

# Citizens Oak Ridge

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## Mythbusters

**Myth:** City funding for Crestpointe would be an investment in a new shopping center.

**Reality:** "Investment" is an inaccurate term for the city's proposed financial role in Crestpointe. The city would pay about 16% of the cost of the development, but would have no ownership in the project.

**Myth:** The City needed to make a quick decision on the Crestpointe proposal because Target makes all its new store locations in the spring. The citizen petition for a referendum jeopardized the entire project by delaying it.

**Reality:** That was the city's official story during the petition drive. However, after the petition drive succeeded, it was revealed that Target actually considers new store locations several times a year. A delay of several months in the city's decision would merely delay a possible store opening by several months.

**Myth:** The City's \$10.5 million would be repaid by the project, like a loan.

**Reality:** The wording "\$10.5 million repayable" that has been used to describe this project is inaccurate and misleading. The funds would not be returned to the city as a loan would be. Instead, the city hopes that the project would generate enough revenue through property and sales tax to pay back the city, including loan principal and interest.

**Myth:** Some of the city's money would help buy new roads, which would become public assets.

**Reality:** The new roads built as part of this project would have no function other than providing access to the shopping center site. Basically, they would be large driveways.

**Myth:** Public spending on Crestpointe would be no different than Knoxville and Knox County spending \$6 million to assist Turkey Creek development.

**Reality:** The \$6 million that Knoxville and Knox County reportedly spent at Turkey Creek went to build Parkside Drive, a public road that connects other city and county streets, in addition to providing access to businesses and hospital property. That was public money spent on a public asset. In the Crestpointe proposal, the only part of the City's \$10.5 million that would go toward a public asset would be \$150,000 for a new traffic light. The remaining \$10,350,000 would be spent solely to benefit private property. Also, at the \$500-million Turkey Creek complex about \$83 of private money was spent for every dollar spent by Knoxville and Knox County. The \$65-million Crestpointe proposal calls for only \$6 of private spending for every dollar of public money spent.

**Myth:** Pine Ridge was destroyed in 2001. GBT's project would simply put the remains of the ridge to good use.

**Reality:** The Pine Ridge landowner and GBT are asking the City to pay \$9 million to make massive changes to the site before anything is built. The city's viewgraphs show a total budget of \$9 million for costs itemized as excavation (including "rock excavation", which on this site means blasting), filling, and retaining walls. This work would include a total of more than 1.7 million cubic yards of excavating and filling. For comparison, that's more than the 1.4 million cubic yards of rock and soil that was moved in building the

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<sup>1</sup> Citizens Oak Ridge – <http://citizensoakridge.org>

SNS, which ORNL officials said was enough dirt to fill Neyland Stadium to a level above the press box. Even with all this additional earthwork, there may be problems with construction and future maintenance of buildings and infrastructure because the site has thick areas of earthen fill (up to 100 feet thick) that may not have been compacted properly.

**Myth:** The city has data showing that the shopping center would generate sales of more than \$140 million per year.

**Reality:** The city has no data on the amount of new retail that area shoppers could support. The \$140 million figure is a guesstimate based on generic values for sales per square foot in various types of stores over a multi-state region.

**Myth:** The city's estimate that the shopping center would increase Oak Ridge retail sales by \$60 million per year is conservative or below expectations.

**Reality:** The \$60 million value is not based on the economic environment or new spending market demand in Oak Ridge. The city does not have current data on market demand. The follow comparisons put the \$60 million figure in perspective with data that we have:

- \* \$60 million per year in increased sales is equal to the 13,000 households in Oak Ridge each increasing their Oak Ridge shopping by \$4600 per year on average.

- \* The marketing survey carried out by the LWV indicated that about 33% of residents do most of their non-grocery shopping in Knoxville. That's equal to about 4,500 families. If the Crestpointe development caused all of those families to shift their spending from Knoxville to Oak Ridge, each family would have to increase its local spending by \$13,000 on average in order to provide \$60 million sales.

- \* Currently, retail sales in Oak Ridge total \$440 million per year. An increase of \$60 million would raise this total by 13.6%.

These comparisons call into question the "conservative" description of the \$60 million sales figure.

**Myth:** A new shopping center in an area not currently used for retail would not increase the cost of municipal services.

**Reality:** It is possible that city officials are correct when they say that a new shopping center would not lead to purchase of new equipment or hiring of new police or fire personnel. However, big-box stores are notorious for their above-average effect on costs for police and road maintenance. Common sense indicates that additional traffic, a new stoplight, and a big increase in the size of the city's commercial area will add to the city's workload. If the city chooses not to spend more money on police to handle this added workload, it is reasonable to expect less police coverage in other parts of the city. National sources indicate that shopping centers increase police costs by about 42 cents per square foot of stores. For this 450,000-sq-ft center, that's \$189,000 per year (29% of the projected annual net gain in city revenue).

**Myth:** The Crestpointe project does not create liability risks for the City of Oak Ridge.

**Reality:** Although the City would have no equity interest, with the Industrial Development Board holding title to the property the City would face the liabilities of ownership. The city will attempt to contract with the Crestpointe developer to be indemnified for any judgments that might be made against the City. However, the developer is likely to set up a limited-liability company to own the project. If this LLC (or the parent company) were to declare bankruptcy, the City could be left holding the bag for a major judgment related to potential incidents such as a retaining wall failure.

Myth: This project would not hurt existing businesses in the city.

Reality: In estimating the new sales generated by this project, the city apparently assumes that \$80 million of the sales expected at Crestpointe would come at the expense of existing businesses. That's 18% of the \$440 million in sales the city has now. If that projection comes true, more than a few local businesses will close their doors.

Myth: Retail property, as opposed to industrial or residential property, is the best kind of property development for creating new Oak Ridge tax revenue.

Reality: This myth is based on the retail property generating additional revenue from sales tax. The best use of the property and the amount of revenue from it depends on what the market conditions indicate is needed and can be developed. From a financial standpoint, a successful property development of any kind is preferable to a failed development.

Myth: GBT Realty is the only company able or entitled to bring this type of retail development to Oak Ridge.

Reality: Although city officials have been making public statements implying that there is an exclusive arrangement with GBT, there is no legal basis for such a relationship. If the City is going to enter into an exclusive business arrangement with a developer, it would first have to issue a request for proposals and evaluate them in an open process. This has not happened. Additionally, GBT does not have an exclusive contract with Target. Other developers in the area, including but not limited to Bob Monday and Steve Arnsdorff/CORE Properties, are also capable of developing stores for Target.

Myth: Target has committed to building a SuperTarget store at Crestpointe.

Reality: Target has demonstrated an interest in locating a store in Oak Ridge, but the company has made no contractual commitments to this development. Furthermore, Target's published descriptions of the types of stores it operates (see <http://pressroom.target.com/pr/news/target-stores/fastfacts.aspx>) indicate that Oak Ridge is too small of a market for a SuperTarget store. Oak Ridge is the type of market where they might locate a smaller general merchandise store, without groceries.

Myth: Wal-Mart placed deed restrictions on the mall property that prevent a Target store from being located there.

Reality: This is true.

Myth: Those deed restrictions cannot be altered.

Reality: The owner of the mall property could renegotiate this with Wal-Mart. It easily might turn out to be in Wal-Mart's interest to relax the deed restrictions.

Myth: A shopping center on Pine Ridge would boost the planned redevelopment of the City Center (mall) property.

Reality: There is limit to the amount of shopping that a community can support. Our local market (including people who don't live in Oak Ridge but might shop here) is not large enough to support viable shopping centers at the City Center and Crestpointe (each assumed to about 450,000 square feet) plus Wal-Mart (more than 200,000 square feet) and the other existing local shopping areas. This is an either-or situation. If we choose Crestpointe, we are giving up on the possibility of reviving the City Center.

Furthermore, Crestpointe would be too far from other Oak Ridge shopping areas (at least 1-1/2 miles by road from the K-Mart-Kroger center and farther from other shopping areas) to give them the kind of boost that marketing experts say happens

when nearby stores compete with each other (allowing shoppers to visit several stores in one short trip).

**Myth:** Target wants the Pine Ridge site.

**Reality:** Target is not committed to any particular location. The company cares about the potential of the market and wants a location that meets their criteria for size, accessibility and visibility. Pine Ridge is not the only site in Oak Ridge that appears to meet those criteria.

**Myth:** The developer would buy the site from the current owner at a free-market price based on the potential uses of the property in its current state.

**Reality:** In a presentation to a local service club, the city manager said that the negotiated sale price for the property is \$70,000 per acre. This is much higher than the county appraiser's market-based valuation of about \$10,600 per acre that is listed on the property tax rolls.

**Myth:** It is now or never for a Target store in Oak Ridge. If we don't get one now our chance is gone forever.

**Reality:** There is much evidence that Target is interested in the Oak Ridge market, with or without GBT and with or without city financing.

**Myth:** This is our last chance to attract a new retail development.

**Reality:** There is evidence that this is not true. Other developers have already proposed other sites suitable for a Target.

**Myth:** We must capture this "opportunity" now or the future will be bleak.

**Reality:** There is no evidence that a bleak future follows from rejecting the project bonds. GBT could decide to continue the development without the city gift. If not, the door is opened for other developers and their site selections.