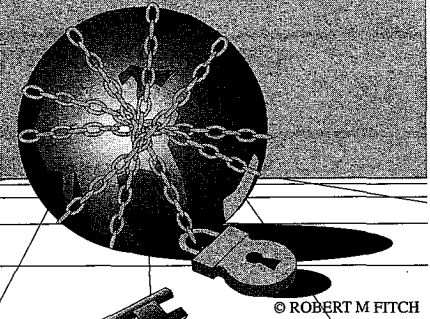


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HOW LAND VALUE TAX WOULD REVITALIZE THE EAST ST. LOUIS WATERFRONT

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Welcome to St. Louis. I have spent the last 25 years studying a part of this region that has struggled. East St. Louis, IL is a failing city by just about any measure that you can think of, economically, socially, crime rate – whatever statistic you can come up with, East St. Louis is struggling in that category. It is not something new in East St. Louis. It has struggled for generations.

I want to talk about East St. Louis today. I was on a plane trip and I was looking out the window as we were leaving St. Louis and we were flying over the river with St. Louis on the west side and East St. Louis over on the east side. My first thought from 2000 feet up was East St. Louis looks deceptively green and tranquil, but that is not the reality at street level. After that I wanted to capture that in a picture and then I started looking at how the market treated the west side of the river and then how the market has treated the east side of the river. There is hardly an undeveloped block over here but look at all the green space and open space on the east side.

I was wondering what was happening and I thought after being invited to speak here at this conference, let's look at just this study area between the two bridges, the Eads bridge and what is called the Poplar Street bridge which has multiple formal names (but everybody just calls it the Poplar Street bridge). Let's look at what is happening at that land between the bridges. I think it is illustrative of some larger issues. So, in this study area you are looking west and the Poplar Street bridge is to the left and the Eads bridge is to your right; it is one of the best views of the lovely St. Louis skyline and the Gateway arch. It is a fantastic view. This land has seemingly should have tremendous value. We are in this age of tourism now where cities attract tourists. In

academics we don't necessarily think of tourism as amusement and good times but people who travel for a purpose. It could be for amusement but it could also be for business or for other purposes. But they intend to stay overnight. Tourism is the direction that cities have been going for a long time and this land has high potential for that. If you go up in the Gateway Arch and look at our study area this is what you see.

Now we look at the east, the Eads bridge is on the left and the Poplar Street bridge is on our right. There is not a lot of high value land use going on right here at the riverfront. But if you look at other cities, if you go to Covington, KY, which is a place a lot like East St. Louis, if you go to Gary, Indiana, you actually see stronger development there than you see in places like East St. Louis, even though east and west has a very similar experience to Gary, Indiana and Covington, KY and Camden, NJ.

So, I will give you a little bit of a history lesson. We go back to the very beginning, way back to the late 1700s when Captain Piggott comes to the East St. Louis area. He is a Revolutionary War officer and came here on military assignment and was a friend of George Washington. He bought some of the Illinois floodplain that includes this study area between the bridges that we are looking at that includes the area between the two bridges in the present day East St. Louis. That area at the river was actually separated from the rest of the land by a rather substantial creek that ran through there called Cahokia Creek. He built the first bridge over Cahokia Creek. That connected his land on the riverfront with the rest of the floodplain which had connections with the bluffs where the population and urban centers were.

So, in 1795 he goes across the river, and you got to remember this was still a Spanish colony in Missouri in 1795, and he gets perpetual license to run a ferry operation across the Mississippi River between St. Louis and Illinois. He built a bridge, he sets up a ferry operation, he gets his license and then he dies in 1799 just a few years after he does this. Here is the only known picture of his work and you can see that the Cahokia Creek was a rather large body of water and it was a rather substantial bridge that he built across it and then from there now we head down the Mississippi River to take this ferry across the water.

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His widow after a few years decides to sell off the land and the ferry operation. And this company called McKnight and Brady buys 5/7ths of the land and plat out a city across from St. Louis called Illinois Town. They also hold an interest in that ferry operation. And so in 1819, 20 years after Piggott is gone, this fellow named Samuel Wiggins comes from New York and he sees that 2/7s of the Piggott estate has not been purchased. He decides he is going to buy it. It happens to be the riverfront property. If you know St. Louis, and if you know East St. Louis, this area that McKnight and Brady bought is where Southern Illinois University's campus is there in East St. Louis, so it is close to riverfront but not on the river. So, Wiggins comes in and he buys that remaining 2/7s of the land. Then he goes to the brand new Illinois legislature (remember that Illinois doesn't become a state until 1818, Missouri is still not a state until 1821) and the legislature is eager to have economic growth. He wants a monopoly on the ferry traffic between this new state of Illinois and the growing city of St. Louis. The Illinois Legislature gives that to him. Then the Wiggins Ferry Company starts.

Now here is where it gets interesting. We now have a monopoly. Wiggins became an incredibly wealthy man with all that traffic, and not just people, but freight and trade. He controlled everything going across the river. What are we going to do about it? We are going to argue and complain for 40 years. And then we are going to build a bridge. The monopoly is broken.

We have a wonderful historic bridge here. The Eads bridge is actually an engineering marvel. In 1869 a party of investors in St. Louis raised \$10 million. That is the equivalent of \$215 million if you adjust that for inflation. Then they hire one of the most brilliant engineers that could be found, by the name of James Eads to build it. In 1874 construction is done, it is impressive, and they invited the president of the United States to come and dedicate it and open it to traffic.

The monopoly is broken until 1875 when we incurred so much debt in building it that we defaulted on the loans and therefore we lost it to the bank. But for one year the monopoly was seemingly broken. J. P. Morgan steps in and buys the bridge out of bankruptcy for \$2 million, actually it was \$2 million he had already invested in it, so really he took his \$2 million investment back and the \$10 million bridge. He makes this deal with Wiggins Ferry Company and said let's split the profits 75% for the bridge and 25% for the ferry for not competing to carry the rail traffic across the river because the ferry operation grew to where it could start taking train cars and start taking freight across the river as opposed to just taking people and horses and small loads. Morgan cuts a deal. Monopoly is restored. After all this investment to break the monopoly we are right back to where we were.

Enter Jay Gould who was shrewd money maker. Morgan in 1880 a few years later decides to sell off everything to Jay Gould. Gould already owned most of the railroads that were leading up to the bridge coming from the East coast and terminating in St. Louis. He already owned a lot of those railroads and he took his cash to go ahead and just buy up all the railroad track on the

riverfront. Basically, the Wiggins Ferry Company starved and basically died of starvation. If you control all that riverfront track you control all the access to Wiggins Ferry. The ferry company struggled to the point where Gould bought that too. Jay Gould owned the Union Pacific Railroad and there was a toll going across from Illinois to St. Louis. He rerouted the entire Union Pacific rail system across the Mississippi river at St. Louis so he could collect the toll from his own company.

Now we have this gigantic monopoly. We are going to complain for 10 years and then build another bridge. David R. Francis, a local person and president of the St. Louis World's Fair, was also president of the Chamber of Commerce called the St. Louis Merchants Exchange. He pushed the Merchants Exchange to build a new bridge. It opened in 1890 and in 1893 it was bought by Jay Gould.

Then the monopoly institutionalized itself. It was this conglomerate of really investments; Jay Gould was the major investor in all these large railroads but not necessarily the owner. Jay Gould dies around 1890 but his family takes over. They create the Terminal Railroad Association and it is basically a simple business institution that takes over all those Gould family holdings. Now we have one company, not just one investor, now we have one institution that owns the bridges and the tunnels and the railroads and the ferry. The Terminal Railroad Association built a beautiful train station in 1894 downtown on Market Street and it still stands though not a train station any more, but it is a hotel and convention center and grand tower.

So, what are we going to do. We have this institutionalized monopoly. They have bought up all the bridges. Now people will complain for 20 years and then we will build another bridge.

This time it will be built with public funds. It is going to be held by the government and there will be no tolls at all. It will be publicly supported and a public asset. Many people called it the free bridge but the official name is the municipal bridge. It was difficult to build it and it sat unfinished for five years. The entrance ramps on the Missouri side were not built because the voters would not approve the bonds because they said we will build this and the Terminal Railroad will come and buy it like they did all the other bridges. However, because of some very convincing politicians in St. Louis they did get the bond issue, they did finish the bridge and by 1917 they finished the approach and it opened to traffic. Even though it was not supposed to have tolls, in 1932 they had tolls.

Today the Federal Railroad Association actually owns it but for good reason. When St. Louis wanted to build its light rail system they wanted the Eads bridge to run the light rail line and so the Terminal Railroad said we will trade bridges with you.

Now let's go back to the study area. Let's look at who owns all this land. Front Street is the street that runs along the water. The first owner is the casino in the 200 block of Front Street. The casino is a subsidized land owner in that there is a lot of public investment there. There is probably \$50 million in public investment in this private casino. Technically Illinois says gambling can only happen on (continued on page 13)

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riverboats. Because it was too dangerous to have the boat as a casino they actually built this building which is sitting on a barge attached to the land. So technically it is a riverboat casino. But they own a very large portion of the riverfront.

Next to that is what used to be the Continental Grain Company. Now it is Cargill. They own the 300 block of Front Street and operate this grain company. They have been there a long time and they load grain on barges.

The next land owner in the 400 block is a park. It is owned by local government. But over here all that wooded land is owned by the Terminal Railroad Association to this day. Remember Samuel Wiggins? He came to town and saw that 2/7s of the land was not purchased so he bought it back in 1819. He still owns it today. The Wiggins Ferry Company is still the owner of record of this strip of land after almost 200 years.

So, the East St. Louis waterfront is stuck. In this era where cities are moving toward tourism this is the best land that is available for the city's future. The casino has a deep lot, the grain elevator only owns this much, and the Terminal Railroad actually owns quite a bit. The East St. Louis waterfront is the site of the highest potential, but just about half the land and I would argue some of the most critical portions of the land are held by these legacy landowners that really have a low utility land use. Government can be a source of change but if we look at East St. Louis with all its struggles and the only real change that ever happens there is when it is imposed by either the state or the national government coming in and setting rules. East St. Louis has struggled locally with its decision making and therefore I don't know that we can expect a lot from local decision makers. The grain elevator has expressed a willingness over time to move. They said we don't use all this space that is in this grain elevator. If you go up in the Gateway Arch you will see the grain elevator sitting right there. They said we don't use all the capacity, give us a new grain elevator and we are happy to move. They almost got that new grain elevator years ago but the local mayor said you are not closing the grain elevator on my watch.

There is a rail line that runs across that Wiggins Ferry property but because they own that bridge now, the old free bridge, there are alternatives so really that rail line is not necessarily a vital thing. The government is already building a pretty significant port structure south of Poplar Street bridge a little farther downstream here from our study area so that would be an excellent place for rebuilding something like a grain elevator. You could also relocate rail lines there.

The federal government has already declared an interest in that riverfront property because it would like to expand the Gateway Arch grounds from Missouri into Illinois. They have officially declared interest in our study area of land. The problem is how do we get people to consider a significant land use change. The Terminal Railroad is sitting on a lot of land, acres upon acres of land and assets simply because it can. It is at no cost to them. Tax bills are low, land is undervalued and it cost them nothing, so it is very profitable enterprise even to this day. It sits on these assets because it can. I do want to give credit where credit is due. The Terminal Railroad Association has been fluid about parting with that excess land. If the park wants to expand - right now we are building a lot of bicycle and walking trails over old railroad rights of way - the Terminal Railroad has been very good about turning this land over.

So that is a positive thing. But I hold out that a different tax structure might be the motivator for the Terminal Railroad to

release this land for a higher use, even land that it is currently using for rail traffic. I think we potentially have land that could go to a higher use and that is of much greater benefit to the community.

How many of you have ever been to Quebec City? It is a lovely place. It is potentially a model for us to consider. Quebec has an old city wall. East St. Louis has a flood wall that runs across it. You cannot walk from the city of East St. Louis and touch the water. On both sides the flood wall sticks up really high. On the Missouri side in St. Louis the floodwall sits higher. The flood wall actually is built inside the Gateway Arch and is a bunker under the arch grounds and behind the staircase, people can kind of see where the flood wall is.

But there is the old city wall that separates the high ground from the waterfront. Now they have upper city and a lower city and you have a lot of building around the corner here at the water level. But let's just look at this wall here. They have a wall that really would be a barrier for these property owners to have access to the water. So they built an incredible board walk and converted that wall space into a very significant public space that offers commercial opportunity and it also enhances the use of buildings adjacent to it. It is anchored by that major tourist attraction. That gorgeous hotel was built by the Canadian Pacific Railway and the views of the St. Lawrence River are quite lovely. The old city wall has large boardwalk space, and lots of park benches and open space. There are a few pavilions around. There are some businesses that are spotted along the edge of the boardwalk that cater to the tourists. Sometimes they will set up tents for temporary things like book stalls or food tents that can be done easily. It is a nice market place.

I wouldn't say the Terminal Railroad is a land speculator but they have this land that was achieved through monopoly, and they have this land they are just sitting on. I don't think they run a train across this track very much because they own so much railroad track. They have other north-south runs. If the only reason they are running that track is to serve the grain elevator which is willing to relocate, the Terminal Railroad is sitting there because it is cheaper. Could land value taxation be the impetus to change the Terminal Railroad's opinion and re-route tracks and turn that land over to higher use? <<