-billion-dollar opportunity. The company, he said, charged too much for leases and office space, impeding development.

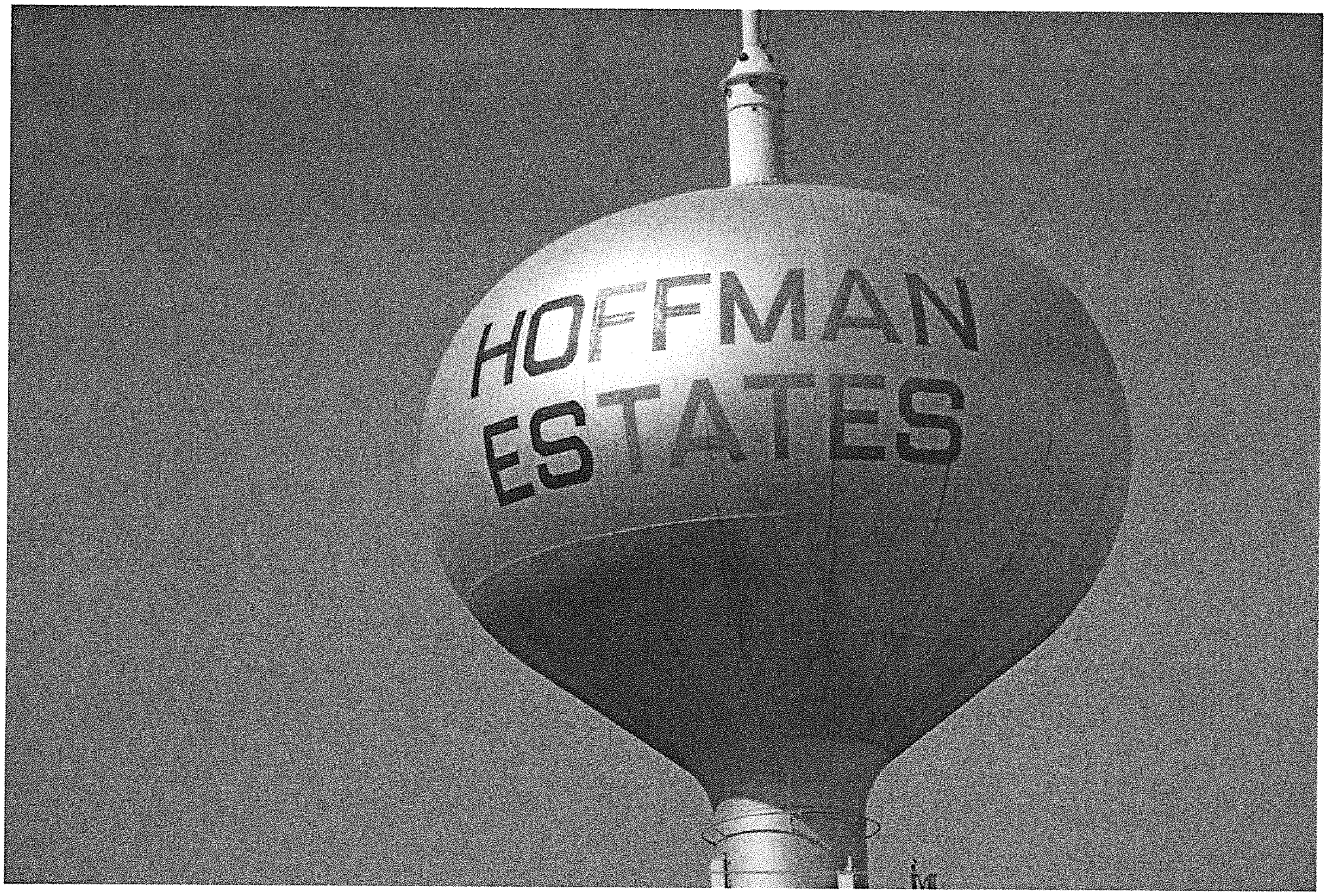
"They put a premium on everything, because it was Sears," Burchard said. "It was kind of arrogance."

But in the beginning?

"The potential was just enormous," said Burchard, now 64. "Dreams! Potential! Possibilities!"

Deal: Sears squandered an opportunity, ex-village manager says

The Deal at 30: Study suggests Hoffman would have grown without Sears



Joe Lewnard/jlewnard@dailyherald.com, file photoA study by the Center for Tax and Budget Accountability on the impact Sears' move had on Hoffman Estates argues nearby suburbs prospered economically just as much in the same time period. But Mayor Bill McLeod disputes those findings, saying the land around Sears has grown 38 times more valuable.

P **By David Bernstein**

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Over the course of 30 years, the taxpayers of Illinois gave Sears the equivalent of more than a half-billion dollars in tax breaks and incentives to locate its headquarters in Hoffman Estates. In return, the retailer agreed to provide good-paying corporate jobs and return millions of dollars in tax payments.

Now, as Sears is struggling to survive, the question is whether the deal was worth it.

To find out, ProPublica and the Daily Herald commissioned a study of 40 years of economic data by the Center for Tax and Budget Accountability, or CTBA, a Chicago-based, bipartisan research and advocacy organization focused on social and economic justice.

The results were persuasive: The CTBA study found no evidence that the massive package of tax incentives made a long-term difference to the economic well-being of Hoffman Estates compared to that of other similar nearby suburbs that did not make such corporate deals.

Instead, the study found that nearby towns that were economically similar to Hoffman Estates before the Sears tax breaks, which began in the 1990s, remained pretty similar to Hoffman Estates today.

Measured by economic indicators such as property values and employment, Arlington Heights, Downers Grove, Elgin, Palatine, Schaumburg and Wheaton all grew at roughly the same rate as Hoffman Estates.

The study also found no evidence of a lasting impact on Hoffman Estates. A short-term spike in property values did not endure beyond the initial 10 years of the project. Sears' effect on Hoffman Estates' labor force was negligible, despite predictions that the company's arrival would prompt a massive influx of new jobs.

Simply put, the study found that the Sears deal was the economic equivalent of an energy drink: It provided a jolt of caffeine and sugar that quickly wore off.

"For as large of a deal as the Sears deal was, the impact was very short-lived," said Drazzel Feliu, the CTBA's research director. "It was a nice bump, but it wasn't sustainable. We don't have any proof that the (Sears deal) changed growth."

The complete study, and its methodology, are available online here.

Presented with the study's findings, Hoffman Estates Mayor William McLeod and Arthur Janura Jr., the village's corporation counsel, said statistics didn't tell the full story.

Without the tax incentives, Sears would have never come to Hoffman Estates in the first place, they said. They pointed to the overall growth of the value of the land where Sears built its corporate campus and developed a business park and entertainment district. In 1989, the property value of the land around Sears was $6.4 million. By 2018, the figure was slightly under $242 million.

"That's an awful lot of money," said McLeod, who noted that the growth funded infrastructure that allowed potential development on thousands of acres of land in and around the Sears campus. "You've got the water mains, you've got the sewer mains. And, you know, we still have all that vacant land out there yet."

Had it not been for the arrival of Sears and the development that occurred afterward, McLeod said, the land would "probably still be empty, corn growing out of it, more than likely."

The study says the mayor might be wrong to assume there would have been no development without Sears.

Consider, for example, a comparison between the villages of Hoffman Estates and Downers Grove.

The two villages have much in common. Both have a population of about 50,000. Both are predominantly white. Both have a median annual income of around $85,000. They have good schools and lots of parks, low crime and well-stocked libraries.

To be sure, the villages have differences. Downers Grove is an older town with a traditional downtown shopping district. Hoffman Estates' amorphous sprawl defines the modern suburb.

But over the past 30 years, the local economies of Downers Grove and Hoffman Estates have neatly matched each other. Property values have risen and fallen. Businesses have come and gone. Unemployment rates have fluctuated.

During that time, Illinois and Hoffman Estates officials gave Sears its huge tax breaks and subsidies. Downers Grove, on the other hand, managed to attract several big companies, such as FTD, the floral delivery network, and Sanford L.P., the maker of Sharpie and Paper Mate pens, while providing only $28 million on special tax districts and other incentives there.

All told, in 2017, the most recent year examined by the study, Hoffman

Estates had more than 15% percent of all its taxable property tied up in special tax districts -- nearly all in the development area created for Sears. By comparison, Downers Grove had only 2.6% percent of its taxable land devoted to such districts. Most of the growth in tax revenue can be used only to make improvements within the boundaries of the districts.

In fact, none of the six suburbs studied spent close to what Hoffman Estates did on corporate breaks. None gambled on one single corporation. And yet all managed to economically prosper.

"Look at what happened in communities that didn't provide tax expenditures to attract or retain business," said Ralph Martire, the CTBA's executive director. "They grew just fine."

There is widespread agreement that Sears provided concrete benefits to Hoffman Estates. "We have a nice office park out there. We have housing around there. We still have hundreds of acres of undeveloped land," McLeod said. It's "been good basically for everybody."

But Greg LeRoy, who runs Good Jobs First, a nonprofit that tracks corporate incentives, said politicians base their faith in tax breaks on two unproven assumptions.

First, they assume that a company would not relocate to a city without incentives. And second, that no development would have happened without the tax breaks.

There's this "manna-from-heaven argument that you hear a lot of politicians spout about incentives," said LeRoy, a frequent critic of using tax breaks to attract or retain companies. "You know: 'We should be grateful for this. It wouldn't have happened otherwise.'"

The truth is, Hoffman Estates and its neighbors were already primed for strong economic growth when the Sears deal was hashed out in 1989.

Hoffman Estates was part of a cluster of Northwest suburbs that became known as the "Golden Corridor" because of the influx of corporate offices and manufacturing developments that arose after the Northwest Tollway opened in 1958.

The village had already proven an attractive site for several major health-related businesses, including Siemens Gammasonics. In 1987, Ameritech, the regional parent of five Bell telephone companies in the Midwest, chose the village for its corporate headquarters and more than 2,000 jobs.

But when Sears indicated interest in relocating in 1989, Illinois politicians wanted to keep the company in the state. And Hoffman Estates officials saw an economic catalyst that would fundamentally transform their town. A newsletter published by the village predicted that Sears' arrival would be a "pot of gold," bringing thousands of new jobs and scores of new businesses, and ultimately, filling the town's coffers with tax riches.

Small town pride also played a role in the decision to bet big on Sears.

Hoffman Estates politicians saw Sears as a way to an identity, much in the way that Oak Brook, in the West suburbs, was closely linked with McDonald's until it relocated to downtown Chicago in 2018.

"This puts Hoffman Estates on the map," declared then-Mayor Michael O'Malley, who died in 2000.

The Sears deal centered on a nearly 800-acre special tax district created in 1989 on the village's largely unoccupied western edge. As Sears built out the district, property values would rise and generate additional tax revenue that flowed into a fund that was used for the benefit of the district.

Sears moved into its new headquarters in the summer of 1992. Practically overnight, Sears became Hoffman Estates' biggest employer and taxpayer. Construction was well underway, too, on the first office buildings of the company's planned office park, Prairie Stone.

Not surprisingly, the center's study found clear signs of an impact on property values that lay within the Sears tax district, known as an economic development area, or EDA. As development took off, property values in Hoffman Estates soared by almost a third compared with growth in similar nearby suburbs.

But there was a trade-off. Once Sears established its headquarters in the district, the new tax revenue went to pay off infrastructure projects that benefited the company. That meant schools, parks, libraries and other local taxing bodies got less tax revenue than they would have received if the district's value had grown without the Sears deal in place.

Despite an economy that was booming in much of Illinois, the pace of growth at the Sears development had slowed by 1998. The grand vision of hundreds of new residents streaming into Hoffman Estates to work at Sears and buy homes never materialized.

Prairie Stone was not attracting many buyers or tenants. The tax district was not even generating enough property taxes to cover the village's payments on the bonds -- by terms of the agreement, Sears had to pick up the slack.

It was around this time, the CTBA study found, that economic growth in the tax district -- and in Hoffman Estates as a whole -- essentially leveled off. Over the next 20 years, Hoffman Estates' economic growth rate more or less matched that of the six comparison municipalities in the study.

It remains unclear why, exactly, Illinois' and Hoffman Estates' investment into Sears did not pay off as well as expected. But experts have some theories.

The study found no evidence that growth in the special tax district spurred growth elsewhere in the village. This might be because Sears offered its employees on-campus amenities like restaurants, a beauty salon and a fitness center that kept them from needing to patronize local businesses.

"There were no positive spillover effects" from the special district, the study found.

Another reason for the lack of development, said Martire of the CTBA, is that the tax district could actually have discouraged other businesses. Real estate developers may not have wanted to compete with the Sears' district's tax breaks and infrastructure benefits.

The glut of vacant land surrounding Sears' special tax district lends support to this possibility. When Sears moved to the village 30 years ago, there was plenty of developable land available nearby. About 1,700 acres remain today.

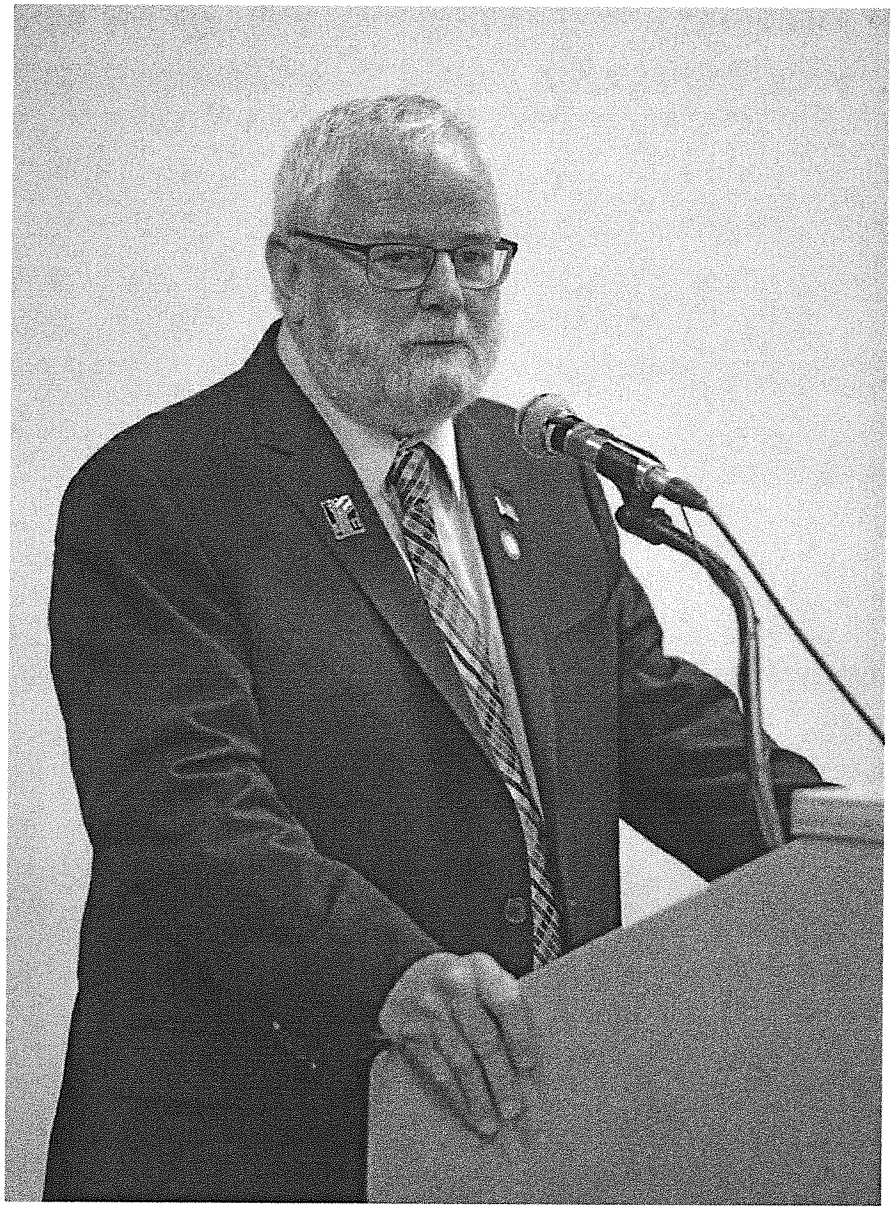
But the most obvious reason for the lack of growth in Hoffman Estates is that state and local officials made a big bet on one company. And then that company, Sears, failed.

"The public-sector crystal ball is not much better than anyone else's crystal ball," Martire said. "When you have the public sector betting on which businesses are going to be ahead of the market for the next 23 years, they're going to bet wrong in most cases."

On this, both critics and supporters of the Sears deal agree.

"It's not uncommon as time goes by that trends and business change dramatically," McLeod said. "Nothing is forever."

The Deal at 30: Hoffman Estates mayor says Sears agreement as 'good basically for everybody'



Bill McLeod, Hoffman Estates mayor *(Joe Lewnard | Staff Photographer)*

Daily Herald report

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Hoffman Estates Mayor Bill McLeod has been both an observer and a participant through all the years since the possibility of a state and local tax deal to bring Sears' headquarters to the suburbs first was raised.

As a trustee on the village board, he voted for the original agreement in 1989 to lure Sears to Hoffman Estates when it opted to leave the Sears Tower in Chicago, and later, as mayor, he shepherded an extended agreement when Sears threatened in 2011 to leave town.

While he acknowledges that the incentive package hasn't fulfilled all of its original promise, he says that overall, it still benefited Hoffman Estates: "It's been good basically for everybody."

In this edited transcript, he outlines his perspective in an interview with members of the Daily Herald Editorial Board.

Q. How do you assess the Sears deal and what do you foresee for the next couple of years?

A. This wasn't really a Hoffman Estates deal. This was the state trying to keep Sears within the state of Illinois. Sears was the largest employer in the state at that time. And I believe they had 45,000 people working in Sears in the state of Illinois.

Sears wanted to leave downtown; they wanted to have a campus-type setting. And we had one of the largest tracts of open land in Cook County, about 780 acres. It was vacant farmland.

I don't believe it would be developed to this day had the state not crafted this deal.

It's worked well for the village. We have a nice office park out there. We have housing around there. We still have hundreds of acres of undeveloped land.

And we have a large shopping center, 400,000 square feet. You could also argue that The Arboretum wouldn't be as successful without the influx of the business that Sears brought and the housing and the people that Sears brought.

So I think it's been good basically for everybody. The village did receive money, we did get this infrastructure, Sears did pay for police and fire and public works services out there until the Economic Development Area was established and money started coming in once their campus was built.

(Algonquin-based Community Unit) District 300 has been the major (detractor). In fact, they're suing us over this. They've gotten I believe, $58 million as of 2018, and if that was just farmland, they would be would be making squat from this. And the village of Hoffman Estates sends absolutely no students to District 300.

Q. What do you think it's going to look like in the next couple of years?

A. We'll see what ultimately happened with TransformCo, the new company that took over Sears headquarters. But you can't underestimate the value of all that infrastructure.

And, you know, the Sears campus is a beautiful building. Their buildings are beautiful. I'm sure there'll be some use made of it. It's not uncommon as time goes by that trends in business change dramatically.

(The former) AT&T (headquarters) is being restructured. That's being redeveloped. We're very excited about the "metroburb" there. Someone will come in with an idea. And those buildings will be utilized.

Q. You were on the board at the time (of the original Sears deal). Do you remember how this came up?

A. There had been proposals on this (land) before. The Expo Park. One guy wanted to build a baseball stadium with a hotel in it sort of like the Toronto Blue Jays have. None of these things panned out.

(Then-Mayor) Mike (O'Malley) came to the board and said Sears is looking at relocating. One of the things that was fortunate for Hoffman Estates was Jay Hedges was the deputy director of (the Illinois Department of Commerce and Community Affairs) and he had been assistant village manager of Hoffman Estates and he was familiar with the property. I don't know if that played any role, but it's hard to find 780 acres of open land in Cook County.

Q. What role did former Mayor O'Malley play?

A. O'Malley certainly played a role in that, but the state was the overwhelming instigator of this whole thing. We couldn't have arranged to afford all that infrastructure. The village never could have spent $114 million on that infrastructure. We couldn't have widened state roads. We couldn't have put a full interchange at Route 59 and I-90.

You know Mike O'Malley. That guy was so affable, so personable, and certainly he played a role in helping to craft how it exactly was done, but the state was a major player in this. I supported it and the village supported it, obviously, but they were the major players in getting that through.

Q. Why didn't Chicago Mayor Richard M. Daley fight the deal?

A. I don't know all the details on that, but I think Sears wanted ... they were at the tail end of the trend of all these large corporations wanting a corporate setting in the suburbs.

Q. (At the time, Sears presumably was being wooed by North Carolina.) How convinced are you that Sears would be in North Carolina now if the state hadn't come through with this package?

A. I remember talking to Mayor O'Malley who said you know, (former Sears CEO Edward) Brennan lives is Burr Ridge, and the second guy in Sears lives in the Barrington area. Do these guys really want to move to North Carolina? Their grandkids are probably around here.

I didn't quite buy the North Carolina thing, but depending how good the deal was, they might have taken it.

Q. What would have happened if Hoffman Estates and Illinois would have called their bluff?

A. I tend to think they wouldn't be in Hoffman Estates.

Q. Say Sears hadn't come there. Wouldn't there have been other people coming with proposals?

A. Possibly, but we don't know that. And again, the cost of all the infrastructure. That's an awful lot of money.

And what all this infrastructure did was be able to give us 2,700 acres of land that could be developed, which is way more than the actual Sears property. (Now,) you've got the water mains, you've got the sewer mains. And we still have all this vacant land out there.

Q. The tax breaks were re-upped in 2012. Has that been working out as you'd hoped?

A. The arrangement with the state was that we would get $5 million off the top of the increments. We do not get a share of any of the property taxes that are generated in the EDA (Economic Development Area).

Q. What do you say to critics not so much of the first deal but the second deal who might say that by 2011, Sears really didn't have too many options?

A. Sears wanted an extension on it, and the village was happy with the EDA arrangements. Sears still had thousands and thousands of employees at that point. It's only been like the last three, four years that Sears has totally plummeted.

At that time, they're still a very viable company. And it still actually had the required number of employees that was in that agreement.

Q. The school district is suing, saying Sears is playing games with the employment numbers.

A. The state put that requirement in. I have no mechanism to measure how many people are in those buildings. We just follow the law that the legislature passed.

The legislature put that requirement in. So the state should have been the one monitoring how many employees are in there not the village. We don't have the capacity to do that.

Q. One of the other outgrowths of all this has been a Sears Centre Arena. Is that working out?

A. I think it is working out successfully. We did hire a professional management company. Spector, formerly Global Spectrum, is running the arena. We got a good general manager there. We've got the Windy

City Bulls.

(Without the arena) I don't think Cabela's would have come, I don't think Main Event would have come. When the Sears Centre does have events, the restaurants in the Target shopping center at routes 59 and 72 are loaded. Sears to this day is still paying the naming rights; they're current on it.

Q. What might you do differently if you had it to do over again with Sears?

A. A lot of this stuff was beyond the control of the village. I don't know really what I could have done in relation to that agreement.

I voted against several things in (the agreement) but got overridden by the board. The original fire station in the Sears business park made no sense because it wasn't centrally located for the population growth, so we had to move that fire station.

The major facets of the deal were put together by the state, negotiating with Sears. We just had the land.

Q. What would you expect to eventually happen out there?

A. I'd be a successful business person if I knew the future.

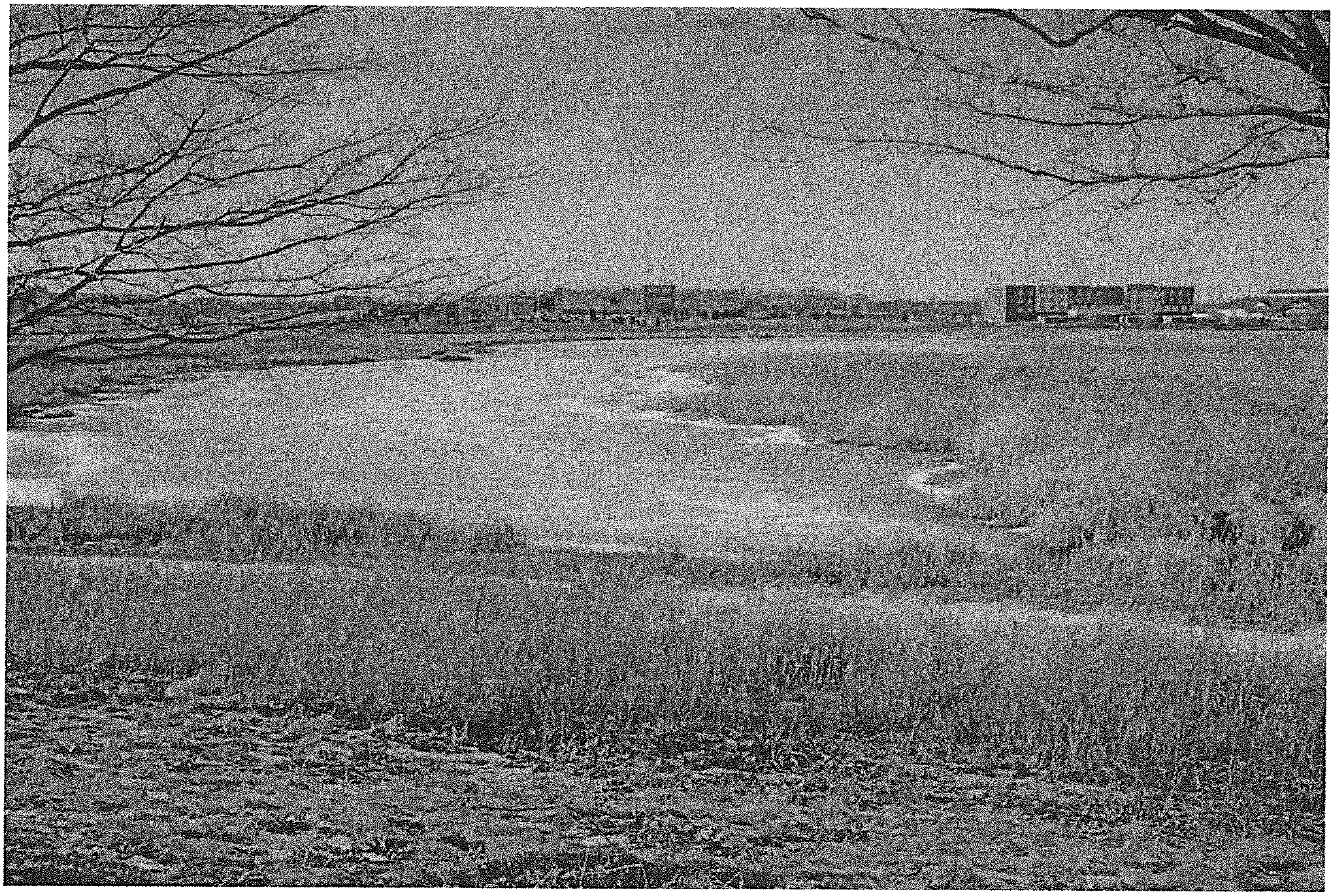
Plans change all the time. Those big suburban campuses, everybody knows the young kids all want to be in the city.

That can change again, because there was an era when all the kids moved to the suburbs. Nothing is forever.

We've got to be open to the changes that are going about. That's one of the things they're going to be doing on the AT&T site, doing some housing, but they're looking at mainly smaller units, one-bedrooms, studios. There's a lot of folks that really don't want a big house.

I don't really know exactly what's gonna happen in the future, but it's nice to have the land. Nice to have infrastructure that's right there. We built an entire city out there.

The Deal at 30: 'Everyone kept waiting for something to happen in Prairie Stone'



Thirty years after the tax deal that brought Sears headquarters to Hoffman Estates, the development that had been expected to spring up around it has been slow.

P By David Bernstein

Updated
5/19/2020 5:46 AM

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In the mid-2000s, Sears, the village of Hoffman Estates and a private developer decided to go into show business together.

They agreed to build the Sears Centre, an 11,000-seat entertainment venue that was expected to draw hundreds of thousands of people a year from across the region to watch top music acts and sports teams. The village would finance the project with $55 million in bonds. The center would generate the revenue to pay off the notes.

Hoffman Estates Mayor William McLeod reassured taxpayers that the arena would pay for itself -- and bring in an additional $1 million a year in tax revenues.

"We're very confident that the arena will be successful," he said in 2004.

When the glittering arena opened in October 2006, the debut acts were Duran Duran, Bob Dylan and Lionel Richie. A number of minor league sports teams have called it home, most recently the Chicago Bulls developmental league team. The arena has built a niche for itself with truck pulls, bull riding, wrestling and mixed martial arts. Local high schools celebrate graduations there and community groups hold book fairs and other events.

Still, the venue has struggled to fulfill its promise. Since opening, it has never posted a profitable year. When the private developers, Minnesota-based Ryan Companies US, threatened to walk away from the money-losing venture, village officials took over the center in 2009.

Today, the Sears Centre is a demonstration of the risk of entangling private corporate interests and public tax dollars.

Hoffman Estates taxpayers are now on the hook to pay off the bond, which will cost $108 million over the full term of the note.

Government subsidies for cultural and entertainment venues are not unusual in the suburbs. But Hoffman Estates' support for the Sears Centre stands out. A private project that was not supposed to cost taxpayers anything instead accounts for 14% of the town's $107 million annual expenses in 2018, the last year for which figures are available. The operating loss -- how much the arena's expenses exceeded its revenues -- was $1.5 million.

Over the past decade, Hoffman Estates has used nearly $14 million from the general fund and other village accounts to help cover the arena's losses.

McLeod blamed poor management and a recessionary economy for the arena's financial picture -- now further clouded by the coronavirus pandemic, which may prevent large crowds from gathering in the near future.

"I think it is working out successfully," McLeod said. "We got a good general manager there. We've got the Windy City Bulls."

McLeod, who voted for the original deal that brought Sears to Hoffman Estates as a village trustee in 1989, acknowledges that development in the special taxing district as a whole has not lived up to all the promises made three decades ago. But he said Sears Centre brought entertainment and income to the suburb. Village officials said taxes from nearby businesses lured by the presence of the arena cover its annual losses.

"It's a great amenity with the community and the surrounding area," McLeod said. "We have a hospital that doesn't pay taxes, but it's a great amenity for our people. Not everything is for profit."

The path to the construction of Sears Centre began in 1989, when Sears, then Illinois' largest private employer, threatened to move its headquarters from the famous Sears Tower in downtown Chicago to another state.

To keep Sears from departing, Illinois politicians awarded the company hundreds of millions of dollars' worth of tax incentives to build its headquarters and a business park in Hoffman Estates.

The business park, called Prairie Stone, would feature office buildings to hold a plethora of Sears' vendors and suppliers that would, it was assumed, want to be near the retailer, as well as other big companies that would follow Sears to the village.

A second wave of hotels, restaurants and other stores and service shops, which Sears and village leaders likened to a town center, would turn the former farmland into an economic mecca.

All told, Sears headquarters and Prairie Stone would create 30,000 to 45,000 jobs, including Sears' workforce, or so it was thought. Hoffman Estates would grow larger and wealthier, its population expanding, its housing market heating up and its tax coffers overflowing.

But Prairie Stone showed problems from the start. Months after Sears completed its corporate headquarters, the company built the first pair of office buildings. The company halted work on two other planned buildings in September 1992. The reason? "Low demand," according to a Sears spokesman at the time.

Over the years, Prairie Stone struggled to attract businesses, hampered by false starts and stalled projects. Frustrated by the slow pace of development, Sears churned through three commercial real estate developers hired to market Prairie Stone in less than a year.

"Everyone kept waiting for something to happen in Prairie Stone," said Ron Culp, a former vice president of public relations and government affairs at Sears. "I don't think the buy-in was as big as [Sears] might have anticipated with the big brands putting operations out there."

Peter Burchard, who was village manager when Sears came to Hoffman Estates, said Sears charged too much for land and rent. And the company overestimated demand for office space.

"We were asking: 'So what's up? Where's the development?'" Burchard recalled. "And not much was happening. It was pretty quiet."

Transformco, a holding company run by Eddie Lampert that now owns Sears, declined to comment. Ryan Companies US officials declined to comment.

Prairie Stone's struggles hit Sears and local agencies hard.

Since development was slow, the property value of the district did not produce enough in taxes to pay off the bonds that Hoffman Estates issued to finance the Sears project. Under the terms of the agreement, Sears had to make up any shortfalls. Between 1999 and 2007, Sears paid nearly $83 million to cover deficits.

The jobs never materialized, either. Depending on who was doing the counting, Prairie Stone generated somewhere between 4,300 and 11,000 jobs by 2016 -- less than a quarter of what was projected. Nor did tax revenue growth live up to expectations. Projections called for the district to generate an additional $626 million in property tax revenues by 2012, but it only generated about half that amount in inflation-adjusted dollars.

And parts of the area remain vacant. Of the nearly 800 acres in the special taxing district, 184 are undeveloped.

The village was saved from having to use taxpayer funds to cover deficits. But local officials did not receive nearly the revenue they were expecting. Projections called for government agencies to receive a combined $175 million in tax revenues by 2012. Yet, over the first 20 years of the deal, local taxing bodies collected only $50 million, less than a third of what was originally forecast.

Hoffman Estates had long wanted to boost its profile and bring in additional tax revenue.

Neighboring Schaumburg was thriving as the region's premiere commercial and shopping destination. Rosemont, about 20 miles east on I-90 adjacent to O'Hare International Airport, had made big bets on an indoor stadium, a concert hall and a convention center, and it was paying off with new hotels, restaurants and an influx of visitors.

In 1998, the village made efforts to attract the Chicago Bears and, in 2003, it tried to lure the Chicago Fire professional soccer franchise. Both attempts failed.

Then, in 2004, an opportunity arose after voters in nearby Prospect Heights defeated a proposed entertainment arena.

Hoffman Estates saw a chance to replace Poplar Creek -- the beloved outdoor music venue that closed in 1994 after Sears demolished it for the development of the Prairie Stone business park.

Sears and village officials decided that a new sports and entertainment arena could anchor an entertainment district within Prairie Stone that would deliver the shot of adrenaline the special tax district needed.

To build it, Hoffman Estates agreed to issue $55 million in bonds. Sears donated 35 acres, took a 25% ownership stake and purchased the naming rights. Ryan Companies, the Minnesota developer that controlled the remaining 75%, would build and run the entertainment center.

Besides civic pride, another underlying rationale of the arena was to increase revenues in the special tax district, which had not delivered the returns that Sears needed to pay off the money it had spent to build its headquarters, village roads and other infrastructure.

James Terrell, a vice president in charge of Sears' real estate holdings at the time, and village officials pushed for the new arena, according to a summary of a deposition in a lawsuit between local Community Unit District 300 and Sears over revenue from the deal.

The arena "would energize" the Sears' development, according to court documents summarizing Terrell's viewpoint.

Michael Rossiaky, a trustee on the village's park district board and a longtime Hoffman Estates resident, was part of a group of locals that wanted to stop the arena development in 2005.

Rossiaky warned village leaders that an arena was a bad idea because unlike the Prairie Stone development, where Sears agreed to pay off any shortfalls in revenue flow, the village would be responsible for repaying the bonds if the Sears Centre failed.

"They were closed off to what anyone said," Rossiaky said. "They didn't care. They just wanted to bulldoze it through."

McLeod and other proponents of the project argued that the Sears Centre would be the linchpin to creating an entertainment district called "Poplar Creek at 59-90," after the old concert venue by Route 59 and the I-90 tollway. It would be a tourist destination that would include restaurants and a hotel and water park.

The new arena "will put Hoffman Estates back on the map," McLeod said in 2005. "This would be another feather in our cap."

After just four years of poor attendance and losses, the developers -- blaming a bad economy -- threatened to let the arena go into default. Instead, the village took it over in December 2009.

"Our biggest worry was that they would go belly up and they would stick Hoffman Estates with the bill," Rossiaky said. "And that's what's happened."

Over the past decade, the village has moved nearly $14 million from its general fund and other accounts to make up for the arena's losses, with amounts varying from a low of $150,000 in 2016 to a high of $3 million in 2009.

Last year, the Sears Centre hosted 89 events -- far from initial estimates that projected 140 shows and games a year.

Village taxpayers now pay to keep the arena in business. Between 2014 and 2018, the most recent year available, the arena brought in an average of $10.7 million annually in operating revenue, while costing

$12.4 million per year to run, according to village figures. Each year, the village must use general funds to cover an average deficit of nearly $2 million.

In addition, the village must pay for upkeep and improvements at the arena -- costs that, before the outbreak of the coronavirus, were projected to reach $2 million over the next seven years.

Since the village owns the venue, it no longer collects the more than $1 million a year in property taxes that the stadium used to generate.

McLeod blamed the center's shortcomings on an inexperienced developer, poor marketing and a bad economy.

"I think part of the plan when it was put in was, 'We're going to have many more venues around it, restaurants and all that stuff.' And then the recession hit," McLeod said.

McLeod has not given up on Prairie Stone. In recent years, a Main Event family entertainment center and a Duluth Trading Company retail store have opened, but only after the village added additional tax breaks to lure the businesses to the site: $750,000 in entertainment tax rebates for Main Event and $225,000 in sales tax rebates for Duluth Trading.

Cabela's opened a hunting and fishing superstore in Prairie Stone in 2007. To snag the outlet, Hoffman Estates agreed to provide $18 million in tax rebates to the $2 billion-a-year company.

It also agreed to exempt from property taxes the store's elaborate taxidermy dioramas and aquarium displays. Those include "Conservation Mountain," a two-story fiberglass mountain with artificial trees, a waterfall and stuffed animals such as deer, bears and waterfowl that occupies about 15% of the store's 185,000 square feet.

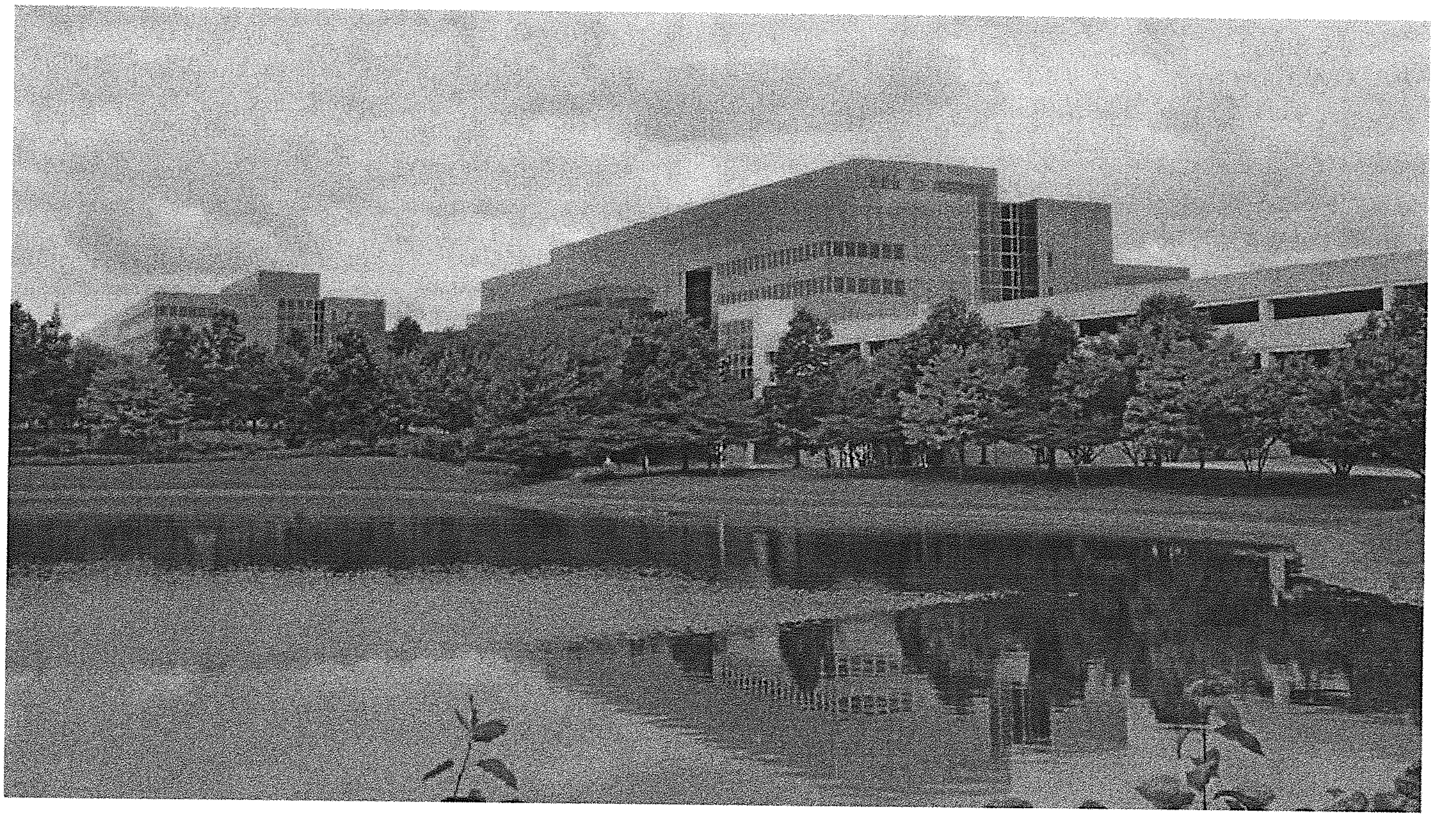
Cabela's estimated that the tax exemption would allow it to save $5.5 million in property taxes over 20 years, about $275,000 a year.

The logic? Under the agreement, the displays belong to the village. And they have a special designation. Cabela's displays are now Hoffman Estates' only publicly owned museum.

McLeod said the Cabela's deal was worth it.

"I'm not particularly a big fan of this sort of stuff," McLeod said. "But it's the cost of doing business these days."

The Deal at 30: If Sears failed, what would replace its headquarters?



Could the Sears buildings in Hoffman Estates be leased to one or more companies if Sears left them entirely? Experts have their doubts. *(JOE LEWNARD | Staff Photographer)*

By David Bernstein

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When Kmart bought Sears in 2005, the retailer famous for its blue-light special sales left its longtime corporate home in Troy, Michigan, to move to Hoffman Estates, the headquarters of its new acquisition.

Built in 1972, Kmart's former headquarters, dubbed Fort Kresge, consists of a clutch of low, interlocking buildings of dark steel and mirrored glass. Brick towers loom in between them. Its nickname combined the campus' fortresslike appearance with the surname of company founder Sebastian Spering Kresge.

In its heyday, Fort Kresge teemed with 5,000 employees and was filled with works of art, including a rare tapestry by Pablo Picasso and a 15th-century Ming Dynasty watercolor on silk. But after the merger, almost everything was auctioned off -- artwork, furniture, even office equipment.

Vacant since 2006, Fort Kresge's years of decay are plain to see: boarded-up doors and broken windows, pocked walls and peeling ceilings, and vast hollowed-out rooms, some still containing musty office equipment or littered with debris. A redevelopment plan never got off the ground and a private developer purchased the land at a discount. Deemed by Troy's city assessor as "functionally obsolete," the mothballed campus on 40 acres is considered well beyond a fixer-upper; it's a complete teardown.

Over the years, Kmart's languishing campus has burdened the Detroit suburb. Its extended vacancy has not only left a void in Troy's commercial business heart, but it has strained the city's coffers as well. The longer the office park sat vacant, the more its taxable value plummeted, taking a big bite out of the local property tax rolls.

Sears sold off the building and the land surrounding it in 2007. Plans for its redevelopment have since stalled.

Fort Kresge's assessed value has sunk by more than half over the decades, according to city records, from $27.6 million to $12 million.

The owners paid $311,000 in taxes last year, 68% less than in 2002, when Kmart employed thousands in Troy.

"The Kmart site's a real pain in the butt," said Nino Licari, Troy's city assessor.

Sites such as Kmart's old headquarters are known as "big empties" -- sprawling, once-trendy corporate campuses left behind in the suburbs as companies increasingly relocate to urban centers.

In just the last several years, McDonald's, Motorola Solutions and Kraft Heinz, among other companies, have left their suburban offices to move into downtown Chicago to attract millennial workers who often prefer more urban environments. New technology has made it easier to work from home and lessened the need for employees to gather in a single, central location.

The Sears campus in Hoffman Estates may be following the path of its sister campus in Troy -- a Fort Kresge for the future.

Long before the coronavirus pandemic struck, the Sears' security hut at Sears Parkway and Trillium Boulevard was abandoned. Parking lots that once held thousands of cars were almost deserted. A fountain that once sprayed water several stories high was shut down to save money.

Inside the sprawling, 2.4 million-square-foot headquarters -- composed of seven interconnected office buildings -- there is an almost eerie ghost-town quality, former employees describe. The bank, dry cleaners, hair salon, coffee shop and small sundry shop that once lined the corridor of the main atrium have all closed. Gone, too, are the Sbarro's and Panda Express restaurants.

Over the years, Sears has hired leasing agents to bring in sublessors without much success. Today, with the economy uncertain and Sears' days seemingly numbered, the building has become an even harder sell. Only about 3% of the complex is leased to outside tenants.

"It looks like somebody pulled the fire alarm," as one former longtime employee, who was laid off in 2018, describes it. The employee requested anonymity because he still works in the retail industry.

Hoffman Estates officials said they are certain that the campus will be redeveloped -- even if Sears departs the village.

"The Sears campus is a beautiful building," Hoffman Estates Mayor William McLeod said. "I'm sure they'll be some use made of it. It's not uncommon as time goes by that trends in business change dramatically. ... Someone will come in with an idea. And those buildings will be utilized."

It is unclear what plans Sears has for its headquarters as the company struggles to survive. The fate of the site lies in the hands of hedge fund operator Eddie Lampert, the former Sears CEO who bought the company's assets after it declared bankruptcy in late 2018. His new company, Transformco, owns the campus and an additional 120 undeveloped acres.

Transformco declined to comment.

If Transformco tried to sell the campus, it would face long odds, local real estate experts said. The large complex, custom-built for Sears, is nearly 30 years old. Suburban business parks are as outdated and obsolete as fax machines.

Office vacancy rates in the Northwest suburbs stand at around 19%, compared with 11.8% downtown and 13.3% across the Chicago suburbs, according to CoStar, a commercial real estate company.

The vacancy rate in Hoffman Estates is at 30% -- one of the highest figures in suburban Cook County. Empty office space in the Sears headquarters and the former AT&T campus account for more than half of the vacancies.

The entire region is a buyer's market, burdened by other big empties. Right down the road from Sears headquarters are two such examples.

Allstate Insurance Corp. moved out of its 530,000-square-foot office complex in 1992. It went unsold and sat vacant until 2012, when Allstate demolished the building. The taxable value of the property has plunged from $14.7 million in 2009 to $106,000 in 2019. Last year, Allstate's property tax bill was less than $15,000. Today, the 62-acre former corporate campus on West Higgins Road in South Barrington is an empty field.

Five miles east of Sears, along the tollway in Hoffman Estates, is the site of the former AT&T campus. Built in 1991, the three-building, 150-acre campus was deserted in 2014, when AT&T began moving its 3,000 workers to smaller offices in Chicago and other suburbs. It became completely vacant in 2016. In the last five tax years alone, the amount of taxes collected from the property declined from $7.7 million to $1.4 million.

A new plan seeks to rejuvenate the site by turning it into a self-contained virtual city -- called a "metroburb" by developers -- with offices, stores, restaurants, hundreds of apartments and townhouses.

It is unclear whether the new project will work out. But McLeod pointed to it as an example of how to turn big empties into thriving new ventures.

"AT&T is being restructured," McLeod said. "We're very excited about the 'metroburb' there."

Given the bad timing and real estate headwinds, one of two fates awaits the Sears headquarters, experts say: It will sit empty for several years, or it will face the thud of the wrecking ball.

"It's a nice building. It still looks nice," said Brandon Svec, a director and economist at CoStar. "But where's the demand? There's no one looking to take on 2.3 million square feet in the suburbs right now. There just isn't the market demand for it to justify its existence."

For Hoffman Estates, the loss of its biggest taxpayer would be a blow to the city's finances.

For decades, Sears has captured tax revenue from a special district drawn around the campus designed to keep the company in town. Under the terms of the agreement with Sears, the village receives a guaranteed $5 million per year, roughly 5% of its annual budget. That has added up to $30 million since 2014.

But Sears' departure would put an end to the special tax district. The village and other local government agencies would regain control over the taxes it generates. But without a new tenant, the value of the land would most likely fall, dragging tax revenue with it.

Sears' corporate complex has already been sharply depreciating for years, on the same downward trajectory as the company's stock price. In

2013, the headquarters had an estimated market value of about $150 million. Its current value, according to the Cook County assessor's office, is about $50 million -- a decline of two-thirds in only five years.

Even though vacant properties remain on the tax rolls, their assessed values plummet. It doesn't take long for them to become Fort Kresges.

If that happens, Hoffman Estates will have to provide municipal services like road repairs and police and fire protection with diminished property tax revenues. For residents, that likely means a tax hike or cuts to services.

None of this was imaginable in 1989 when Sears was the nation's mightiest retailer, the "Everything Store" that would be around forever -- a business that was, to steal a popular phrase from another industry, too big to fail.

But with Sears' collapse considered now not a matter of if but when, Hoffman Estates officials are grappling with what the village's future might look like without the company.

The village commissioned a study in 2018 to refashion the Prairie Stone business park and the Sears Centre entertainment district, as well as three other large tracts adjacent to Prairie Stone.

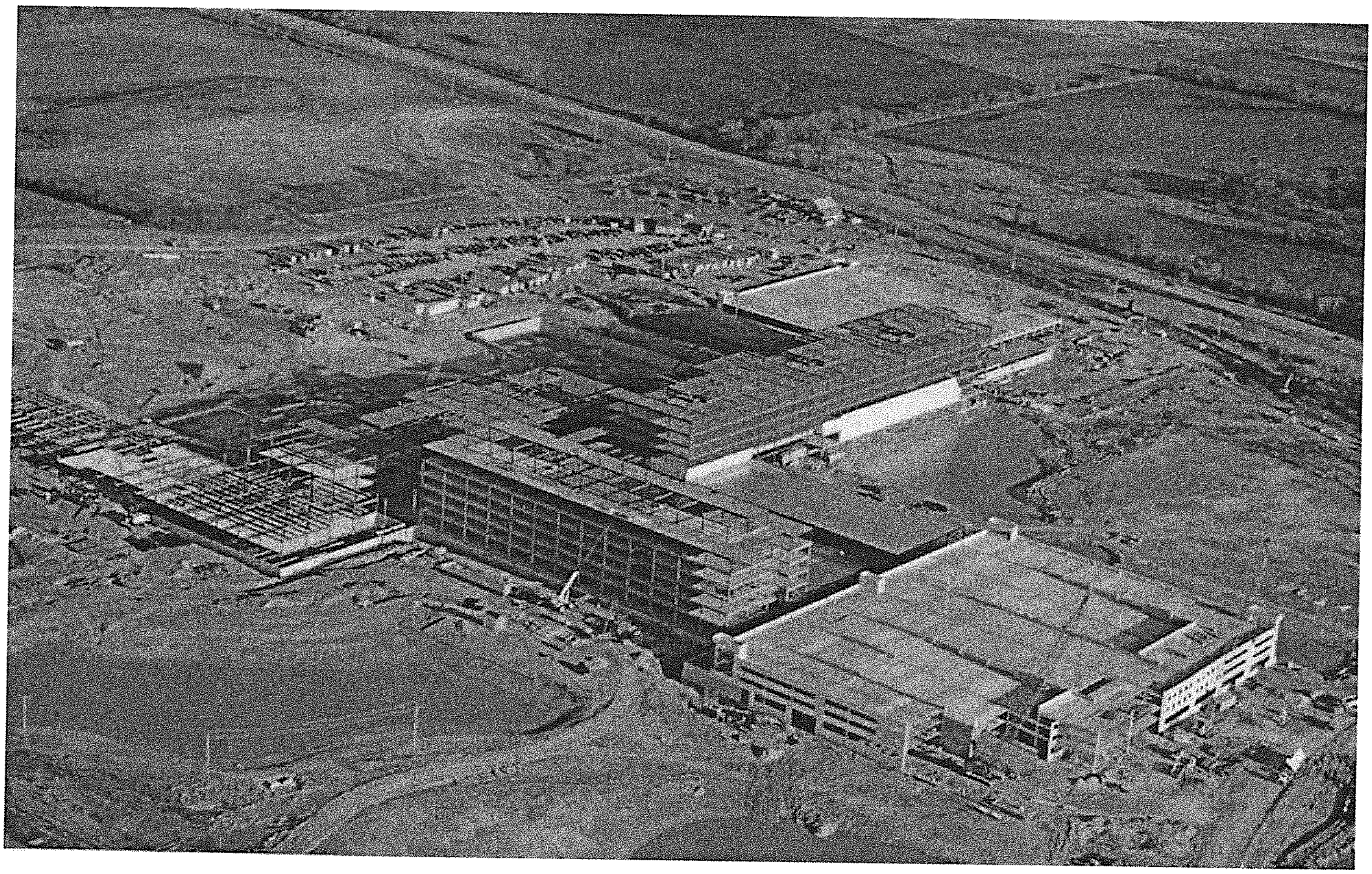
Altogether, the new economic plan covers an area of 1,650 acres and suggests a number of mixed uses, including a variety of residential choices, office spaces, restaurants, shops and lively parklike recreational spaces.

The plan does not say how it will be funded or who will develop it.

It also says nothing about the elephant in the room: Sears' headquarters complex.

The Deal at 30: Sears workforce declined, but state didn't track its numbers

As Sears' corporate struggles grew, so did its methods for counting a dwindling workforce, and the state didn't track its numbers



The Sears headquarters campus, under construction here in April 1991, was built with the promise of thousands of jobs to come to Hoffman Estates. *(Daily Herald file photo)*

By David Bernstein

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Jobs, thousands of them. That's the principal reason state and local officials awarded hundreds of millions of dollars in tax breaks over 30 years to keep Sears in Illinois.

Under a 2012 law designed to keep the company from leaving the state, Sears was required to maintain at least 4,250 employees at its sprawling offices in Hoffman Estates and a small satellite office in Chicago. In return, the retail icon received tax breaks worth an estimated $275 million.

But as the company fired hundreds of employees in the years leading up to its 2018 bankruptcy, Sears grew increasingly concerned about maintaining the tax breaks, according to interviews and internal corporate documents.

Company officials began counting baristas, fast-food workers and janitors who worked at Sears headquarters but weren't employed by the company, records show.

Sears' counting methods have raised doubts about the legitimacy of millions of dollars in property tax rebates that the company received from Hoffman Estates. A local school district has filed a lawsuit against Sears for $43 million, charging it overcounted the number of employees and collected public money that it should not have received.

The disputed tallies also reveal uneven enforcement by state and local officials, who allowed tax dollars to flow to Sears while ignoring signs -- including substantial annual losses, store closures and public notices of mass layoffs -- that the fading retail giant was struggling to maintain the required head count.

Politicians who helped draft the tax deals said they were designed to save thousands of well-paying corporate jobs at Sears. Contractors, landscapers and temporary employees deployed to work at Sears-owned properties were never meant to help the company qualify for tax breaks.

"The intention was to include, or count, jobs of Sears employees and staff," said state Rep. Fred Crespo, a Democrat from Hoffman Estates, who drafted the legislation to extend Sears' tax breaks and once served on the village board.

Transformco, which now owns Sears, declined to comment.

In court papers, attorneys for Sears Holdings Corp., the remnants of the former retail behemoth, have argued that different agreements with the state and Hoffman Estates included different definitions of jobs. Under a deal worked out between Illinois and local officials to create a special tax district, Sears could include any worker on its premises. Under another deal with the state's economic development agency for tax credits, it could count only Sears employees.

"Nothing ... limits the type of jobs Sears must 'maintain' in order to receive its full (tax credit) payments," wrote David Martin, an attorney for Sears Holdings, in a May 2019 lawsuit motion.

The 2012 law established the 4,250 head count level and created penalties if the company fell below the threshold, but it left open to interpretation who was supposed to monitor compliance.

Mayor William McLeod, who helped promote the 2012 deal, said the village had no responsibility to oversee whether Sears kept its promises.

"I have no mechanism to measure how many people are in those buildings," McLeod said. "We just follow the law that the legislature passed."

Illinois and Hoffman Estates leaders first crafted an incentive package for Sears in 1989, after the company decided to leave its headquarters at the Sears Tower in Chicago and threatened to move out of the state. Officials created a special taxing district, set to last for 23 years, where Sears could build its headquarters and develop the land into a massive office park.

The property value for purposes of taxation was frozen. As new development boosted the property's value, the increase in tax revenues was divided. Sears got most of the new revenue, while smaller amounts went to local government agencies.

But the tax deal failed to deliver. After Sears built its new corporate offices on vacant farmland on the village's western edge, the flood of new jobs and businesses that was expected to follow never materialized. The special tax district did not even generate enough revenue to cover the expenses of its development. Sears wound up paying $125 million for new roads and sewers without receiving tax money in return.

By the mid-2000s, the iconic retail outlet was reeling. Its stock price plummeted, under assault from bad management decisions, competition from low-cost alternatives such as Walmart and the rise of internet retailers such as Amazon. In 2005, Kmart bought Sears and took over its headquarters in Hoffman Estates.

As the special tax district neared the end of its life in 2012, Sears officials threatened a second time to move out of Illinois unless state legislators extended the deal for 15 more years. Sears wanted more time in order for the company to recoup the $125 million spent on development projects.

Sears lobbyists promised dire results should the company depart. The state would lose $3.2 billion in economic activity, 17,000 jobs and $130 million in taxes, according to a study commissioned by Sears.

Concerned about the economic consequences, Hoffman Estates and top state officials were in favor of granting Sears the additional time.

But Sears' request met with resistance from some legislators and local officials in Algonquin-based Community Unit District 300. Its boundaries overlap the Sears tax district, though children from Hoffman Estates attend schools in a different district.

Parents who were tired of years of budget cutting, overcrowding and below-average per-pupil spending were outraged. They protested at the state Capitol and testified at public hearings against extending the life of the Sears tax district, known as a TIF, or tax increment financing district.

"When the Sears TIF was proposed, it was sold to the community as, 'This will help District 300 in the future,'" said Kenneth Arndt, District 300's superintendent from 2001 to 2011. "The community was sold a bill of goods."

But local officials said few Hoffman Estates kids go to school in District 300. Despite that, the district received $52 million from the growth in property tax revenues that resulted from Sears' decision to build its headquarters and other projects in the village.

The school district would not have received any of that money otherwise, they said.

"If it was just farmland, they would be making squat from this," McLeod said.

State and local politicians approved a new package of benefits for Sears that took effect in June 2012. The special tax district was extended for 15 more years -- a lifeline estimated to be worth $125 million in additional tax rebates and exactly the amount Sears needed to cover the costs of building news roads and office parks financed by the company.

The Department of Commerce and Economic Opportunity, the state's economic development agency, sweetened the deal with an offer of tax credits worth up to $150 million over 10 years to be applied against payroll taxes.

State and local officials obtained one big concession in the new deal. Sears had to make sure that it kept 4,250 workers employed. If the company failed to meet the staffing level, the agreements allowed state and local lawmakers to reclaim the credits.

"The clawbacks were very important," said Crespo, the state representative. "There's no way we were going to risk putting the money out there not knowing if we were going to get the returns that we expect to get."

Sears itself did the counting.

To obtain the state tax credits, Sears filed yearly reports with the economic development agency to show the company had maintained more than the 4,250-employee benchmark.

The economic development agency had the ability to review the count or conduct on-site visits. But when ProPublica and the Daily Herald asked the agency for evidence of its monitoring of Sears since the agreement began, the department provided a single, four-page audit, paid for by Sears and dated May 2015. The audit found that 25 employees randomly selected by Sears were listed on the company's payrolls. But it also warned that the findings were not "an opinion on compliance."

There is no other indication the agency tried to determine if Sears was holding up its end of the deal, even as it annually disbursed approximately $15 million in tax credits.

Under the law, agency officials are supposed to issue biennial assessments of the tax credit program's effectiveness.

However, the state's auditor general found that the development agency did not issue such reports between 2012 and 2018 on any tax credit deals, including the one for Sears. In fact, the last time the agency released a report on the efficacy of the credits was November 2005, roughly eight years before Sears got its credits.

Officials with the agency declined to comment.

Experts say that Illinois is not alone in its lax oversight of tax-funded development deals.

A 2017 state audit of the Wisconsin Economic Development Corporation, for instance, found that the agency did not independently verify job numbers claimed by the beneficiaries of tax credits. Nor did it penalize companies when it became aware that companies missed targets established in their agreements.

State development agencies have traditionally failed to hold tax credit recipients accountable for promised economic growth or jobs, experts said.

"This is the same problem across states," said Nathan Jensen, a professor at the University of Texas at Austin who studies economic development. "We don't see enforcement."

Sears' difficulty in keeping jobs at its headquarters spilled into public view in 2017.

In February, Sears announced the termination of 120 to 130 employees in Hoffman Estates.

The news was hardly surprising. Over the years, the struggling retailer had cut thousands of corporate jobs and closed hundreds of stores. Layoff announcements at Sears' headquarters had become almost as regular as holiday-weekend sales at its stores.

State officials began to wonder if Sears was keeping its promises. In correspondence with the Department of Commerce and Economic Opportunity, Sears assured state officials that the company was fully compliant, with 4,410 employees.

Behind the scenes, Sears was engaged in a daily struggle to cut costs throughout its empire. Top officials were distributing "cost challenges" urging managers to find ways to remain solvent. That meant, among other bad options, downsizing.

But the more people the company shed at its headquarters, the greater the risk became that it would fall below the job requirements to keep its state and local incentives.

Sears staffers tracked its head count as closely as they did sales of Kenmore appliances at its stores, according to corporate records divulged in court filings.

Sears staffers forecast that the company would lose 130 to 140 people at its headquarters complex -- including Sears employees and non-Sears employees -- every month in the coming year, the records show. Based on such attrition, the staffers predicted the company would fall below the 4,250 threshold by February 2018.

"If we fall below the threshold, the (tax district benefit) is suspended until it's cured," Amita Agarwal, a Sears employee who tracked the numbers, wrote in an email to Rob Riecker, CFO of Sears Holdings, and other senior executives, which was included in a filing by the school district suing Sears.

Agarwal also warned them of the stakes: Sears could lose nearly $9 million in revenue from the special tax district.

Agarwal estimated that the company's head count would be only 3,240 people by the end of 2018, including all of the tenants and contractors.

"In order for us to secure this credit, we need to find more tenants and rent out some of the underutilized space at the campus," Agarwal advised.

Agarwal declined to comment. Transformco declined to make Riecker available for an interview.

In June 2017, Sears eliminated 375 more corporate jobs. Now, there was little question. Sears was at least 215 employees short of its minimum head count for eligibility for the state credits -- a fact acknowledged by Howard Riefs, a Sears spokesman at the time.

That month, state officials decided to suspend Sears' tax credits, refusing to provide nearly $15 million in payroll tax rebates that the company believed it was owed. Sears fought back, threatening to file a lawsuit. The two sides settled in December 2017, splitting the difference. Sears got tax credits for 2016 but agreed not to ask for any more for 2017. Sears is no longer receiving the credits.

Meanwhile, Sears told Hoffman Estates a different story.

On Nov. 27, 2017, more than five months after Sears had already acknowledged that it no longer had 4,250 corporate employees in both Hoffman Estates and Chicago, a Sears executive wrote to village officials.

"As of the date of this letter, over 4,250 jobs exist at the Sears Holdings' campus in Hoffman Estates," wrote Jonathan Bredemeier, the former director of real estate at Sears. "At no time in 2017 did the number of jobs dip below the requisite 4,250 jobs."

Bredemeier did not return calls for comment.

Sears increased its head count for its taxing district by counting hundreds of employees who didn't work for Sears. They worked for other companies that rented space in Sears' gigantic headquarters building, including small businesses such as Evergreen Cleaners and fast-food outlets such as Sbarro Pizza and Panda Express. Sears also counted hundreds of other outside contractors, including janitorial, maintenance, landscaping and cafeteria workers, who serviced the Sears complex.

Many of these workers were not full-time employees, as required by the 2012 agreement. Others were only temporary, project-based workers -- not the corporate-level jobs that Sears had promised to keep in return for the public money.

The difference between the two counts was significant, both in raw numbers and in dollars.

In 2017, Sears told the state commerce department that it maintained a total of 3,339 employees at its Hoffman Estates headquarters. The same year, it told Hoffman Estates that it had 4,435 workers at its headquarters -- a difference of almost 1,100 people.

The higher count for the taxing district allowed Sears to make a claim for $7 million in property tax reimbursements in 2017 -- money that would have otherwise flowed to local agencies, including District 300.

The validity of Sears' counts -- particularly, whether Sears was allowed to include non-Sears employees -- will be determined by the courts.

In 2018, just days before Sears declared bankruptcy, District 300 filed a lawsuit in Cook County circuit court alleging that Sears inflated its head count for years, depriving local schools of more than $43 million in property taxes. School officials arrived at the figure by calculating the district's share of tax revenues that, it claims, had been wrongly distributed to Sears since 2013, plus interest.

In its legal filings, Sears contends that it has fully complied with the tax district's 4,250-employee requirement. Sears interprets the guarantee to mean that it only had to "maintain 4,250 jobs" and not necessarily "employees" inside the tax district. The special district law, Sears argues, neither specifies nor limits the types of jobs that the company must maintain.

District 300 says that interpretation "turns the statute on its head." Only

Sears employees should count, the district says.

Since the school district filed its lawsuit in October 2018, Sears has stretched its interpretation of jobs requirement even further. The company now claims that it need only maintain 4,250 jobs within the special tax district as a whole and that it is not limited to counting just those who work inside its corporate headquarters.

In other words, if it wanted to, Sears could count the housekeeping staff at the Marriott Hotel, or the concession workers at the Sears Centre, or the firearms sales associates at Cabela's -- all businesses inside the special tax district -- and still remain eligible for tax breaks.

Village officials said they had no authority to monitor Sears. Under the tax agreement, Hoffman Estates receives $5 million per year from the taxing district -- money that would no longer be guaranteed if it were suddenly shut down because Sears failed to meet the job requirement.

Arthur Janura Jr., Hoffman Estates' village attorney, said the village saw itself as a middleman. It simply collected tax revenues and then distributed them according to the 2012 law -- no matter how many actual employees Sears had in place.

"If [Sears] said they didn't have enough jobs there," Janura said, "the village is still required to send them their check."