

A Brownfield Success Story

Project Background

Laclede Steel, manufacturer of carbon and alloy steel products, was a major employer in Madison County, Illinois for almost 90 years. The company produced about 200 grades (chemical combinations) of steel and produced steel from recycled scrap steel using electric arc furnaces. The Laclede property occupied a 400 acre site in Alton, Illinois which included main offices, rolling mills, warehouses, a tube mill area, an electric melt shop, a wastewater treatment plant, and landfills.

At the peak of its operation, Laclede employed approximately 4,000 employees. However, in the late 1990s, the U.S. steel industry began to experience increased competition from low-price imports resulting in a severe decline in demand for domestic steel. Due to plunging steel prices, growing debt,

and increasing pension costs, Laclede Steel filed for Chapter 11 bankruptcy reorganization in November 1998 and attempted to resurrect the struggling mill. However, the company filed for bankruptcy dissolution in July 2001 just seven months after emerging from Chapter 11. The bankruptcy dislocated the remaining 560 employees and left the property vacant.

At the time of the plant closing, numerous environmental issues were reported by company staff including asbestos; tanks and containers of various contaminants such as sulfuric acid, PCBs, waste oil and grease; clarifier sludge; lime residue; lead and chromium wastes; chlorofluorocarbon-containing appliances; and batteries and fluorescent bulbs.

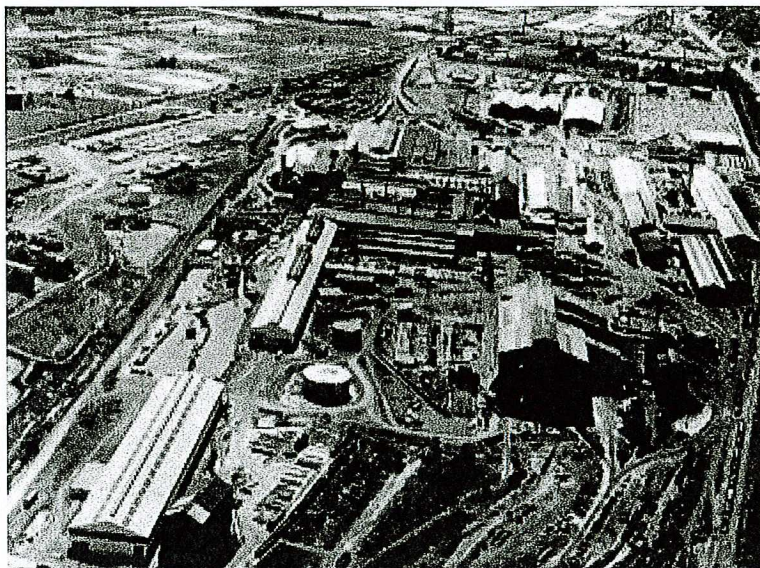
In 2002, IEPA requested a health consultation from the Illinois Department of Public Health to assess whether the brownfield site represented a public

health hazard. Soil samples were collected from nearby residential neighborhoods and in September 2002, the residents of fifty nearby homes were notified that the site did not pose a health hazard to the neighborhood.

Property Acquisition and the Start of Operations

Shortly after the mill ceased operations a father and son formerly employed at Laclede Steel, along with a small group of local investors, formed the “C” corporation, Alton Steel, Inc. , and initiated plans to produce specialized steel products on a portion of the Laclede brownfield site. Through an agreement with the U.S. Bankruptcy Court, the corporation purchased the entire 400 acre brownfield property for \$1 million. The proceeds from the sale were subsequently placed in a trust fund for environmental cleanup.

Alton Steel, Inc. (ASI) assumed ownership with a stipulation that it would bring the property into compliance with the Resource Conservation and Recovery Act (RCRA). U.S. EPA held a \$125 million claim against Laclede Steel for RCRA non-compliance since 1998; however, Alton Steel has projected remediation costs to be below the amount of the claim. Through negotiations with U.S. EPA and Illinois EPA, an agreement was reached allowing Alton Steel to



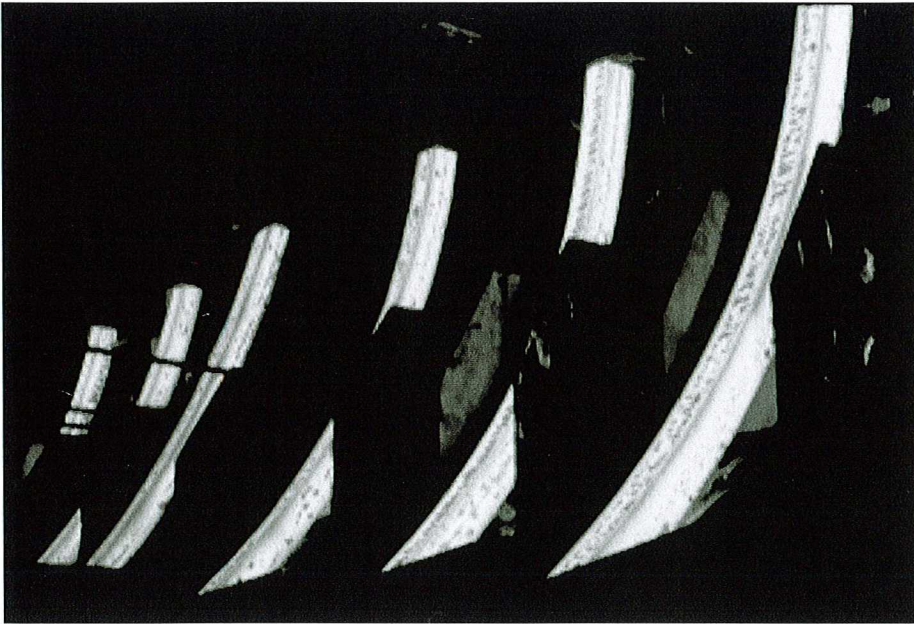
complete the environmental remediation process over a longer period of time.

Alton Steel successfully negotiated a five year contract with United Steelworkers 3643 which gave union employees an average wage of \$13.20 per hour and eliminated the concept of “work rules” so that employees can be reassigned within the company as needed. In turn, the company implemented an impressive

employee benefits package including complete family health insurance coverage, a 401K retirement plan with supplementary bonuses, and an innovative gain-share program. This gain-share program, developed by the company’s CEO, can add up to 30 percent to an employee’s paycheck. A baseline standard, measuring productivity, safety,

quality, no time lost, overall efficiency, and crisis management in the three plant divisions—electric melt shop, bar mill, and administration—was established by a consultant; and any measure above the standard is paid on a rolling average of three weeks. Employees receive earned gain-share bonuses during each pay period which, on average, has increased employee pay by 15 percent.

Overall employee morale and productivity is high, due in part to the attractive employee compensation. A majority of employees hired



at the facility during the first year were former Laclede Steel employees. However, the company has recently begun hiring younger, less experienced employees, with the experienced steelworkers serving as “mentors/trainers” to the new hires. After 11 months of operations, Alton Steel has had no employee lost time from work-related accidents in a business known for dangerous work conditions, due in part to an emphasis on training and safety.

In June 2003, Alton Steel hired approximately 25 employees—mainly former Laclede Steel employees—to begin the cleanup and remediation process. Steel production at the facility officially started on September 11, 2003, with 129 employees. As of October 2003, 800 tons of steel bars were produced per day with output equaling product orders. By September 2004, 200 people were employed at the facility and production had increased to 900 tons per day, with annual sales of nearly \$100 million. Alton Steel intends to start a second shift adding another 60 employees in October 2004 during the seasonal decline in utility costs.

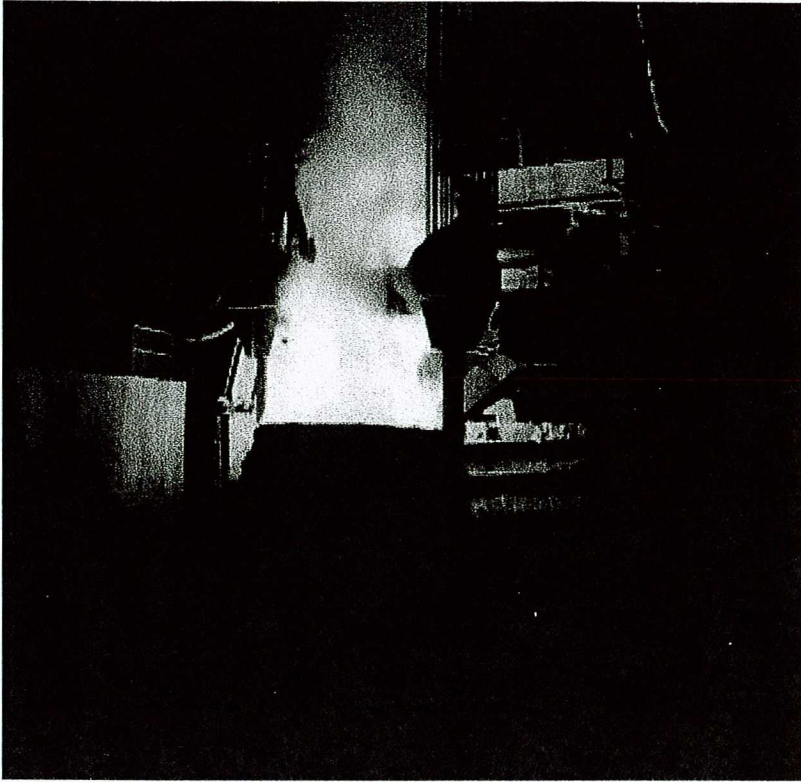
The company anticipates sustained growth in employment and sales to continue over the next few years.

Project Investment and Financing

Thus far, Alton Steel has invested \$25 million in the acquisition, remediation, and redevelopment of the former Laclede brownfield property including 400 acres with 1.8 million square feet of structures. Phase I environmental assessments cost Alton Steel under \$30,000. Phase II environmental assessments are currently in the bidding process, and the City of Alton has agreed to provide

financial assistance toward the Phase II assessments. The City of Alton has provided \$30,000 in property-generated TIF funds for groundwater monitoring, and as of September 2004, was in the process of working with the county to make \$250,000 available in Community Development Block Grant (CDBG) funds. These funds will include a low interest loan from the county and a grant from the city to apply towards environmental assessment. In addition, the city has unsuccessfully applied twice for a U.S. EPA Brownfield Grant which would have included \$350,000 for site assessment, \$200,000 for cleanup and remediation, and \$1 million in revolving loan funds for the brownfield site. The city is considering submitting a third application. Alton Steel Inc. was recently awarded a \$350,000 Opportunity Returns workforce training grant through the Employer Training Investment Program administered by the Department of Commerce and Economic Opportunity (DCEO).

The City of Alton and Alton Steel are working on a property tax relief agreement involving unpaid real estate taxes owed by Laclede Steel for the years



1998-2002. Alton Steel is not legally responsible for the delinquent taxes, but the company is seeking resolution in order to avoid possible tax lien claims against the property in the future. In fall 2003, the Madison County Board of Review agreed to lower the assessed market value of the property from \$12 million to \$2 million for tax year 2003. The City of Alton plans to negotiate an agreement with the taxing districts on Alton Steel's behalf to make the lower assessment effective retroactively to the 1999 tax year. Alton Steel has proposed to promptly remit the amount of the reduced delinquent taxes once agreement is reached.

Although the Laclede Steel property is located within a TIF district, the City of Alton will most likely not realize increment because of the recently approved lower assessment value. When the TIF was established in 1994, the Laclede Steel

property was assessed at a significantly higher value, thus, real improvements on the property will probably not be substantial enough to produce an increment.

Redevelopment Status and Outcomes

Alton Steel, Inc. has concentrated production on value-added products and niche markets due to market studies that indicated unmet demand for special quality bar steel. In addition, the special quality bar division of the Laclede plant had realized profits until production ceased. Reflecting their dedication to quality and efficiency, the company recently achieved QS-9000 quality standard certification within nine months from the start of operations and within six months of actual steel production. On average, QS-9000 certification takes 18 months for a company to achieve. This certification allows Alton Steel to sell products to higher-grade customers including those in the automobile industry.

Prior to founding Alton Steel, the company CEO acquired years of experience in management and consultation in the steel industry. As co-founder of Bluff City Steel in Memphis, Tennessee, he implemented a cost-accounting strategy at the mill that minimized raw material and product inventory. The same practice has been adopted at Alton Steel. After less than a year of production, demand for the company's specialized steel products exceeds supply and continues to grow. Although Alton Steel expects significant expansion and plant upgrades in the future, the company realizes the importance of sensible growth and management practices. They have constructed a well-defined business strategy, developed and maintained sound operational practices,

embraced an impressive company culture, and established a practical organizational structure. Alton Steel, Inc. currently occupies 170 acres of the brownfield property and eight parcels of the property are leased by other businesses, some of which serve complementary roles to the steel mill. These businesses include Mullins Salvage, Azcon Corporation, and Stein Steel Mill Services. Additional tenants include Riverbend Contractors, D&R Machine, Celsius Motorworks, C&C Construction Co., Inc., and the Armed Forces Museum. The ongoing success of the Laclede Steel redevelopment project has been the result of the ingenuity and commitment of the owners of Alton Steel, Inc. Because of the recent collaborative efforts between Alton Steel and the City of Alton, economic regeneration on the massive brownfield property—once seen as an environmental nightmare—will have a positive effect on the community.



Laclede Steel Site (Alton Steel, Inc.)

Acres	400
Total remediated acres to date	50
Total acres occupied by Alton Steel, Inc.	170
Total acres occupied by other businesses on the property	40
Private investment	\$25 million
City investment (to date)	\$30,000
Workforce Investment grant (DCEO)	\$350,000
Employees of Alton Steel, Inc. (as of September 2004)	200
Average wage per hour at Alton Steel, Inc.	\$13.20
Steel production (as of September 2004) - tons per day	900
Annual sales level	\$100 million
Phase I assessment costs	less than \$30,000
Phase II assessment costs	currently in bidding process

Major Issues at the Laclede Steel Site

- Due to complications resulting from excessive contamination and bankruptcy, the City of Alton as well as the state and federal government was faced with an unmarketable massive brownfield site.
- The U.S. EPA held a \$125 million claim against the Laclede Steel property for Resource Conservation and Recovery Act (RCRA) non-compliance since 1998.
- Alton Steel investors had to secure financing to purchase the property in a short amount of time.



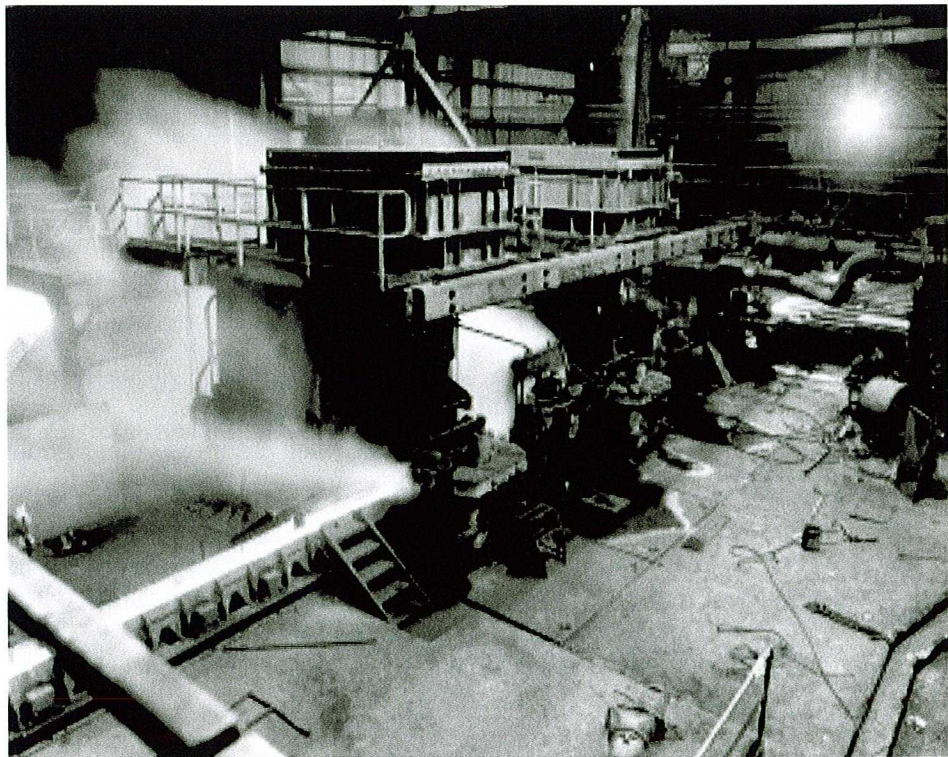
Strategies Implemented

- Although Alton Steel intended to purchase the mill and all on-site assets, they were unable to obtain the necessary finances and agreements before the November 2001 equipment liquidation auction. However, once financing was in place, Alton Steel contacted purchasers and negotiated to buy a portion of the equipment back.
- In order to preserve their potential assets from the winter weather, Alton Steel obtained permission from Laclede to weatherize the buildings and their contents.

- Alton Steel successfully negotiated a plan with EPA to extend the remediation process over a mutually agreeable period of time.
- The Alton Steel CEO conducted a feasibility study on all product lines to determine the most profitable line of steel products to produce. Instead of returning the steel mill to its original production of common carbon and steel products, ASI developed a niche-market and value-added approach of manufacturing high-quality specialized steel products.
- Through negotiations with the local steelworkers union, a lower wage rate and the elimination of “work rules” was agreed upon. In turn, Alton Steel, Inc. offered employees an attractive incentive and health care package.
- The company has adopted a conservative cost-accounting approach in which inventory is kept at a minimum—product is sold before it is produced.
- Although Alton Steel has plans for expansion, only a portion of the Laclede property will be used for steel production; the corporation has parceled out other portions of the property to other businesses.

Successes Realized

- The acquisition of the Laclede Steel property by Alton Steel, Inc. has prevented the 400 acre brownfield site from being listed as a Superfund site. This benefited the city of Alton as well as the state and federal government.
- Alton Steel, Inc. has created a “win-win” situation—taking advantage of a skilled labor force, while at the same time, placing unemployed and underemployed former Laclede steelworkers back to work.
- The current and future job creation and investment resulting from the redevelopment of the site represents a major benefit to the local economy.
- Because of their commitment to producing quality product for a niche market, demand continues to exceed supply.



Alton Steel Project Timeline

1911: Laclede Steel is incorporated.

1915: Laclede Steel acquires Alton Steel Works.

1969: Over 3,000 people are employed at Laclede's Alton mill.

At its peak, the mill employs over 4,000 workers.

1983: Employment declines to 1,600 people.

1993: The employment level decreases to one-half that of a decade earlier.

Late 1990's: Laclede Steel Corporation begins to experience difficulties due to declining steel prices, high debt, and high pension costs.

November 30, 1998: Laclede Steel files for Chapter 11 bankruptcy reorganization. The company fails to pay property taxes, and continues the trend through 2001.

1999: For fourth quarter 1999, revenues decrease 13 percent to \$59.4 million due to decreased average sales prices for steel products. Approximately 620 people are employed at the Alton mill.

1999: Illinois Environmental Protection Agency fines Laclede Steel \$109,189 for dust accumulation containing heavy metals found during an inspection in 1998.

2000: Laclede Steel Corporation lays off 200 people, reducing employment to 500. The company projects that they would save between \$700,000 and \$1 million per month due to the layoffs.

March 31, 2000: A roof collapses in the melt shop area where most of the employees work.

May 15, 2000: Laclede Steel files for bankruptcy reorganization.

January 2001: Laclede Steel emerges from bankruptcy with a \$61.5 million revolving line of credit.

July 27, 2001: Facing over 800 creditors, Laclede Steel files for bankruptcy a second time, this time for dissolution.

July 31, 2001: Laclede Steel closes its doors, leaving the remaining 560 employees out of work. During the liquidation process, former employee and future CEO of Alton Steel, Inc. begins to develop a plan to form the corporation and buy the brownfield site.

October 10, 2001: Alton Steel, Inc. is incorporated.

November 2001: Equipment from the Laclede plant and other movable assets are sold at a bankruptcy auction.

Late fall 2001: Alton Steel CEO is granted permission from Laclede to weatherize the plant to guard against pipes freezing and bursting. It takes the CEO and several volunteers several weeks to complete the task.

February 2002: Alton Steel, Inc. investors announce plans to buy the Laclede property to manufacture steel bars.

March 2002: Samples are collected by Illinois EPA from residential yards near the Laclede site for public health testing. Illinois Department of Public Health concludes that the site poses no public health hazard to nearby residents.

May 28, 2002: Alton Steel, Inc. closes on the purchase of the Laclede Steel property.

2003: Phase I environmental assessment is conducted.

Spring 2003: Laclede Steel Company reaches a settlement with the U.S. Department of Justice, EPA, and the State of Illinois. As part of the settlement, Laclede sells the 400-acre Alton mill to Alton Steel, Inc. for \$1 million to be placed in a trust to fund cleanup on the property.

June 2003: Alton Steel begins maintenance and cleanup operations with 25 employees.

September 11, 2003: Alton Steel, Inc. begins production with 129 employees.

March 10, 2004: Alton City Council approves a \$28,950 grant to Alton Steel for groundwater monitoring.

March 2004: Alton Steel, Inc. receives QS-9000 quality certification, allowing the company to sell to higher grade steel producers. At this point, the company has 160 employees.

July 2004: Employment at Alton Steel increases to 200 with 900 tons of steel produced per day.



The report was produced by Gisele Hamm, Community Outreach Specialist at the Illinois Institute for Rural Affairs, Western Illinois University (www.IIRA.org). Financial support for the research on this project was provided by the Office of Brownfield Assistance, IEPA, under contract with the Illinois Institute for Rural Affairs. Sole responsibility for the accuracy of the content belongs to the IIRA. More information about Alton Steel, Inc. can be found at www.altonsteel.com or Alton Steel, Inc., #5 Cut Street, Alton, Illinois 62002, (618) 463-4490.

