

Illinois Business Journal

Vol. 10, No. 2 • November 2009

www.ibjonline.com

(618)659-1997

FDIC proposed ruling asks banks to prepay three years of premiums by year's end

By KERRY L. BEISER

Due to the failure of some 100 banks so far this year, the Federal Deposit Insurance Corp. is pushing a ruling that will require banks to pay three years' worth of insurance premiums in one lump sum by the end of 2009.

After doubling premium amounts earlier this year and then levying a special assessment that doubled the costs again, the FDIC is now planning on asking all FDIC-insured banks to prepay 12 times the amount of quarterly risk-based assessments they would normally owe by Dec. 30. Banks normally pay for three months' worth of deposit insurance at a time.

On Sept. 29, the FDIC Board of Directors adopted a notice of proposed rulemaking and request for comment that would require this prepayment. Banks' assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012 - along with their quarterly risk-based assessment

for the third quarter of 2009 - will all come due by the close of next month.

Dennis Terry, president and chief executive officer of First Clover Leaf Bank, says the FDIC's proposed ruling and current 60-day comment period means the writing is on the wall and that it's pretty much a done deal with regard to the lump sum payment.

"The open public comment period is usually a precursor to a new FDIC regulation," said Terry. "What I find frustrating is that if you look back over the current cycle of bank problems, the early banks that closed down were closed *not* due to capital problems but rather to liquidity problems. Asking banks to write a check of this size is going to take some of those banks that had marginally passed the liquidity mark nine to 12 months ago and push them over the brink."

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photo courtesy of The Associated Press

Sheila Bair, chairwoman of the Federal Deposit Insurance Corp., is spearheading a proposed FDIC ruling that - if approved later this month - will require member banks to pay for the next three years' worth of FDIC insurance premiums in one lump sum due Dec. 30.

Stimulus bill drives SBA lending up 53 percent in Illinois

By KERRY L. BEISER

Small Business Administration loan volume across Illinois has increased a whopping 53 percent since the second quarter of 2009, twice as much as the nationwide increase this year; industry players say stimulus-funded incentives are the reason.

According to statistics from SBA national headquarters, from March 1 through Sept. 30, 2009, Illinois banks lent a total of nearly \$199 billion in SBA dollars compared to \$130 billion during the same period in 2008. This compares

to only a 25 percent increase nationwide.

Valerie Ross, branch manager for the SBA's 73 offices across Central, Southwestern and Southern Illinois, agrees with others in the industry that two major incentives from the American Recovery and Reinvestment Act are reasons for the increased lending volume. The stimulus bill, signed in February by Pres. Barack Obama, generated funding that began flowing in March to SBA

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State board struggling with mounting stack of property tax appeals

By ALAN J. ORTBALS

The Illinois Property Tax Appeal Board is swamped with some 40,000 appeals and boxes and boxes of files, according to Walter Gorski, board member.

"We just got a new chairman for the state property tax appeal board," Gorski said. "He visited our Springfield office and he took pictures because he was in such shock. There are files everywhere. You can't really use it as an office."

The problem, according to Gorski, is a combination of an increased number of appeals and a badly diminished staff. Gorski says that about five or six years ago, the office had as many as 54 people but that was drastically cut. Now there are only 19. Whereas it used to take about six months to get an appeal heard, now it takes years. The Tax Appeal Board is still working on appeals filed in 2007, Gorski says, and more are coming in every day.

"The numbers of appeals are growing faster than the number we're processing," Gorski said. "Generally, we settle about 1,500 per month. The trouble is that they're coming in at a pace that's even greater than that. Each month we're getting further behind."

According to Gorski, the staff cuts were made with the understanding that the city of Chicago was going to handle its own appeals and not send them to the state office, but that never came to pass. The state board continues to receive the Chicago appeals but has less than half the staff it once had to deal with them. With the state looking at so much red

ink in its own budget, the Tax Appeal Board staffing has been a low priority.

Further pushing the Tax Appeal Board down on the state's priority list, according to Kerry Miller, chairman of the Madison County Board of Review, is the fact that the state doesn't receive any property tax revenue.

"All the property tax revenue stays local, stays with the county, stays with your city, stays with your school district," Miller said. "Springfield doesn't get any of the money so they couldn't care less if you have to wait two or three years for a hearing because the revenue stream doesn't affect them. So they say, 'Why should we spend 200,000 more dollars hiring two, three, four, five extra clerks and hearing officers? What is the reward for us? We don't get any of that money back.' So, it's not real high on their priority list," Miller added.

Meanwhile, the number of property tax appeals is booming as township multipliers - based on past years' sales - are pushing assessments higher, while actual market values drop. The number of appeals in Madison County, for example, is up 65 percent this year over last.

"Last year we had 1,700 appeals," said Miller. "This year we have 2,800. That was expected. We all knew that was going to happen, given how the market's doing. It's been front page news for the past two years; the real estate market's

■ See *APPEALS*, page 22



Thanks to an influx of \$375 million in American Recovery and Reinvestment dollars since March, Illinois is experiencing a 53 percent increase in SBA lending - more than twice the national average.

See Inside For Southwestern Illinois
Banking & Finance

News from Around the Nation

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All business: Innovation needed even in recessions

By RACHEL BECK
AP Business Writer
Oct. 24, 2009

NEW YORK (AP) - A theme is emerging from the flood of recent corporate earnings reports: Cost cuts are boosting profits.

Investors are cheering, but they shouldn't. Even in these tough times, more CEOs should be talking about how they are seeking out investments, developing new technologies and making acquisitions.

That's what will set their companies up for a stronger future.

Intel Corp.'s former CEO Gordon Moore had it right when he said years ago that "You can't save your way out of a recession." He meant that even in the toughest times, companies have to spend money on new ideas.

Recessions always end, Moore often said, and when they do, companies that embraced innovation during the downturn won't be stuck with obsolete products and services. Instead, they'll have new things to offer once demand picks up again.

"Customers don't come out of recessions spending the way they did before," said Chunka Mui, who has studied how companies can capitalize on opportunities during crises at his Chicago-based consulting firm, The Devil's Advocate Group. "They demand something different."

Surprisingly few companies are following Moore's advice of innovating during recessions.

Companies in the Standard & Poor's 500 index cut 25 percent on average from their capital expenditures expenses and 5 percent from research and development costs between the end of the third quarter last year and the second quarter this year, according to S&P.

Many have been crippled by the pullback in consumer and business spending as well as tight credit conditions, which is making it harder for companies to get loans to fund their operations. That's driven some to hoard cash and make drastic cost cuts. They're slashing jobs and wages and closing stores and factories.

The aggressive cuts have allowed companies to exceed Wall Street's expectations for their earnings. In fact, the "good" news has sent the Dow Jones industrial average above 10,000 for the first time in a year.

The problem is that too many companies are making widespread, not focused cuts. They're telling every division to cut 10 percent of their work force or slashing marketing dollars by the same amount companywide.

That is a quick way to rid a company of costs. But it doesn't help it get in a better position going forward, says Cesare Mainardi, managing director at the consulting firm Booz & Co. and

co-author of the new book "Cut Costs, Grow Stronger."

"A downturn like this should force people's hand," he said.

At Intel, Moore's philosophy has been used consistently since he led the chipmaker starting in the late 1970s. Over the years, the Santa Clara, Calif., company's top executives continue to openly discuss the company's strategy of investing heavily in downturns.

During the 2001 recession, which hit tech companies particularly hard, Intel cut thousands of jobs and shut down unprofitable ventures. But it also ramped up spending on research and development on its core business of making computer microprocessors, even as its profits faltered. That helped the company diversify its product mix.

Apple Inc. had been struggling in the late 1990s as competition in the computer business intensified. But that didn't stop the Cupertino, Calif.-based company from boosting its spending by 30 percent on research and development from 1999 to 2002, even as revenues fell.

As a result, the iPod was launched during a downturn in October 2001. Apple also made headway on its iTunes music store at that time, enabling it to launch in 2003.

Southwest Airlines has also expanded during past recessions. The carrier, which is based in Dallas, was founded during a period of

weak economic growth and soaring energy costs during the early 1970s. It boosted its fleet of aircraft and expanded its routes during the early 1990s and 2001 recessions, allowing it to steal market share from competitors.

To be sure, some companies are in fact heeding Moore's advice.

Intel announced plans to spend \$7 billion over this year and next to build new manufacturing facilities so it can produce faster chips.

Walt Disney Co. is planning to give a high-tech makeover to its stores that will make them into mini-theme parks. Procter & Gamble is overhauling its Gillette shaving operations in Boston.

Toys R Us Inc. has been buying up competitors, including high-end specialty chain FAO Schwarz. Cisco Systems Inc. has made five acquisitions this year, including two in the last month with a combined price tag of nearly \$6 billion.

Google Inc. said it is ready to step up its hiring and plunge money into up and coming businesses, in areas like mobile technology.

"We now have the business confidence to invest heavily in the next phase of innovation, helping to invent the future as we see it," Google CEO Eric Schmidt told investors earlier this month.

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Flood Prevention District Council will host design competition for levee solutions

By ALAN J. ORTBALS

The Southwestern Illinois Flood Prevention District Council will be asking engineers to get creative and submit competing plans to fix the levee systems protecting the American Bottom. Requests for qualifications will be sent out to engineering firms soon.

Les Sterman, chief supervisor of the district, says that it's become increasingly clear that the district will have to devise its own solutions and not depend on the U.S. Army Corps of Engineers. The council is aiming to try to bring the project in around the \$200 million figure - thus the intent to find other cheaper solutions.

The Corps has been looking at solutions like cut-off walls that are huge concrete walls poured down to bedrock, more than 100 feet deep. Chris Wilson, program manager for the Corps, says that they've been considering cut off walls and seepage berms for portions of the Wood River levee system and the Metro East Sanitary District system. Both solutions are very expensive, according to Wilson.

"If the Corps is the certifying organization, that would suggest that we've got a \$500 million project that we can't afford," said Sterman.

The council is hoping to find better solutions by asking multiple engineering firms to think outside the box and to focus their efforts on developing affordable solutions.

"The idea is that we want to create a competitive environment for consulting engineers to try to come up with the best design solution at the lowest cost possible," Sterman said. "We want to set up a situation where we can essentially solicit alternative design proposals. Normally you can't do that in a typical proposal because it costs too much for a consultant to put that together, so we're going through a multi-step process. The first is the RFQ (request for qualifications). We'll pick maybe three or four firms and we'll ask them to submit a more detailed proposal, which would include conceptual designs. We'll pay them something for doing that. Following that, we'll convene a panel of experts to review those proposals and to give

us some advice on what path we should take."

The firm that is ultimately selected will oversee the construction and will be required to certify the levees to the Corps once all the work has been completed. Until now, certification by a private engineering firm was considered to be unobtainable as it would potentially put the firm at risk for billions of dollars of damage and the loss of life should the levees then fail. But that situation is changing, according to Sterman.

"There's a lot of work like this around the country and I think consultants are seeing that they'll leave an awful lot of money on the table if they're not willing to certify," Sterman said. "We've put together a list of firms that have done certifications and we'll see. It may be in our situation they don't want to certify, but that's got to be our goal."

Sterman says the \$200 million target figure is not a magic number and is based primarily on the amount of money that could possibly be raised under current circumstances. He says he thought that approximately \$150 million could be raised from a bond issue based on the sales tax that went into effect in Madison,

St. Clair and Monroe counties on Jan. 1. Another potential source of funds is the four levee districts that exist in the area: Wood River Levee District, Metro East Sanitary District, Prairie DuPont Levee and Sanitary District and the Fish Lake Drainage and Levee District. A third yet unexplored potential source, would be private industry, Sterman says. Businesses would be hard hit by de-accreditation as most of them would be forced to go on the open, private market to buy flood insurance and the price could be severe. Sterman says those businesses might be willing to spend money on solving the problem rather than on insurance premiums.

Part of the problem, according to Wilson, is that the original figure of \$180 million was just an estimate and not based on complete information.

"Back in 2007 we came up with a preliminary cost estimate in the middle of the planning process for each of the projects," Wilson said. "We hadn't completed all of our analysis of alternatives, but folks wanted us to get a cost estimate out there so they could start the planning process for how they were going to raise the money for the projects.

It had always been a part of our plan to go out and get new data to refine the scope and the cost estimates for those projects. In some cases the data was 50 years old. When we started collecting the new data, we found out that the problem was a lot worse than the old data indicated. That's what has caused the cost estimate to grow from the \$180 million up to \$300 million to \$500 million," he added.

In a memo from Sterman to the Flood Prevention District Council's board of directors, Sterman said that the Energy and Water Development and Related Agencies Appropriation Act of 2010 will provide only about \$2.2 million for American Bottom levee repairs, not including the Chain of Rocks Canal. "Obviously, that is not enough to maintain a reasonable level of work activity during the coming year if we are to meet a five-year timeline for completion of the project," said Sterman. "Prospects for the future do not suggest the pace of appropriations would increase to the point where we could achieve a reasonable timeline for construction and certification. The handwriting is increasingly on the wall that federal funding is going to be anemic," he added.

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IBJ Business News

SIUE Business School ranks among Princeton Review's 301 Best in the U.S.

Southern Illinois University Edwardsville's School of Business has been ranked as a Best 301 Business School in the 2010 edition of *The Princeton Review*, a New York based education services company.

Results are based on student surveys and institutional data from 2009. *The Princeton Review* noted students surveyed indicated they were drawn to the SIUE School of Business because of its reputation and its accreditation by the Association to Advance Collegiate Schools of Business International.

Students also said they were attracted to the school's "convenient evening hours" and weekend classes "to better manage the work-life-school balance" as well as the school's affordability - the most affordable tuition in metropolitan St. Louis.

Wright Joins Horner & Shifrin

Carrie Beth Wright has joined Horner & Shifrin Inc. as an engineer in the firm's structural engineering group.

SIUE Entrepreneurship Summit features start-up, survival expertise from regional execs

By **KERRY L. BEISER**

Three prominent Southwestern Illinois entrepreneurs agree that companies who use the down time during a recession to strategize and allocate resources for when the economy improves will likely thrive once things turn around.

Bruce Holland, Rich Saugeat Jr. and Jim Allsup are presenters at the 5th annual Entrepreneurship Summit, hosted by Southern Illinois University Edwardsville's Entrepreneurship Center. The event, to be held Tuesday, Nov. 17 at the Regency Conference Center in O'Fallon, features a morning full of expertise on the topic of starting a business.

The three presenters are known both for their entrepreneurial savvy as well as their contributions to the region.

Holland, president of Holland

Construction Services Inc. in Swansea, started the firm with a partner in 1986. "The year we started it, the economy wasn't great, but it wasn't bad either," he said. "There's no doubt that 2009 is a tough time to be starting a business...but if you can start now and make it work, you'll thrive."

The executive's advice? Keep your nose clean when it comes to building your workforce. "If you've got relationships that you've established through the business you've been working for, don't go out and cannibalize those relationships," said Holland. "When I started the company, I just took a few key people who were very close to me. We didn't go after any of the other people until that (competing) company closed its doors.

The same goes for clients."

An entrepreneur's personal reputation - if it's a good one - can go a long way toward success in launching his venture, according to Holland. "It's surprising how people will want to help you," he said. "For example, when we first started out, we said we needed to be paid on time, and clients really honored that. And it was surprising the people who took us under their wing - even those who had been competing in the same industry for years."

Keeping overhead costs as low as possible is another tip Holland offers new businesses; staying operationally lean, he says, will go a long way toward surviving tough economic stretches.

"We definitely watch our budgets more closely during tough times, but we don't change our overall business philosophy," Holland said. "It's particularly important to remember not to sacrifice quality in what you do because now's the time when you've got to make sure to keep your existing clients."

Entrepreneurs should seize every chance they get to develop a dialog with successful professionals who've been in that industry for a long time, according to Holland. "You also need to have some strategic partners with you from the very beginning - your accountant, your banker and your attorney - that you share everything with to help you make the very best decisions," he said.

Those who are contemplating starting a business should be sure they have buy-in from their family members, says Holland, because of the huge time and energy investment that a start-up requires. "Your family needs to agree that this venture is a goal for them, too and be willing to give up some time, especially in the early years," he said.

Rich Saugeat Jr., mayor of the village of Saugeat, has begun a number of related companies in the commercial real estate sector. Saugeat says the current recession is the worst he's seen since he began launching companies in the late 1990s. Saugeat's start-ups include S&S Management, Saugeat Rentals Inc., Queeny Properties and Estelle Properties Inc.

"Credit markets have tightened up and start-up money is much more difficult to come by," said Saugeat. "It is definitely a different environment to be starting up right now. What we're doing now is focusing on planning so we can take advantage of some new markets that are coming about. Planning and having things on the shelf so you're ready to jump in once the market turns around makes a lot of sense."

Allsup founded his Belleville-based company, Allsup Inc., 25 years ago to help individuals collect their social security disability insurance and Medicare benefits. Today the company employs more than 600 people. At the November summit, Allsup will provide an update on his entrepreneurship support program for high school students; Allsup and Saint Louis University are partners in the program.

Kristine Jarden, director of the Southwestern Illinois Entrepreneurship Center, says the annual summit provides a forum for expertise and the exchange of ideas between presenters and potential entrepreneurs who attend.

"Our 5th annual Entrepreneurship Summit will highlight the achievements of the Entrepreneurship Center and entrepreneurs in our region throughout the past year," Jarden said. "This will also be a great opportunity to hear about the efforts to enhance the entrepreneurial climate in Southwestern Illinois."



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