Clearly the Champaign City Council is rightly concerned about protecting and promoting local job growth. But, there are two very troubling aspects to this TIF proposal. One, that it was done under a veiled threat of “not to build if not approved”, and secondly, that Grant Thornton, an agent of Kraft, was granted the primary authority to research, develop, and write the TIF proposal.

Kraft’s request for TIF approval is therefore intimidating, troubling, and revealing. Intimidating because the veiled threat unnecessarily and purposefully shifted public pressure to the city council. Troubling because the TIF project plan was basically developed and written by Kraft’s agent. Revealing because it exposed Kraft’s main motivation of increasing its own profitability at taxpayer’s expense.

To understand the context of this TIF request and if it warrants council approval, the public must look at the fifty-year history of Kraft’s growth and profitability in relationship to its tax liability to the city and other local taxing bodies.

1. Kraft is a Fortune 500 company whose profits last quarter were over $500 million dollars. Kraft is on track to earn $2 billion dollars this year.
2. The local plant has a non-annexation agreement with the city. Kraft legally is not a Champaign city business. It never has and never will pay property taxes to the city on its original property. This has been a 50-year financial windfall for Kraft.
3. Kraft paid the city an annual fee of $197,674 for fire protection and other city services. In comparison to the size of its operations (a local plant that generates 2.5 billion dollars in annual revenue, has production and distribution activities under 38 acres of land, is the largest Kraft facility in the country, and runs 130 trucks daily on city streets), this fee is very favorable to Kraft and very small in compensating the city and local taxpayers. The fee is scheduled to increase only 1.5% annually through 2028. Again another fee benefit to Kraft.
4. The 2012 EAV of Kraft was $3,897,190. Kraft has used the courts and tax law to significantly under value and depreciate its property. A couple of years ago the Champaign School district challenged Kraft’s low EAV in court and lost. This unusually low assessment hurts local public bodies, but again is another ongoing financial benefit to Kraft.
5. At Kraft’s golden anniversary celebration in September, plant manager Christine Bense said the company has invested an average of $20-$30 million a year in the facility over the last ten years. It seems a bit incredulous of Kraft to now say they can’t move ahead on a $38 million warehouse without taxpayer support when they have been investing tens of millions in the plant each of the past ten years.

The public can conclude that Kraft is currently very solid and profitable financially, has been investing millions each year into the Champaign plant, and has received significant long-term tax breaks from the community. In light of these facts, one might question why Kraft now needs a new taxpayer subsidy for a warehouse? In fact, corporate Kraft does not.

So to make their case, the local plant hired a high-powered corporate tax advising company out of Chicago, Grant Thornton, to take charge. Its role was to massage and manipulate TIF rules and guidelines to achieve their purpose. Grant Thornton’s letterhead and fingerprints are on every study and plan associated with this TIF project.

This should be a public concern, because the purpose and process of this project has become a gross aberration of the original intent of the 1977 state law creating TIF’s.

Generally city governments, not corporate tax advisors, develop TIF districts. In this case the primary roles were reversed. The city did not take the lead role in creating this TIF to entice and encourage additional new business, but rather Kraft created this TIF to entice and pressure the City to invest solely in Kraft’s plans and profitability.

This might as well be called the Kraft TIF because Kraft is the writer, researcher, developer, and primary beneficiary. The city did not do the heavy lifting on this proposal, Kraft did. Kraft’s influence can be seen throughout. The entire proposal from beginning to end was researched and written in a way to positively and effectively represent only Kraft’s interests, needs, and desired outcomes. Everything else was secondary.

Bruce Knight describes this as a win-win agreement. But once signed, Kraft will be clearly the big winner, a guaranteed $3.6 million dollars. The community and taxpayers will be the small winner (an annual payment of $75,000 - previous A.C. Humko tax level divided among nine taxing bodies) and a few construction jobs if local contractors are used to build the warehouse. All other taxpayer benefits or community gains are neither guaranteed nor promised by Kraft. And if any do transpire, they are delayed 10-12 years down the road.

In an August 23 memo to the city council three red flags appear. City Manager David stated:

RED FLAG ONE –*Kraft’s consultant Grant Thornton will do most of the work to prepare the documentation to* ***qualify*** *this property for designation as a TIF district.* In other words, Kraft will devise a way to qualify the A.C. Humko property for a TIF taxpayer subsidy.

RED FLAG TWO – *What is proposed is formation of a TIF district focused on a* ***single project of building a new warehouse****.* In other words, this is a self-serving TIF that benefits only Kraft, not the other properties in the TIF. The other parcels of land are plainly being USED to qualify the A. C. Humko property, nothing more. This is highly unusual and if not against the law, certainly is against the intent and purpose of a TIF district.

RED FLAG THREE *– Kraft is proposing a financial partnership with the city of Champaign and the local taxing bodies to make the warehouse project* ***competitive in the Kraft Foods system****.* In other words, Kraft can afford it, but the local plant’s true purpose is to make itself more competitive within its own larger corporate system. Kraft’s goal is neither to create more local jobs nor to pay more local taxes. In fact, with a more efficient and automated production system, it is likely in ten years that fewer not more jobs will be the result of this tax subsidy.

City Manager David’s comments raise many unanswered questions about the evolution of this TIF district.

For example, Grant Thornton chose to pursue the easier TIF eligibility method by “conservation” rather the more common and usual method of “blight”, obviously knowing “blight” would not qualify. This choice was purposeful because it enabled Grant Thornton to devise and manipulate a map outline that would work to qualify the A.C. Humko property in a TIF district.

Just look at the map. It’s rather odd looking in shape. It consists of the vacated A.C. Humko, Wirco Foundry properties, and 15 vacated residential lots, one with an empty house on it. To be eligible as a TIF conservation project, this map must meet at least three of thirteen eligibility criteria. The inclusion of certain properties and exclusion of others is nothing more than clear corporate manipulation to achieve its goal of TIF eligibility.

As a result of this, Grant Thornton’s study was able to identify four factors present “to a meaningful degree”:

1. Deterioration
2. Deleterious land use or lay out
3. Lack of community planning
4. IEPA or USEPA issues

Without going into great detail, Grant Thornton has requested the city to create a TIF district based on potholes, loose gravel, depressions, rust, one vacant house, debris, overgrown vegetation, inefficient truck access, an irregular parcel shape, no past community development plan, and even though the Illinois EPA has approved the site for commercial use, some possible environment issue claimed by the owner.

The approval of this TIF project should be put on hold until the city answers the following questions for the public:

1. If a large business implies a threat to the community such as “not to build unless you approve”, how should city officials react when taxpayer money is involved?
2. Why was Kraft’s annual investments in the local plant, yearly revenue of billions, and quarterly profitability as a Fortune 500 company, not sufficient evidence they have the financial capacity to do this project without taxpayer subsidy?
3. Why in this case, did city officials abdicate their usual role of creating TIF’s, and willfully grant excessive authority to Grant Thornton to do the primary legal, eligibility, and development work for this project? By assuming a secondary role, did the city not create a conflict of interest between the private and public sector that obviously favored Kraft’s interests over the public’s?
4. As a result, how can the public be assured and confident that the project development reports, assertions, and projections were not embellished or manipulated to improve Kraft’s position for TIF approval at the expense of the city and its citizens and other possible options for the Humko property?
5. And more fundamentally, does this project actually meet the original intent and purpose of the 1977 state statue creating TIF’s?

Obviously the city never pursued a TIF district at this location prior to Kraft’s intervention either because it wouldn’t qualify or they felt it wasn’t necessary. The public must wonder if an unbiased objective agent would have drawn the same conclusions, made the same benefit claims or projected the same financial outcomes? We probably will never know, and that unbiased assessment and information is a failure of the city. Citizens expect more from their leaders than complicity and acquiescence in a process that in this case inherently favored the corporation over the taxpayer.

One thing appears certain this January, Velveeta is making millions for Kraft and the taxpayers will be subsidizing Kraft’s new warehouse, or should I say, left holding the cheese.

Respectfully,

Durl Kruse