Analysis of the Bass Pro Shops Tax Incremental Financing Proposal

September 10, 2013 1:00 PM

OFFICE OF FISCAL ANALYSIS

Room 5200, Legislative Office Building Hartford, CT 06106 • (860) 240-0200 E-Mail: ofa@cga.ct.gov www.cga.ct.gov/ofa

OFA STAFF

Alan Calandro, Director

Christine Ashburn, Section Chief

Sarah Bourne, Principal Analyst	Elementary Education, Office of Higher Education, Town Education Grants
	Legislative Agencies, Budget Information System, State
Don Chaffee, Principal Analyst	Personnel
	Banking, Dept. of Developmental Services, Teachers'
Christina Gellman, Principal Analyst	Retirement, Dept. of Rehabilitation Services
	Board of Regents for Higher Education, UConn, Consumer
Alan Shepard, Principal Analyst	Protection
	Children and Families, Public Health, Medical Examiner,
Rachel Welch, Associate Analyst	Tobacco Settlement Funds

Michael Murphy, Section Chief

	Economic Development, Housing, Culture and Tourism,
Evelyn Arnold, Associate Analyst	Results Based Accountability
	Transportation Fund, Motor Vehicles, Dept. of Transportation,
Anne Bordieri, Analyst II	Military, Veterans' Affairs, Soldiers, Sailors & Marines'
William Lederman, Associate Analyst	Budget Information System, Income Tax Modeling
Linda Miller, Principal Analyst	Attorney General, Treasurer, Debt Service, Bonding
	Dept. of Labor, Tax Policy & Revenue Analysis, Dept. of
Chris Wetzel, Associate Analyst	Revenue Services, Spending Cap

Chris Perillo, Section Chief

Dan Dilworth, Analyst II	Office of Policy & Mgmt., Grants to Towns (PILOTS, Pequot), Municipal Funds, Federal Funds
	Emergency Services & Public Protection, Office of Government
	Accountability, Governor, Lt. Governor, Secretary of the State,
Grant Gager, Analyst II	Comm. on Human Rights & Opportunities
	Environment, Agriculture, Agriculture Experiment Station,
Marcy Picano, Associate Analyst	Council on Environmental Quality
	Dept. of Administrative Services, State Personnel, Statewide
	Issues, Energy Funds, Consumer Counsel, Construction
Kyle Rhude, Associate Analyst	Services

Rob Wysock, Section Chief

	Dept. of Social Services, UConn Health Center, Office of
Neil Ayers, Principal Analyst	Health Care Advocate, Dept. of Insurance
Jonathan Palmer, Analyst II	Corrections, Budget Information System
Phoenix Ronan, Associate Analyst	Criminal Justice, Judicial, Public Defender, Probate
	Dept. of Social Services, Mental Health and Addiction Services, Psychiatric Security Review Board, Office of Early
Emily Shepard, Principal Analyst	Childhood
Holly Williams, Associate Analyst	State Comptroller, Dept. of Social Services (Health Care),
	State Employee Fringe Benefits, Workers' Compensation

Administrative Staff	
Laurie L. Wysock, Sr. Executive Secretary	
Theresa Kelly, Senior Legislative Secretary	
Lisa Kiro, Staff Assistant/Fiscal Note Coordinator	

Legislative Office Building, Room 5200, Hartford, CT 06106 Phone: (860) 240-0200 E-Mail: <u>ofa@cga.ct.gov</u>; <u>www.cga.ct.gov/ofa</u>

The Bass Pro Shop Tax Incremental Financing (TIF) Proposal

<u>Summary of the TIF Proposal</u> – The committees are reviewing a proposal by Connecticut Innovations, Inc. to issue \$22 million in state TIF bonds to finance the development and construction of an approximately 140,000 sq. ft. retail facility by Bass Pro Shops (BPS) in Bridgeport. The facility would be part of the City of Bridgeport's plan to develop the Steel Point site through Bridgeport Landing Development Corporation LLC, which is based in Florida.

The table below shows the proposed funding sources for the estimated total project cost of \$69.5 million related to the Bass Pro Shop development:

Funding Source	Amount \$
State TIF bonds for the Bass Pro Shops retail store	22.0
Future Urban Action Program GO bond allocation for Bass Pro Shop	8.0
Future Urban Action Program GO bond allocation to cover issuance costs for state TIF bonds	1.0
Developer's funds	38.5
TOTAL	69.5

Proposed Funding for the Bass Pro Shop at Steel Point (in millions)

<u>Summary of the TIF Analysis</u> – The key issue underlying a TIF proposal is whether the projected sales will generate sufficient new i.e. incremental sales tax revenue to cover the debt service on the bonds. In making the comparison between projected incremental sales tax revenue and debt service costs, state law requires Connecticut Innovations, Inc. to limit its revenue projections to thirty percent (30%) of the total projected gross sales tax revenue for any shopping center project.¹ Connecticut Innovations, Inc. retained a consultant (IHS, Inc.) to perform an analysis of the TIF proposal which included the thirty percent statutory limitation.

In conducting its financial analysis of the TIF proposal, IHS, Inc. compared: (1) the net present value of the principal amount to be borrowed late in 2013, plus (2) a debt service coverage ratio of twenty percent² to: (3) the net present value of thirty percent of the projected gross sales tax revenues directly

¹ CGS 32-285(f)(1) requires Connecticut Innovations, Inc. to limit the incremental tax revenues that can be allocated to pay principal and interest on bonds issued through the tax incremental financing program. The statutory limitation is equal to thirty percent of gross sales directly associated with any shopping center project.

² Debt service coverage ratios are used to help make sure that cash flow is sufficient in any given year to meet debt service requirements. In accordance with CGS 32-285(f)(2), Connecticut Innovations, Inc. may only approve a project if it concludes that incremental sales taxes will be sufficient to pay interest and principal on the bonds as they come due.

attributable to the BPS development beginning in 2015 through the 20 year term of the TIF bond. In its analysis, IHS, Inc. made several key assumptions including the numbers of visitors and purchases to be made and the interest and discount rates used.³

Using a proprietary estimate by BPS of expected store sales, IHS, Inc. assumed three million visitors in the first full year of operations, and that approximately sixty per cent of these visitors will come from out of the state. IHS, Inc. assumed retail sales growth at, on average, an annual rate of 2.75% during the term of the bond. The analysis by IHS, Inc. also assumes that the proposed Bridgeport store will not have too much competition in New England.

Questions:

- 1. Is positive growth in the number of visitors assumed each year during the twenty year term of the TIF bond? Have other BPS stores experienced continuously positive growth in the numbers of visitors despite economic downturns?
- 2. How much incremental tax revenue is anticipated during 2016, the first full year of operation of Bass Pro (the store is slated to open in the second half of 2015)?
- 3. Would a delay in developing other retailers in the Steel Point district have a negative impact on Bass Pro's ability to meet the sales tax revenue targets needed to support the debt service on the state TIF bonds?
- 4. What has the annual growth rate in retail sales been for BPS over the last 20 years? Is the 2.75% annual growth assumption over the next 20 years reasonable?
- 5. Does the analysis of the proposed Bridgeport store take into account competition from the Cabela's retail store in East Hartford? What impact, if any, might the opening of the BPS in Bridgeport have on the future incremental tax revenue generated by Cabela's in East

³ Although the impact is relatively minor, it should be noted that the analysis assumed a sales tax rate of 6.25% rather than 6.35%. It is estimated that this difference reduces projected incremental sales tax revenues by less than \$50,000 annually. (PA 13-184, the FY 14 and FY 15 Budget, eliminated the diversion of 0.10 percentage points from the sales tax to a municipal revenue sharing account. The budget was signed by the Governor after the analysis was prepared by IHS, Inc. for Connecticut Innovations, Inc. in May 2013.)

Hartford? A BPS retail store is scheduled to be opening in New Hampshire. Has competition from this store been taken into account?

IHS, Inc. assumed an interest rate of 3.28% on the TIF bonds and a term of 20 years in the calculation of the net present value and annual debt service costs. However, IHS, Inc. also indicated that long-term interest rates had increased by 0.80 percentage points to 4.08% since the 3.28% interest rate assumption was made in May. IHS, Inc. also used 3.28% as the discount rate when it calculated the net present value to the State of incremental sales tax revenue.

Questions:

- 6. What has been the trend in long-term interest rates since IHS, Inc. submitted its report to CI? What is the current rate that is comparable to the 3.28% used in the analysis by IHS, Inc.? How much would using the updated rate impact the analysis?
- 7. Why is it appropriate to use the anticipated interest rate of 3.28% as the discount rate when estimating the value of future incremental sales tax? Did IHS, Inc. consider using another discount rate?

The developer requested \$30 million in state assistance to develop the Bass Pro Shops facility. However, IHS, Inc.'s feasibility study indicated that it is unlikely that BPS's retail sales will cover the approximate \$40 million debt service costs on a \$30 million issuance. Based on the feasibility study, Connecticut Innovations, Inc. revised the funding plan to \$22 million in TIF bonds (approximate \$30 million debt service cost), with the remaining \$8 million to come from a General Obligation (GO) bond allocation⁴ from the Urban Action Program. In addition, approximately \$1 million would need to be allocated through the Urban Action Program to cover the issuance costs related to the TIF bonds. The current unallocated balance of the Urban Action Program is \$64.6 million.

Questions:

- 8. Will the \$8 million assistance through the Urban Action Program be in the form of a loan or grant? If it is a loan, does the Department of Economic and Community Development (DECD) intend to provide partial or full loan forgiveness?
- 9. CGS Sec. 32-462b⁵ provides up to \$40 million in financial assistance to the Steel Point project through DECD or CI until the end of FY 15.

⁴ General Obligation bonds are allocated through the State Bond Commission at its monthly meetings.

⁵ This is the authorization for financial assistance to the Steel Point project in Bridgeport.

Does the developer anticipate requesting the remaining \$18 million? Would this be another TIF bond issuance for the second retail anchor at Steel Point?

As a check of feasibility, IHS, Inc. calculated the incremental⁶ (new) sales of the BPS store. It concluded that 40-45% of BPS's sales will be net new sales and 55-60% would be at the expense of other sporting goods retailers in the state.

Question:

10. IHS, Inc. estimated that 40-45% of BPS's sales would be incremental sales absent the statutory limitation of 30%. How do the dollar figures for IHS, Inc.'s incremental sales compare to CI's use of 30% of gross taxable sales to determine TIF feasibility? Which is more conservative?

<u>Description of the Bridgeport store</u> - The \$68.5 million project cost for the BPS store is comprised of the following:

Estimated Development Costs for the Bridgeport Bass Pro Shop (in millions)

Description	Amount \$
Shell building and fixtures	35.0
Leasehold improvements ⁷	27.9
Site preparation, road work and utilities, permitting,	5.6
legal services, design fees, contingency	
TOTAL	68.5
Note: the total above excludes approximately \$1.0 million related to state TI bond issuance costs.	

BPS expects that the store will have around 240 full- and part-time jobs or 172 full-time equivalents. The developer anticipates that construction will start in early 2014, with the store projected to open during the second half of 2015.

<u>Description of Bass Pro Shops</u> – BPS is known for carrying a large selection of hunting, fishing, camping and other outdoor recreation merchandise. The privately-held company has 57 existing stores in the United States and Canada and is in the process of opening an additional 25 locations⁸. The store sizes range from 20,000 sq. ft. up to 300,000 sq. ft. The largest flagship stores are known as

⁶ Some sales would have occurred in the absence of the opening the BPS store.

⁷ Alterations made to rental premises in order to customize it for the specific needs of a tenant. Leasehold improvements include painting, installing partitions, changing the flooring, putting in customized light fixtures, etc.

⁸ In addition to the proposed Bridgeport store, BPS is opening 24 stores in the following locations: Alaska, Arkansas, California, Colorado (2), Florida (6), Georgia (2), New Hampshire, New Jersey (2), New York (2), North Carolina, Tennessee (2), Texas, Washington (state) and Niagara-on-the-Lake, Ontario, Canada.

Outdoor World stores. The decor of these stores includes taxidermy mounts native to the local area. All stores have an indoor water feature that showcases fish species that are indigenous to the area. The fish in their tanks are game fish of great size. In some of these aquariums, professional anglers and store pro-staff hold demonstrations showing the use of artificial bait. They catch the fish in these tanks to show how well the bait works. Bass Pro Shops is also known for its Outdoor Skills Workshops, teaching skills as varied as fly fishing, Dutch oven cooking, archery hunting with an archery range in the store, and GPS navigation. They hold skills workshops with people who are well known in the outdoor world.

Background on the Steel Point Project

<u>Description of the project</u> - The Steel Point site is 68.5 acres. The City of Bridgeport's current plan is to use 50.6 acres for a 2.8 million sq. ft. mixed-use development. When completed, the project would include: (1) approximately 800,000 sq. ft. of retail space, (2) 200,000 sq. ft. of commercial/office space, (3) a 300,000 sq. ft. hotel/meeting area, (4) several restaurants, (5) a parking deck and several surface parking lots, (6) a 200-slip marina with shore-side support, and (7) 1,000 to 1,500 residential units. The developer estimates that it will take between 10 and 18 years to complete the entire project. The timing will depend on economic conditions.

As the map of the proposed development shows (see below), the retail component would include: (1) two main anchor tenants with 140,000 and 180,000 sq. ft. of space; (2) two junior (secondary) anchors, with 22,500 to 24,500 sq. ft. each; and (3) 11 smaller retailers with 4,600 to 19,000 sq. ft. of space.



Map of the Steelpointe Harbor Project

<u>Initial phase of the project</u> – The initial phase of the project includes the construction of facilities for the two anchor tenants, the two junior tenants, some of the smaller retailers, the marina and a retailer that provides support to the marina. This phase will be financed with a total of \$334.33 million raised jointly by the City of Bridgeport through an autonomous special taxing district, the Steel Point Infrastructure Improvement District, set up by the city, and the developer chosen by the city, Bridgeport Landing Development Corporation LLC. The table below shows the amounts and sources of funds from these two sources.

S	Source of Funding/Type of Funding		
В	Bridgeport Landing Development Corporation LLC (developer)		
	Equity	53.17	
	Construction Loan	50.00	
	Developer – Total	103.17	
	· •		

Source of Funding/Type of Funding	Amount \$
Steel Point Infrastructure Improvement District (special taxing district)	
TIGER II federal grant to the City of Bridgeport	11.16
Revenue bonds (funded with parking and fees)	30.00
Special taxing district TIF bonds or EB-5 Immigrant Investor Program	190.00
Special taxing district - Total	231.16
TOTAL	334.33

The \$103.17 million contributed by the developer will primarily be used to develop the retail component of the project, including the \$38.5 million that will be needed to build the Bass Pro Shop.

The \$231.16 million contributed by Bridgeport and the Steel Point Infrastructure Improvement District, set up by the city, includes:

- A federal grant of \$11.2 million to Bridgeport under the Transportation Investment Generating Economic Recovery (TIGER II) program. The funds are being used for roadwork associated with the site.
- The issuance of \$30 million in revenue bonds backed by parking and boating fees and property leases. The funds will be used to develop a parking garage and surface parking.
- The city will raise a total of \$190.0 million from: (a) investments received through the federal EB-5 Immigrant Investor Program and (b) municipal TIF bonds⁹ backed by property tax revenue collected within the special taxing district. The funds will be used for site development, including the pedestrian walkway along the harbor, public green space and the marina. The city has indicated that the TIF bond issuance may not be necessary if sufficient foreign investment is received.

Questions:

- 11. Will the developer purchase all or a portion of the Steel Point site from the City of Bridgeport? If so, how much will it pay and when will ownership be transferred?
- 12. Is Bridgeport making any infrastructure improvements on land that will be sold to the developer or will all of the improvements be on land that the City will continue to own?
- 13. The state financed construction of Cabela's with a \$10 million TIF in 2006. That project was supposed to economic development in East

⁹ See Appendix B for a comparison of state and municipal property tax bonds.

Hartford but to date this has not happened. How is the Bass Pro Shops project different?

<u>Current status of the site</u> -

- The initial phase of the road and infrastructure, which is funded with the TIGER II federal grant, began in May 2013. This phase includes the main arteries and secondary roads that could not be changed due to existing conditions (power transmission lines). Other secondary and tertiary roads will be designed and built as the balance of the project gets defined.
- The Steel Point Infrastructure Improvements District has been approved for up to \$190 million in TIF funding for roads, utilities, environmental, commercial parking structure, waterfront, soil conditions (foundations) and other general infrastructure.
- No further public hearings are required for the project. The approved PDD/GDP¹⁰ (zoning) define the entire project and are very flexible within the overall 2.7 million sq. ft. allocated. Traffic volume at peak hours is the only limiting factor in total build out. CT DOT has already approved the STC (traffic studies and projected new generation) for the full build out.
- Vertical construction of retail, commercial and residential only required administrative (local staff level) approval for permitting.
- General overall storm water permitting has been issued. The general plan also addresses conceptually the individual site developments as programmed in the PDD. Storm water management has been looked at as an overall site program rather than individual site requirements because some areas of the project are not able to address best management practices due to soil and environmental conditions.
- Marina and waterfront are fully permitted by DEEP, the Army Corp of Engineers, and the City of Bridgeport Authority. Permitting includes shoreline restoration, bulkheads, storm outfalls, piers and docks and dredging.

Prior state assistance provided to Bridgeport for development of Steel Point – The State Bond Commission allocated a total of \$44.3 million to the City of Bridgeport between June 1998 and November 2007 for costs associated with the Steel Point site, including: (1) \$23.5 million for property acquisition; (2) \$20 million for site acquisition and relocation costs, engineering, environmental remediation, demolition costs and administrative costs; and (3) \$0.9 million for preparation of environmental site investigations, engineering design at Steel Point and federal and state permit analysis. Please see Appendix A for a detailed list of the allocations.

¹⁰ The planned development district (PDD) and general development plan (GDP) are documents submitted for approval to a Planning and Zoning Board.

<u>Environmental remediation of the Steel Point site</u> – Studies of the site have identified significant environmental contamination issues, especially in the area where the United Illuminating facility was formerly located. According to the developer, the exact method of remediation will vary according to the way the land is used but it will consist of burying the contaminated soil under clean fill and capping it with asphalt or concrete. The cost of remediation will primarily be covered by the developer.

Appendix A

The table below shows State Bond Commission allocations related to the Steel Point site in Bridgeport.

State Bond Commission Allocations for the Steel Point Site in Bridgeport

Date	Amount \$	Description	
6/26/98	20,000,000	DECD: Grant-in-aid to the City of Bridgeport for predevelopment costs of the waterfront redevelopment project known as Harbor Place in the Steel Point Peninsula	
5/30/03	927,000	DECD-Admin for grant-in-aid to Connecticut Brownfield Redevelopment Authority for the preparation of environmental site investigations, engineering design at Steel Point and federal and state permit analysis	
3/31/06	8,500,000	DECD: Grant-in-aid to the City of Bridgeport for acquisition of land in conjunction with the Steel Point redevelopment project	
10/6/06	4,600,000	Supplemental Grant-in-aid to City of Bridgeport for acquisition of property for the Steel Point Development Project	
1/26/07	5,500,000	Supplemental grant-in-aid to the City of Bridgeport for acquisition of property associated with the Steel Point redevelopment project	
11/9/07	4,750,000	Supplemental grant-in-aid to the City of Bridgeport for the purchase of property for the Steel Point Development project - Pequonnock Yacht Club	
TOTAL	44,277,000		

Appendix B State and Municipal Tax Incremental Financing Bonds

TIF programs provide a mechanism for financing capital projects that generate enough incremental revenue to pay debt service on the bonds. The financing plan for the Steel Point project utilizes both state TIF bonds and municipal TIF bonds. The table below compares the two types of bonds:

Comparison of State and Municipal Tax Incremental Financing Bonds

W	What revenue stream will be used to pay the debt service on the TIF bonds?			
	State TIF	State sales tax collected from the Bass Pro Shop's retail sales		
	Municipal TIF	Local property tax collected at Steel Point		
W	ho is responsible fo	or paying debt service on bonds?		
	State TIF	State of Connecticut		
	Municipal TIF	Steel Point Infrastructure Improvement District		
W	Who will issue the TIF bonds?			
	State TIF	Connecticut Innovations, Inc CGS Sec. 32-285		
	Municipal TIF	Bridgeport, through its special taxing district - PA 05-289, Sec. 2, provided the funds are needed (see p. 9 for an explanation)		
W	hat is the maximu	m amount that can be issued for the Steel Point project?		
	State TIF	\$40 million - CGS Sec. 32-462b		
	Municipal TIF	\$190 million - PA 05-289, Sec. 2(g)(1)		
W	What will be financed with the bonds?			
	State TIF	Bass Pro Shops retail store		
	Municipal TIF	Steel Point site development, including the pedestrian walkway along the harbor, public green space and the marina		