



ECONOMIC DEVELOPMENT

Re-Tale of the TIF

LED's Michael Olivier says tax increment financing poses win-win situation for Louisiana--others disagree.

By Bill Bowden , *Staff writer*

Posted: 10.10.06 - 09:30 AM

Tax increment financing appears to be causing a tiff in Louisiana.

Supporters say it's a relatively painless way cities can pay for infrastructure improvements--roads, electricity, water and sewer--around proposed developments, particularly retail centers. After the new stores open, part of the increase in sales tax revenue in the TIF district is used to pay for the bonds issued to do the infrastructure work.

Opponents call it "corporate welfare" and say the state shouldn't be involved in local retail projects. Michael J. Olivier, secretary of the Louisiana Economic Development Department, says TIF is a win-win situation because it pays for the infrastructure by creating its own revenue stream.

"It's money that doesn't exist yet," he says. "From that, we will create capital investment and job creation."

TIF has been around for 50 years. It became popular when money for urban renewal dried up in the 1970s and 1980s, but Louisiana has only been using TIF since 1993. The state currently has half a dozen TIF districts, but at least another four are in the works.

Sales taxes

Because of the state's tax structure, TIF has only been applied to sales taxes in Louisiana. In most states, TIF is used for property taxes. In Louisiana, TIF districts need to be used for developments that generate a sufficient stream of sales tax revenue to pay off the TIF bonds.

The state matches up to the percentage of sales tax that local entities dedicate for the TIF (usually 1% or 1.5%). Because the matching money comes from additional retail sales generated by the TIF district, state funds aren't being diverted from other areas, Olivier says. The maximum the state will match for a TIF district is \$10 million.

Sales taxes will be slightly higher in the TIF district than elsewhere in the city for a specified number of years. Opponents argue that some TIF districts--such as one proposed for Lafayette--will merely shuffle Louisiana shopping dollars from one parish to another and not bring in out-of-state money.

But that's not the case, says Gregg Gothreaux, president and CEO of the Lafayette Economic Development Authority.

"We are getting a lot of people from other places outside our area who are shopping here; a lot of tourists and people driving through on the interstate," he says.

Those wayfaring shoppers helped boost the percentage of per capita income spent on retail in Lafayette Parish to 63% in 2004, he says. The U.S. average was 40%.

It's not just Lafayette Parish, Gothreaux says. Out of the five parishes that border Lafayette Parish, only Acadia (37%) and Vermillion (34%) fell below the 40% threshold. That indicates the six-parish region around Lafayette has a healthy influx of retail dollars from tourists and folks who live farther down the road, he says. But there's no way to know if they're coming from outside Louisiana.

Lafayette Parish, which had \$3.86 billion in retail sales in 2004, is obviously the area's retail center. Iberia Parish was second in the region with \$1 billion in retail sales.

Lafayette Parish has the third-highest per capita income in the state, behind St. Tammany and Jefferson parishes.

Lafayette TIF

In Lafayette, the city-parish council approved a 1% sales tax for a TIF district on the north side of the city, at the corner of Interstate 10 and Louisiana Avenue. The tax, which will be levied only in the TIF district, will provide financing for infrastructure and a

service road around a shopping center planned by Stirling Properties Group of New Orleans. Target and J.C. Penney already have committed to build stores at the site. No vote of the residents was necessary because nobody lives within the boundaries of the TIF district.

The state will match the TIF tax with 1% of the 4% tax it collects on retail sales in the TIF district. No sales tax is currently being collected in that TIF district because it has no retail stores. But when stores open there, the 1% TIF tax will be collected in that district in addition to the 8% in sales taxes shoppers in Lafayette are already paying. The TIF taxes will be in effect until bonds for the infrastructure are paid off (at least 10 years).

The new shopping center is projected to generate \$200 million a year in sales, Olivier says. Based on that number, the TIF will cost the state \$1 million a year for 10 years, but it will provide at least \$8 million a year in sales tax revenue indefinitely (4% of the \$200 million). The 400,000-square foot Phase I, which will open first, is expected to bring in \$4.8 million in annual revenue.

"The most we're going to give up is \$10 million," says Olivier. "But we're going to get \$8 million a year. That sounds good to me."

Good intentions

Unlike TIF districts established to lure big-name retailers Bass Pro Shop to Livingston Parish and Cabela's to Gonzales (both of which are currently tied up in court), the Lafayette situation is more in line with the original intent of TIF, which is to improve "blighted" areas, Olivier says.

"This is an area where great numbers of working poor live," Gothreaux says, referring to an area between the proposed TIF district, which is in an undeveloped area, and downtown Lafayette. "This is an area that has not shared in the economic prosperity of the city. &This is a heck of a lot more than a shopping center. This is not about Target. It's not about that corner. It's about Lafayette north and rebuilding it."

The stores in the TIF district will provide jobs for the area's residents, he says.

"It is the true use of what TIF was intended for," Gothreaux says.

Originally, TIF was intended for developments that couldn't be done with private money. Gothreaux says the Lafayette TIF falls into that category.

But others disagree. State Sen. Joe McPherson says it's a local project. Last month, in a meeting of the Joint Legislative Committee on the Budget, McPherson, said the

Lafayette TIF would set a precedent, and every big-box retailer would want TIF before building a store in Louisiana.

Across the country, TIF and other incentives have been used to lure retailers like Bass Pro Shops. Supporters say it's just the cost of doing business. Stores like Bass Pro are a destination, reeling in shoppers from neighboring states. But with 34 stores in the U.S. and another 23 planned, Bass Pro isn't the destination it was a couple of decades ago. Louisiana already has one Bass Pro Shop; Texas has two with three more planned; Mississippi has one; and one is planned for Arkansas.

Gothreaux says he has been talking with a "destination" retailer about coming to the TIF district. He believes that would make the TIF district appealing under both catch phrases: "blighted area" and "destination retailer."

Gothreaux says Lafayette will sell \$7.5 million in bonds to pay for the initial infrastructure and a service road for the TIF district. The city may issue \$20 million in bonds for the entire infrastructure project. Gothreaux couldn't estimate when the infrastructure would be complete and the retailers would begin constructing their buildings.

The proposed Lafayette TIF has jumped through all the regulatory hurdles (through the city-parish council, LED and the Joint Legislative Committee on the Budget) and was preliminarily approved by the state Bond Commission. Now, it needs to be officially approved by the Bond Commission.

The Lafayette City-Parish Council has proposed a second TIF district at the intersection of I-10 and U.S. Highway 49, near the city's first TIF. However, that one won't go forward unless a project is proposed for the site, Gothreaux says.