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Reevaluating Tourism Improvement Districts and Sales Tax Anticipated Revenue Bonds in Northern Nevada: A Review of the Cabela's and Legends at Sparks Marina STAR Bond Projects

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Matthew D. van den Berg

Dr. P. Anthony Brinkman/Thesis Advisor

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P. Anthony Brinkman, Advisor

Scott Bassett, Committee Member

Mehmet Tosun, Graduate School Representative

Marsha H. Read, Ph. D., Associate Dean, Graduate School

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Abstract:

This paper provides an evaluation of the Cabela's and Legends at Sparks Marina retail projects in the Reno/Sparks area of Northern Nevada. The projects are the first two development projects to be designated as tourist improvement districts and to receive sales tax anticipated revenue bonds, also known as STAR bonds. STAR bond projects represent a new direction in tax incentives for economic growth in Nevada. This paper includes a historical overview of economic development strategies, a legal review of Nevada's tourism improvement district law, and an analysis of the fiscal and economic effects of the Cabela's and Legends projects. This paper questions many of the assumptions and projected effects made during the approval process for both projects. The analysis includes a review of the initial projections for the development projects and provides adjusted fiscal and economic effects. In addition, the paper includes the results of a license plate survey that estimates the percentage of out of state shoppers at both locations. The paper concludes that both projects may not be performing as initially projected and that many of the methods and estimations used to make the projections were questionable.

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Introduction:

This paper analyses two redevelopment projects in the Reno-Sparks area of northern Nevada. The first development is the Cabela's outdoor superstore in western Reno that was built in 2007. The second project is the Legends at Sparks Marina shopping center in Sparks, which opened its first stores in 2008. These two development projects were the first two projects to utilize a Nevada law that allows up to 75% of sales tax collected within a specified district to be used to subsidize the cost of the development. The economic incentives provided to the Cabela's and Legends developments, called sales tax anticipated revenue or STAR bonds, are relatively new and significantly expand tax increment financing strategies in Nevada. The developers of the projects receive large amounts of sales tax revenue that would otherwise go to the State's general fund. However, both projects were built on previously undeveloped land that was generating very little tax revenue before the two retail centers opened. Opponents of STAR bonds claim that too much tax revenue is forgone and the projects divert consumer spending from existing tax generating retail locations. Proponents argue that the incentives are necessary for growth and produce new tax revenue that would otherwise not have existed.

This paper evaluates the tax effects of the two projects and other impacts that the new developments have had on the area. The companies involved in the development are not required to release their sales figures and they have not voluntarily provided information concerning their retail activity. Therefore, the analysis is based upon the economic and fiscal estimates that were presented during the approval process. The economic impact and tax effect estimates provided during the approval process for the projects are reevaluated using additional data and alternative measures. This methodology does not provide a direct answer to the question of whether the project brought a net economic gain or loss to the area. However, it does reveal areas where the projects were incorrectly represented and shows evidence of how the initial estimations may or may not be accurate. By reviewing the approval process, the original projections for the projects can also be reevaluated.

The Reno Cabela's store opened in 2007 and is located just off Interstate 80 west of Reno near the California border. The store, like all Cabela's locations, is a specialty retail center focusing on hunting, fishing, camping and outdoor merchandise. Cabela's mostly operates as an online and catalog based sales company. However, beginning in 1987, the company began opening large destination retail stores to supplement their catalog and online sales. These destination retail stores range from 35,000 to 247,000 square feet, with most stores over 100,000 square feet. These destination stores offer more than the usual outdoor supplies. The Reno store features 125,000 square feet of retail space, large stuffed animal displays, aquariums, a restaurant with banquet facilities, an indoor archery range, and many other amenities (Cabela's Inc, 2010).

The Legends at Sparks Marina is an outlet shopping center located off Interstate 80 in Sparks. The shopping center is currently open although not all phases of construction are complete. When completed, the project will have 1.2 million square feet of retail space. The mall is intended to be a regional destination for shopping and entertainment. It currently has stores such as Adidas, Gap, and Nike factory stores as well as many other clothing and accessory stores typical of a large shopping center. The Legends shopping center also includes several restaurants and nightclubs. Currently the large retail stores in the development include Target, Best Buy and Scheels Sports (RED Development, 2010). The Scheels store is the world's largest sports equipment and apparel store at 295,000 square feet. The store includes a restaurant, wildlife displays, bronze statues, aquariums, sports simulators, and a 65 foot tall indoor Ferris wheel (Scheels, 2010). Future additions proposed to the Legends shopping center include several other large retail stores, more entertainment options, as well as a hotel and casino (RED Development, 2010).

This paper begins with a brief historical overview and discussion of economic development planning strategies in order to provide the historical context for the Cabela's and Legends projects. The next section discusses the Nevada State law that allows sales tax revenue to be used to fund the projects. The law also provides the framework for the approval process that is evaluated later in the paper. Next is a brief discussion of the literature that is relevant to the study and evaluation of the two projects. There is a section describing the methodology. The analysis section follows the approval process of the projects. The law allowing sales tax revenue to be used for development projects also includes guidelines for fiscal and economic estimates that must be made prior to project approval. These findings and estimates provided during the approval process are the basis for the analysis of the projects. Following the analysis there are discussion sections for each project and then a conclusions section.

History of Economic Incentives and Planning Strategies:

Planning theory and its role in economic development has gone through a drastic change since the mid twentieth century. Amid the rapid growth and economic boom of the post war era, planning sought to regulate and control urban expansion and economic growth. However, beginning in the 1970's, the economic climate changed significantly and planning's role changed with it. In the United States, industry began a steady decline and cities frantically tried to attract new development and retain traditional manufacturing jobs. Planning abandoned its role as regulators of economic growth and became promoters and advocates of growth. In order to attract firms to their area, planners and planning departments built their new strategies around tax incentives, subsidies and deregulation. Through these new strategies, planning has become more associated with projects rather than plans.

This reversal of planning strategy was the result of the shift in economic climate that occurred in many developed countries. In the United States, historic manufacturing regions were undergoing massive change. Firms were relocating overseas in search of cheaper labor and the former industrial areas were left reeling. American firms began feeling competition from multinational companies and the strategies they adopted were to reduce labor cost and increase capital mobility. These combined to decrease employment levels and increase competition for the remaining positions in the United States (Bluestone and Harrison, 1982).

The changing economic strategies in the 1970's also came with a change in the political climate. Conservative political and economic philosophies began to gain momentum in response to Keynesian economics and public welfare social policy (Hall, 2002). Planners soon realized they were being blamed for the industrial flight and economic problems of the era, and they changed their strategy very quickly. The new planning doctrine was public-private partnerships to revitalize urban areas. Federal and state agencies offered grants, infrastructure investments, and bonds to private companies to reenter abandoned central business districts. The rebuilding of America's downtown core was not only about attracting traditional businesses. The American economy had shifted to a service based economy and the new urban growth reflected the change. City boosterism and tourist attractions made up a significant proportion of the revitalization efforts. Entertainment, leisure and shopping became the dominant industries in redeveloped areas of cities (Falk, 1986).

The growing mobility of capital and the shift from an industrial economy to a service based economy greatly increased competition among cities. While the true world cities of New York, London and Tokyo remained relatively unaffected, the competition among lower and mid level cities was fierce. Cities spent large amounts of money on public relation campaigns, advertising slogans and various other forms of civic boosterism and urban representation to encourage the shift from industrial to service based economic activity. The strategies included down playing large industry in favor of service related business, creating pro-business environments and capitalizing culture in the form of festivals, sports teams, museums, art galleries and many other popular cultural activities and venues (Short, 1999).

Cities all over the United States began urban revitalization projects with help from federal, state and local governments and planning agencies. In 1977, the Carter administration created the Urban Development Action Grant and states created their own funds and enterprise zones to help promote urban growth (Hall, 2002). These forms of government grants and subsidies were the dominant method of attracting private investment. These methods were inherently project based. In order to receive funding from redevelopment sources, a project had to be proposed and evaluated. This drove planning into strategies that centered on a specific project. Rather than developing and guiding future plans and regulating existing development, planning departments found themselves working on new ways to advertise and promote their area in order to encourage firms to relocate there. These new approaches involved many new community based strategies. Even small towns and rural areas enacted their own legislation and engaged in civic boosterism to generate redevelopment and revitalization (Rushing, 2000). The focus of planning shifted from comprehensive planning to individual projects and the scope was reduced to neighborhoods and districts.

As urban planning began to engage in more revitalization projects to combat the economic woes plaguing the United States, it became more difficult to find funding for the increasing number of projects. One tactic to continue expanding financial incentives for growth was to offer tax breaks rather than grants and other direct funding. Many senators and political organizations attempted to introduce new tax breaks for private enterprise. The efforts eventually culminated in Ronald Reagan's proposed Enterprise Zone Tax Act of 1982.

Although Congress never enacted federal enterprise zone tax breaks, Reagan's proposal guided many states to create their own tax breaks. Income tax credits and capital gains tax reductions form the two main categories of the tax breaks the Reagan plan advocated (Hawkins, 1984). The income tax credits provided lower taxes on income earned within redevelopment or enterprise zones. Large firms received tax credits for the wages that they paid workers in the designated area. Firms would usually receive tax credits based on the amount of wages they helped to create by locating their business inside the designated redevelopment areas. The capital gains tax reductions helped to provide incentives for infrastructure and capital improvement within enterprise zones and redevelopment areas. These tax breaks encouraged new investment and renovation to existing infrastructure within the designated areas.

There are numerous studies that have attempted to measure the effects of enterprise zones and other supply side economic development incentives. The opinions from these studies range from applauding the perceived accomplishments to deriding the entire practice as corporate welfare for politically powerful and connected businesses. A comprehensive review of the literature analyzing economic redevelopment strategies would be too lengthy to include here. However, a few conclusions are important to note and provide a helpful explanation for the shift away from some of the tactics used to promote enterprise zones.

An important shift away from enterprise zones and general tax breaks is the rise of civic pride and boosterism as a development strategy. In his study of the enterprise zone program enacted in Connecticut, Peter Eisinger (1988) noted that firms did not seem to be utilizing the tax incentives offered by the zones. However, he did find that the creation of enterprise zones did seem to have a positive impact on economic development. Eisinger concluded that the creation of the enterprise zone and the excitement that the new program generated may have stimulated the economic activity and not the particular tax incentives. This finding provides evidence that civic boosterism is not simply for public opinion, but can also produce results.

Mark Boyle (1999) observes that urban boosterism and attempts to foster civic pride are on the rise in planning strategies. Boyle argues that cities are increasing their use of what he calls urban propaganda projects to generate excitement and economic development. Politicians and planners use flagship projects to promote and advertise the economic viability and appeal of their cities. Cities promote these projects as tourist destinations, urban spectacles, and catalysts for development in order to draw private investment and public support. These strategies often include tax incentives and other traditional growth strategies to lure development. However, they focus the public attention to how the project will change and reinvigorate the economic atmosphere, regional appeal and reputation of the area.

Public-private partnerships made the use of flagship projects and civic boosterism by planning agencies possible. The political climate of the United States and in most cities usually will not allow for massive public works projects to promote economic growth. While many planners continue to adhere to Keynesian macroeconomic growth strategies, public opinion and budgetary concerns do not allow cities to engage in large scale projects. However, the public is more likely to view a project favorably if they believe the use of planning strategies and economic incentives in a project are necessary to draw private enterprise into the city. Cities and planning departments still use tax incentives, grants and other redevelopment strategies, but the result is presented as a private development project.

One economic development strategy that growth oriented planners often utilize that caters very well to project oriented development is tax increment financing. Planning authorities and cities continue to feel the need to encourage growth for both public approval and economic development reasons. However, planners and cities have been criticized for their previous attempts to foster economic growth. One often repeated criticism of economic growth planning strategies is that they place higher tax burdens on an entire tax base in order to promote a small area or neighborhood. Another criticism is that there is little evidence that they generate growth that would have occurred without the policies. Tax increment financing has been widely adopted and currently one of the most often used growth strategy because it addresses both of these concerns.

The basic premise of tax increment financing is that tax revenue generated by new development in a designated area is used to fund improvements to the same area. Tax increment financing typically uses property taxes as base. At the beginning of the project, the redevelopment agency, or other type management board, freezes property tax contributions to the general fund from the designated district or neighborhood at the level assessed prior to any improvements. Any increase in assessed value that results from development in the region is captured and diverted directly back to the district instead of being collected and added to the general tax fund. The district can use the incremental tax increase for infrastructure improvements, other public development needs or direct support to private developers within the district (Michael, 1987). Districts commonly use the money generated through tax incremental financing in two different ways. The redevelopment districts may use the incremental revenues as they are collected over the course of the project. Alternatively, the districts can incur debt to enact large-scale changes at the beginning of a project and then use the subsequent incremental revenues generated by the project to pay off the debt.

As other sources of revenue decreased and public opinion against broad based tax breaks increased, cities and states all over the country have adopted the use of tax increment financing as a method to encourage economic growth. California was the first state to pass laws enabling the use of the policy. Other states followed in the late 1970's and early 1980's when the federal government reduced the amount of aid given for economic redevelopment at the same time many urban areas were experiencing rapid economic decline. By 1997, forty-eight states had laws enabling the use of tax incremental financing (Johnson and Kriz, 2001).

Tax incremental financing successfully neutralized the two main criticisms of previous economic development schemes. The first criticism, that it is unfair to burden the entire tax base in order to fund a neighborhood level development strategy, is easily defeated when planners use tax increment financing for redevelopment districts. The improvements made within the district and the subsequent increases in property tax generate the revenue used for the project. Since the revenue is generated from within the districts' borders, many do not question the tax effects of the districts and assume they are self-funding. There is of course, scholarly discussion about the net effects of incremental financing but the public has shown much less disapproval compared to other types of development incentives.

The use of tax incremental financing also alleviates the criticism that economic development incentives do not attract new development or only attract improvement that would occur regardless of the incentives. Planning commissions and local governments evaluate projects publically and establish criteria that must be met before the developers can take advantage of incremental tax laws. With some minor differences between states, the process progresses through five stages: initiation, formulation, adoption, implementation and evaluation/termination (Johnson and Kriz, 2001). The process of public approval highlights the private firm's motivation for locating to the redevelopment districts. The firms usually bargain with local governments for incentives and infrastructure improvements. Planning agencies and governments can use this process to show the public and other possible opponents to the project that their efforts are responsible for attracting private investment. The approval process also gives planners an opportunity to publicize the specific project and cultivate a measure of civic pride that new development projects tend to bring to cities.

Although nearly every state in the United States uses some form of tax incremental financing, there are countless different methods and applications among municipalities and states. There are no universally accepted laws or standardized form of the policy and each state has different rules and regulations on how developers and planners can use the laws to generate economic growth. Many studies have attempted to analyze and measure the effectiveness of various projects. As usual with tax policy literature, there is not a convincing body of work that clearly labels tax incremental financing as effective or ineffective. There are however, many perceived benefits and drawbacks to the policies that are important when considering the public perception of the strategy.

Joyce Man (2001) outlines some of the perceived benefits of tax incremental financing to illustrate why they have gained popularity. The first is that the policy is a form of public-private partnership. Public opinion generally does not support large public works projects and private investment and enterprise is still seen as the preferred driving force for the American economy. When private investment does not produce the results that cities or states want, people often believe that it is the result of market failure. Politicians, planners and the general public view tax incremental financing as a method for correcting market failures. Another significant reason for the increased popularity of tax incremental financing is that the public perceives it to be self-financing. This is because the project receives its funding from improvements in the district rather than tax revenue from other areas. The public and the city leaders also believe that the projects are truly effective in creating urban growth in areas that would otherwise not see improvements. The final reason that Man lists for the popularity of tax incremental financing is that the laws and regulations are flexible. Planners and politicians can shape the conditions of the projects to meet the needs of the city and the opinions of the public.

Man also lists several common criticisms of tax incremental financing projects. The first is that there seems to be equally as many studies showing the ineffectiveness of the projects as studies showing their effectiveness. The second criticism is that the policy results in a zero sum. That is, the projects simply relocate existing businesses from other states, cities and neighborhoods. This is especially true as more cities implement incremental tax incentives and competition between states increases. Tax increment districts can also cause problems when overlapping tax districts are in conflict over the revenue generated. Municipalities can use the districts to seize property tax that would otherwise be shared with county and state agencies. Another issue is that although the complex approval process allows flexibility, it also creates the need for complicated legal and logistical agreements for cities. This has led some planners to advocate a return to grants and bonds that local governments can easily enact and monitor. The last two common criticisms are social and democratic problems. Most states do not include public votes on tax increment financing projects. This can lead to a lack of accountability and abuses of the projects. The original goal of the laws was to revitalize blighted urban areas, yet the planning agencies often use the districts to promote special interests or politicians' pet projects.

Evaluating the perceived benefits and public criticisms as well as determining the effectiveness of tax increment financing is important but not the focus of this paper. A very lengthy literature review would be needed to cover the methodology used to evaluate economic incentive strategies in planning. The brief discussion here is only intended to show how planning strategies have changed in the continual pursuit of economic growth and urban revitalization. Tax increment financing remains popular, but given that almost every state uses it, there is not much room to expand its use.

There have been attempts to extend tax increment financing strategies to tax bases other than property taxes. Several states have enacted sales tax anticipated revenue bonds to fund economic growth projects. These policies use incremental increases in sales tax revenue to pay for infrastructure and offer other incentives to private developers. These sales tax based economic development incentives offer different possibilities and results. The amount of revenue generated from incremental sales tax increases is often larger than incremental property tax increases. However, sales tax revenue is much less stable. The use of sales tax also limits the types of projects to high volume retail districts such as malls. The reliance on consumer spending also creates problems because the new retail districts simply divert spending from other previously existing retail locations (Mikesell, 2001). Despite the challenges, several states have passed laws to create incremental sales tax financed economic development projects.

An important change has occurred in economic development strategy in the last twenty-five years. Cities have stopped attempting to lure private investment only through the implementation of tax breaks and financial incentives. Cities and planners have taken a much more active role in economic redevelopment. In the 1970's, cities enacted economic incentives and then waited for private firms to take advantage of the new policies. The modern strategies are project based and involve formulating a public-private cooperative venture. The public seems to favor these new strategies because they allow planning agencies to advertise a physical project that already has private backing, rather than just presenting a new idea or policy. Rather than implementing plans and hoping they attract private investment, planning agencies are first developing projects and fitting them into economic growth strategies. This may reduce the emphasis on comprehensive and long range community planning. However, the dominant economic development strategy has become project oriented, and planners and citizens value the civic pride and attention that these high profile developments create. This trend will likely continue as long as citizens and politicians demand that planning agencies develop new business centers, retail districts, tourist destinations and other flagship projects.

The use of tax incremental financing usually plays a significant part in creating new project based development. Sales tax increment financing is particularly applicable to project based planning strategies for several reasons. In most cases, sales tax based financing for development must pass though an approval process in which the proposed development is evaluated and the growth effects are estimated. The financing only becomes available after the project meets certain requirements. Redevelopment areas cannot receive sales tax based funding before developers propose a project. Therefore, the idea for a project must precede funding of the project. There is also a notable political impact of this process as well. Developers propose a specific redevelopment project and then the municipality approves funding for the specific project. The political leaders can then claim that the public funding of the project was therefore necessary for the project to continue. This provides politicians and municipalities with an easy explanation to critics of the project who may question whether public money should have been spent to encourage private development. Of course, simply because private developers ask for funding does not mean that they could not have built their project without public money. However, this approval process is a way for politicians and planners to present their growth strategies as public-private cooperation as well as use the proposed project to boost civic pride and excitement in an area.

Following the national trends in economic development strategies, Nevada passed its Tourism Improvement District law in 2005 (Nevada Revised Statutes Chapter 271A), which gives municipalities the ability to use sales tax revenue to fund development projects. The law allows the municipality to capture up to 75% of sales tax revenue from a created district to fund the development. The next section describes and discusses the law in detail.

Review of NRS Chapter 271A:

The Nevada law creating the legal framework for sales tax anticipated revenue bonds, hereafter referred to as the tourism improvement district law, was enacted in 2005 with overwhelming support from the state legislature. Senator Washington introduced S.B. 306 as an extension of a previous bill that attempted to provide financial incentives to local development aimed at improving tourism. The previous bill, S.B. 495 from the 2003 state legislative session, proved to be ineffective due to legal constraints and had not been directly utilized (Nevada Senate, 2005). S.B. 306 was written under the advice of private developers and with the intent of providing effective financial incentives for private development. The law expands tax increment financing laws in Nevada to include the use of sales tax increments to help fund development projects. The law is specifically aimed at promoting economic development and tourism projects in the State of Nevada.

The law consists of thirteen sections, which can be divided into four basic elements. The first element is the creation and funding of tourism improvement districts. Next are the requirements that must be met before a municipality can create a district. The third component determines the distribution of the funds and length of the sales tax agreement. The final component of the law enables municipalities to issue bonds guaranteed and paid by the anticipated sales tax revenue generated from the project. The analysis section of this paper follows the approval process outlined in the law to evaluate the Cabela’s and Legends projects based upon the reports and findings required by the law. The sections of particular interest to the evaluation of the projects and the initial reports and estimates are described below.

Section seven of the law enables the governing body of a municipality to create and revise tourism improvement districts. This section states that the municipality has the ability to “acquire, improve, equip, operate and maintain” (NRS 271A.070(1)) a government or privately owned project in the created district without holding an election. Section seven also enables the municipality to pledge up to 75 percent of sales tax revenue collected in the district to fund the project. This section is important to the analysis of the projects because it creates the legal ability to fund the projects and the amount of tax revenue that can be allocated to the project.

The second main element of the tourism improvement district law is the rules and requirements for creating a district. Section eight of the law outlines the steps that a municipality must complete before creating a tourism improvement district. This section is critical to the analysis of the Cabela's and Legends developments because it establishes the estimates and forecasts that must be included in the proposal documents for the projects. The analysis section of this paper will evaluate these findings based on new and alternative information. The first condition that must be met in order to create a district is that no retailers have maintained a fixed place of business inside the district for 120 days prior to the adoption of the ordinance. In the case of additions to an existing district, there must not be retailers operating inside the amended area for 120 days prior to adoption.

Once a boundary for the project is defined, the governing body must first make "a written finding that the project will benefit the district" (NRS 271A.080(2)). This is an ambiguous statement and the law does not specify how to meet this requirement, however it does raise interesting questions for evaluating the economic and social implications of the project.

The governing body, with the help of independent consultants, is required to make several written findings to estimate the effects of the proposed project before the municipality can create the district. The governing body must also show that the project "will have a positive fiscal effect on the provision of local governmental services" (NRS 271A.080(3)). The law specifies four particular elements that must be considered when evaluating the fiscal impact. The first consideration is the total amount of taxes and other revenue collected as a result of the project. This includes revenue such as property taxes and business license fees. Next, the findings must consider the use of the pledged money to the project. In this section of the findings, the report should consider how the pledged money would be spent on the project, such as land acquisition, building costs, administration costs, and other costs that may be incurred because of the pledge made to the project.

The third consideration in determining the fiscal effects of the project is to estimate the increases in local governmental services required by the development. This includes increased police and fire protection, education expenditure, public infrastructure and any other public utilities or governmental services.

The final consideration required of the fiscal effects findings is an estimation of the increases or displacement of existing retail sales outside the district as a result of the project. This section may include positive multiplier effects of the district. For example, if the new project brings tourists to the area, they are likely to spend money in other retail establishments and on services in the area. Estimates of increased hotel room taxes, car rental taxes, sales tax revenue outside the district and other revenue generated by the estimated increase in tourism from the project are included in this section of the fiscal effects findings. An estimation of displaced retail sales must also be included. For example, if a major retail project causes sales at existing retail establishment to decline, the estimation of those effects must be considered in the final fiscal effects.

Section eight of the tourism improvement district law requires the governing body creating the district to determine at a public hearing that the project will create new retailers in the district and that those retailers will cause a substantial increase in sales and use taxes collected within the district boundaries. The law also requires that the governing body and the Nevada Commission on Tourism determine at public hearings that out-of-state tourists will contribute a preponderance of the increase in sales and use taxes generated by the proposed project. The preponderance findings from the reports are important to the analysis of the projects. Since projects will be diverting sales tax revenue from the general fund, the source of the sales revenue is critical to evaluating the overall fiscal effects. If most of the sales tax revenue is from out of state visitors it is less likely that the new developments are diverting local spending to the district which then does not contribute all of its sales tax to the general fund. The preponderance findings are evaluated in detail later in the paper.

The Governor is required by the law to determine that the use of any money for a proposed project "will contribute significantly to economic development and tourism in this State" (NRS 271A.080(8)). There are no details provided in the law that direct how the Governor is to make the assessment. However, this legal requirement provides an opportunity to evaluate the proposed projects in terms of their large-scale economic effects. The Governor is also required to consider the effects on education funding and any concerns the effected school districts may have. This subsection also grants the Governor the ability to seek a commitment of additional funds or payments from the municipality or project developers to compensate for any adverse impacts on education funding. The reports submitted to satisfy the above requirement offer many important findings and observations that will be discussed later in the analysis section.

The tourism improvement district law contains many requirements that a municipality must meet before it can create a district. However, many of the required findings are forecasts and estimates made before construction has begun. Also, many of the findings use estimates calculated using proposed projects that may or may not be built on time or at all. Section nine of the law addresses the uncertainty inherent in the estimation process by stating that, “Any determination, written finding or approval made pursuant to NRS 271A.080 is conclusive in the absence of fraud or gross abuse of discretion.” This paper seeks to evaluate the determinations and written finding made during the project approval process. While this paper does not attempt to challenge the findings in terms of fraud or gross abuse of discretion, this passage in the law provides the legal basis for any official challenge to the approval process of a tourism improvement district.

The third main element of the law is detailed in sections ten and eleven. These sections address the distribution of the funds and length of the sales tax agreement. The law creates a twenty-year limit on any sale tax revenue distribution agreement. The law also allows the municipality to enter into additional agreements with one or more property owners within the district to secure additional funding for governmental services. This clause is in place to allow property developers and the municipality to enter into an agreement to offset a finding that forecasted a negative fiscal effect on government services or education funding. This section is important to the analysis of the Cabela's and Legends projects because it sets the timeframe for the tax benefits and allows for special arrangement to be made to correct potential negative fiscal impacts.

The final component of the law with importance to the analysis conducted in this paper gives the municipality creating the district the ability to issue bonds secured and paid with the pledged sales tax revenue. It also allows the municipality to make direct payment to reimburse cost incurred building and acquiring any part of the project in the district. Before issuing bonds, the municipality is first required to conduct a feasibility study on the ability of the generated sales tax to pay for any bonds or notes issued in subsection one. The feasibility studies produced for the Cabela's and Legends projects will be evaluated later in the paper.

This section also includes several statements relating to debt liability. The first is a claim that, "A failure to make payments of any amounts due (for bonds or other agreements) because of any insufficiency in the amount of money pledged… shall be deemed not to constitute a default" (NRS 271A.120(2)). The law also asserts that any debt issued and contractual payments cannot be paid from the general fund of the municipality. Also, the municipality may not levy any new taxes or tax increases to pay tourism improvement district debt service. Any debt incurred under the conditions of this law cannot become a general obligation or limit on indebtedness for a municipality. The last subsection sets a twenty-year limit on any bonds or debt issued in accordance with this section.

The final section of the law sets the labor, wage and bidding requirements for tourism improvement district projects. Subsection one and two state that any project financed in whole or part by the application of the law is exempt from competitive bidding requirements. However, if the project is completed by a government entity on government owned property, competitive bidding requirements must be met. The final subsection states that existing laws concerning prevailing wage requirements must be met on all projects.

There have been several complaints and attempts to address problems relating to this section. There were wage disputes during the Cabela's construction and firms have brought complaints against the Legends construction management. The courts have heard these complaints and issued statements finding that the State and the city of Reno failed in meeting prevailing wage requirements and other labor regulations (Kosach, 2009). There are similar issues being addressed concerning prevailing wages and the hiring of contractors for work on the Legends Project (Cooper, 2009). However, this paper will focus on the economic and fiscal effects findings, and leave labor and wage disputes for another research project.

Currently there have been no significant changes to the law since it was enacted and there have not been any legal challenges made through the court system. The law is quite new and as more districts are created, there is an increasing likelihood that legislative changes or legal challenges will arise. There has been discussion about amending the tourism improvement district law to address certain concerns. Members of the Nevada State Assembly introduced Assembly Bill 422 in 2009 to amend the tourism improvement district law. The bill proposes to change many different conditions and procedures currently required to create a tourism improvement district. The bill proposed independent auditing of estimates and claims submitted during the proposal of a new district. In addition, retailers operating inside tourism improvement district and receiving sales tax revenue would be required to submit annual reports that include: the status of the project, an estimate of the sales tax collected, the number of jobs created, the financial impact of the district on the provision of governmental services and a confidential report on the percentage of sales tax collected from out of state shoppers. The bill proposes to exclude any business from receiving any portion of the retained sales tax if the business relocates into the district from an existing location within three miles of district. There are several sections of the bill that revise the language and requirements relating to prevailing wages and contracting agreement on tourism improvement projects. The bill also proposes to exclude local school support taxes from any sales and use tax pledged to a tourism improvement district.

Assembly Bill 422 underwent much discussion and in general had strong support. Assembly members amended the bill to remove many of the initial reporting requirements and replaced them with much more lenient rules (Nevada Assembly, Amendment No. 686 to AB 422). The amended bill passed the Assembly vote and then stalled in the Senate and was never voted on. However, there have been and will likely be future attempts to amend and change some of the details of the law.

In discussions concerning AB 422 there was much agreement about the need to amend the tourism improvement district law (Assembly Committee on Way and Means, 2009). The bill passed the assembly easily although many of the original changes had been diminished. However, progress stalled in the Nevada Senate. There were eleven proposed amendments and eventually the senate decided that there were projects currently underway that would be derailed by changing the existing laws so no action was taken (Senate Committee on Government Affairs, 2009). Debbie Smith, who was a primary sponsor of the original Assembly Bill 422 to amend the tourism improvement district law, became so frustrated with the lack of progress and the amount of amendments that she proposed eliminating NRS 271A completely (Senate Committee on Finance, 2009). This amendment did not pass and the tourism improvement district law remains as enacted in 2005.

Literature Review:

The literature surrounding tax incentives and economic development strategies is immense. The historical background section provides a brief summary of this literature and the changes in theories and practices. However, it is not the intention of this paper to give a comprehensive overview of the broad field of tax incentives and urban development. This paper seeks to analyze two specific projects in Reno and Sparks Nevada. These projects make use of a rare type of tax incentive that allows sales tax revenues to be allocated back to the project to defer development costs. John Mikesell (2001) provides some discussion of sales tax increment financing however, Nevada's law is relatively unique. Only a handful of other states have laws similar to Nevada's tourism improvement district law. The most similar is Kansas' STAR bonds law, which like Nevada's laws, are intended to promote tourist oriented development (Kansas Statutes).

Due to the fact that the Cabela's and Legends projects were the first two built using the Nevada law and the fact that few other states have similar laws, there are few relevant sources to consult concerning the topic. As stated, several sources were used to provide background information and context. In particular, John Logan and Harvey Molotch's "Urban Fortunes" was used to help provide theoretical explanations for several questions that arose following the analysis. In addition, Andrew Jonas and David Wilson (1999) provided important discussion of many of the trends outlined by Logan and Molotch and witnessed in the two projects.

The main sources and references cited during the analysis were primary sources created for and during the approval process for the Cabela's and Legends projects. The Nevada law creating the legal standards and guidelines was used extensively (NRS 271A). Other legal documents were referenced as well, such as City ordinances and determinations issued during the approval process. The corporate reports to investors and official websites for Cabela's, Pinnacle Entertainment Inc. and RED Development offered development plans and descriptions as well as background information for the developers proposing the two projects. The three reports commissioned by the City of

Reno and the City of Sparks and produced by Meridian Business Advisors and McClure Consulting LLC were heavily cited. These reports provided the bulk of the information used by the City Councils and governing bodies to make their required findings. The analysis of the projects in this paper was also based upon the assumptions, methods, and estimates provided by the three reports.

In addition to the commissioned reports, briefings, staff reports, memos and meeting minutes for many different government agencies and commissions were used. The meeting minutes from the Reno and Sparks City Council meetings helped to provide vital information pertaining to the discussion and approval process. The minutes for the Washoe County School District and the Nevada Commission on Tourism also provided information indicating what roles other government agencies played in the creation of the two districts. In addition, several staff reports were reviewed and referenced. These staff reports were helpful in determining exactly what information was given to the City Councils and other governing bodies before they made their decisions. During the Legends approval process, several outside consultant were contacted and asked for their opinion concerning the development and the commissioned projections. The letters and memos submitted by outside consultants such as Kim Fraser and the Real Estate Research Consultants gave additional information needed to complete the analysis.

In order to provide local context to the projections given in the Meridian and McClure reports, the paper references several economic data sets and estimations. The Bureau of Economic Analysis provided data on disposable income and consumer spending patterns. Info Search International, the Nevada Commission on Tourism and the Reno-Sparks Convention and Visitor Authority provided several sources estimating the number of tourists to the area and their spending patterns. The Nevada department of Taxation and the Nevada Gaming Commission's monthly revenue reports were used to provide contextual and regional information about tax revenue and tourist spending.

Methodology:

The Cabela's and Legends projects were the first two developments to utilize the tourism improvement district law and receive sales tax anticipated revenue bonds, or STAR bonds. As discussed in earlier sections, any project must make several economic findings before the proposed project can receive funding from the sales tax collected in the district. This paper will reevaluate the initial estimates and reports supplied during the approval process. The original findings will be reviewed and compared to new and alternative information in order to evaluate the accuracy of the initial project proposals. By reviewing the reports and proceedings during the approval process, the analysis will reassess the initial long-term projections. Following the requirements set forth in NRS 281A.080, the governing body must make eight required findings concerning the effects of the proposed project. The analysis section for each project will evaluate the assumptions, methods and data that the municipalities used to produce the estimates to meet each of the following eight requirements.

1) No retailers were operating within in the district for 120 days before its creation.

2) The project will benefit the district.

3) The project will have a positive fiscal effect after considering the proceeds of all taxes, the use of pledged money, increased public costs, and multiplier and/or displacement effects.

4) The project will lead retailers to locate to the district.

5) There will be a substantial increase in proceeds from taxes in the district.

6) A preponderance of sales tax revenue will come from out of state shoppers.

7) The Governor determines the project will contribute significantly to economic development and tourism, while not negatively effecting education funding.

8) If issuing bonds, a feasibility report indicating the ability to amortize the bonds within twenty years.

The eight required findings represent the evaluation of a project that a municipality must complete before approving a project. The intent of the approval process is to ensure that a municipality evaluates and understands the effects of the project on the area. The findings and the approval process are the only attempts made to estimate the effects of the developments. There are no post-approval reports or other the follow up studies for the two projects analyzed in this paper. The law does not require the developers to release any information concerning the performance of the projects, and the developers have not voluntarily offered information. The information collected and studied during the approval process represents the most complete publically available assessments of the projects. Therefore, in order to reassess the economic and fiscal impacts of the projects, this paper will reevaluate the information used in the approval process.

During the approval process for STAR bond development incentives, independent consultants produced fiscal and economic impact studies for the municipalities to aide in making some of the required findings for each project. The Cabela's project study was produced by Meridian Business Advisors and was submitted in April of 2006. Meridian Business Advisors and McClure Consulting LLC produced the reports submitted for the Legends approval process. Meridian produced separate reports for both projects. When this paper refers to the Meridian report during discussion of a particular project, it is referencing the report concerning the same project. In most cases, if a finding required thorough and technical analysis and estimation, it is included in the independent report while the governing bodies evaluated the district boundary and other general assessment requirements such as requirements 1, 2, 4, and 5 listed above. In addition to the commissioned reports, this paper uses supplemental staff reports, corporate information, and regional economic data to evaluate the fiscal and economic effects of the two projects.

The goal of this paper's analysis is to reevaluate the initial projections for the two projects using information and methods that are easily available and not overly complex. This paper uses this type of data and analysis in order to present results that any interested municipality, group or agency could attain. The only new data this paper presents are the license plate surveys completed by the author, which are used to estimate the proportion of out of state shoppers at the two projects. A complete summary of the survey methods and data is included in the appendix.

Cabela's Analysis:

The Cabela's project approval process was much more simple and streamlined than the Legends project. Meridian Business Advisors prepared the only comprehensive study commissioned and the City of Reno based all of their decisions upon this report. The first requirement concerning the boundary and existing business was easily met. A truck stop had been in operation within the area of construction on the Cabela's store. However, the boundary was drawn to exclude the truck stop to meet the requirement that no business be operating inside the district within 120 days of its official designation (Meridian Business Advisors, 2006). Cabela's later used the area that the truck stop occupied as part of the parking lot for the store.

The City of Reno determined that the project would "benefit the district" as NRS 271A.080(2) requires. This is a very general assessment and the law provides no details as to how a municipality should reach this conclusion. The City Council made their determination based upon the fiscal and economic estimates in the Meridian report. This finding only related to the district itself. Since the district contained a truck stop and empty fields, it did not require much analysis to determine that the Cabela's store would benefit the district. There could be some long range problems associated with a large retail development, but they are relatively negligible. One key factor is that the Cabela's company owned almost the entire district. There were no other significant property owners or residents living in the district whose homes would be directly affected by the development. The Boomtown Casino began operation in 1964 (Pinnacle Entertainment Inc, 2010), and since then there has been retail and tourist oriented businesses operating in the area. The Cabela's increased the size of the retail area but it did not create a completely new retail district where there was previously nothing.

The Meridian report produced estimates for the fiscal effect of the Cabela's project. These estimates were used by the City Council to make the determination that the project will have a positive fiscal effect on governmental services. The first consideration in making this finding is to estimate the proceeds of all taxes collected from the district. The two main tax components are property and sales tax. The estimated total revenues to local governments calculated in the Meridian report over the period from 2007 to 2028 are included below:

Table 1: Cabela's Tax Revenue Estimates from Meridian Report.

	Redevelopment District	City of Reno	Washoe County	Washoe County School District	Tourism Improvement District
Property Tax	$14,307,101	$392,016	$429,436	$344,357	-
Sales Tax	-	$4,068,785	$7,420,232	$14,313,519	$69,425,819

Meridian calculated the sales tax revenue estimates using data supplied by Cabela's and evaluating similar retail establishments. The report estimated average annual sales to be $50 million, which translates into $400 in sales per square foot. The property tax revenue was calculated by estimating the increases in property value following the construction of the 125,000 square foot store and other associated improvements. It is important to note that the Cabela's tourism improvement district is also a redevelopment district. The redevelopment district captures all incremental property tax revenue that is a result of the Cabela's project. Therefore, most of the increased property tax along with the increased sales tax is being returned to the district and are not added to the general fund. In addition to the numbers above, the Meridian report estimated that the City of Reno would receive $1 million in business license fees over the period from 2007 to 2028. Also, there are small increases in revenue allocated to special districts as well as other revenue sources that are not included in the above table. Following the approval of the tourism improvement district, the estimates were adjusted lowering the estimated retail sales. These adjustments were made prior to issuing bonds but the initial estimates shown in the table were used by the City Council to make the determinations required to establish the district.

The Meridian report also includes estimates of the increased costs incurred by governments to build infrastructure and provide new services to the district. The report only calculated costs for the City of Reno and Washoe County School District. While the report made mention that Washoe County will incur costs as a result of the project, it did not attempt to estimate them. The estimated total cost to the City of Reno included police and fire protection, street maintenance, and administration costs. Meridian estimated the total cost to the City of Reno from 2007 to 2028 to be $4.5 million.

The cost of services supplied by the school district was estimated to be $9.8 million. As education funding has been one of the most sensitive issues in the debate over tourism improvement districts, the Meridian report chose to overestimate the potential cost to the school district. This was likely to ensure that the school district would not incur any increased cost due to the project even in the highest cost scenario. The report overestimated the education cost by assuming that all 234 permanent employees of the Cabela's store were new to the area and they brought in an average of .38 students per household. This resulted in increasing costs to provide education for 89 additional students. The actual number of new students that Washoe County School District would have as a result of the Cabela's project is likely much lower. Likely, some of the permanent employees would come from the existing labor pool and therefore would not impose new costs.

The following table shows the Meridian report's estimated total revenue and total costs to the City of Reno and Washoe County School District from 2007 to 2028 as a result of the project (Meridian Business Advisors, 2010).

Table 2: Cabela's Cost and Revenue Estimates from Meridian Report.

	City of Reno	Washoe County School District
Total Revenue	$5,462,869	$14,65,7947
Total Costs	$4,509,758	$9,807,225
Surplus	$953,111	$4,850,722

One important observation is that the Meridian report calculated all of the cost and revenue estimations through 2028. The district was created in 2006 and therefore the redistribution of sales tax from the Cabela's district ends in 2026. The tourism improvement district law (NRS 271A.010 & 271A.012) defines this twenty-year limit for districts and any applicable bonds. As a result, all of the revenue estimations include two years of full sales tax collection following the termination of all funding to the district. Reevaluating the Meridian report estimates for the revenue without the years 2027 and 2028 yields the following table:

Table 3: Adjusted Cabela's Tax Revenue Estimates.

	Redevelopment District	City of Reno	Washoe County	Washoe County School District	Tourism Improvement District
Property Tax	$12,491,201	$356,378	$390,396	$313,069	-
Sales Tax	-	$2,711,770	$4,945,447	$9,539,743	$69,425,819

These numbers are significantly different from the revenue projection indicated in the Meridian report. Modifying the Meridian estimates by removing the final two years from the costs estimates produces the following table, which shows that the City of Reno and the school district still have a surplus although both are greatly reduced.

Table 4: Adjusted Cabela's Cost and Revenue Estimates.

	City of Reno	Washoe County School District
Total Revenue	$3,945,393	$9,852,815
Total Costs	$3,887,628	$8,589,852
Surplus	$57,765	$1,262,963

It is important to note that the modified cost/revenue table above continues to use the Meridian report's estimates of retail sales. The report estimated that annual sales would be $400 per square feet, which results in $50 million in total annual sales. Cabela's corporate report to stockholders indicated that the national average sales per square foot were $301 and $308 per square foot in 2008 and 2009 respectively (Cabela's Incorporated, 2010). If the rate of $308 per square foot is used, the business license revenue is adjusted for the new sales amount, and the period of analysis in correct as discussed above, the cost/revenue table is as follows:

Table 5: Adjusted Cabela's Cost and Revenue Estimates.

	City of Reno	Washoe County School District
Total Revenue	$3,179,661	$7,658,674
Total Costs	$3,887,628	$8,589,852
Loss	$707,967	$931,178

With the revised data, both the City of Reno and school district now have an estimated net loss due to the Cabela's project over the lifetime of the tourism improvement district. However, the report significantly overestimated school district total costs. The increased costs to the school district assumed that all permanent employees would be new residents to the area and therefore would bring new students and additional costs. The loss to the school district of $931,178 shown in the table above would be eliminated more than 26 of the 234 permanent employee at Cabela's came from the existing labor pool in Washoe County.

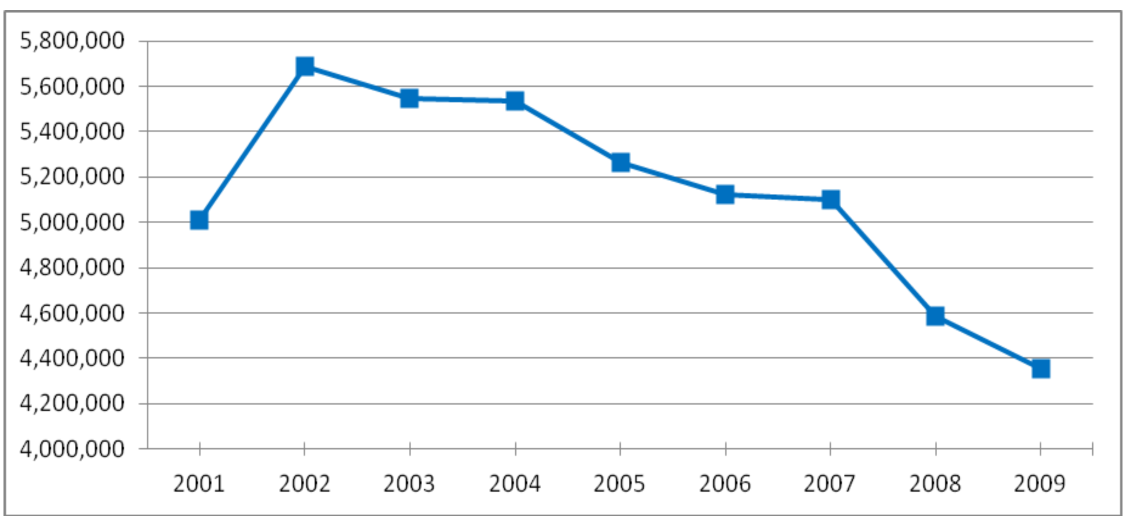
In order for the Reno City Council to make their finding that "the project would have a positive fiscal effect on the provision of local governmental services" (NRS 271A.080(2)) they must also consider any changes in sales and use taxes collected outside of the district (NRS 271A.080(2d)). This analysis is missing from the Meridian report. The ordinance creating the Cabela's tourism improvement district states that the Meridian report "is the only analysis prepared by or for or presented to the council regarding the fiscal effect of the project" (City of Reno, 2006). The City Council could infer the information from data given in the report, but it is not clear how this analysis was conducted. The law states that revenue changes due to the project be calculated for both increases in sales outside the district and displacement of existing retail.

The Meridian report does not attempt to estimate increases in sales tax revenue but it does estimate the total economic impact on taxable sales as a result of the development to be $324 million dollars in the first year. The report calculates these estimates by adding the direct expenditures on the project to the indirect and induced expenditure such as new wages that will be spent locally, visitors to Cabala's spending outside of the district, and other multiplier effects. Multiplying the estimates of $324 million by the 7.725% sales tax rate for Washoe County (Nevada Department of Taxation, 2010) yields an estimated increase in sales tax revenue of $25 million per year. Washoe county total taxable sales for 2008, the first full year the Cabela's store was open, was $6.4 billion dollars (Nevada Department of Taxation, 2009). The Meridian estimate of a total economic impact of $324 million indicated that the Cabela's project would single handedly increase taxable sales in Washoe County by 5.1%.

The estimated economic impact included $31 million in construction related expenditures. Since the Cabela's project is a single retail location, there cannot be construction effects and retail effects happening at the same time. There will be construction effects while the project is being built. However, the retail effects do not begin until the construction is complete and the project is open. The easiest method to adjust the Meridian report is to drop the construction effects and estimate the economic impact following the completion of the project. With this adjustment, the report estimates that the project will contribute $31 million in economic effects during construction and $293 million in taxable sales once the store is open. Even with this adjustment, the estimated impact of Cabela's would increase total taxable sales in Washoe County by 4.6%. Multiplying the estimates of $293 million by the 7.725% sales tax rate for Washoe County yields an estimated increase in sales tax revenue of $22.7 million per year.

The economic impact estimates also include $163 million of assumed spending generated by out of state visitors to Cabela's. If this amount is truly an increase from existing spending it must be shown that Cabela's is attracting visitors that would otherwise not be spending money in the area. It is nearly impossible to show what percentages of tourists who visit Cabela's would not visit the Reno area if the store were not there. The Meridian report estimates that Cabela's will attract 2.5 million visitors per year. This number is consistent with other Cabela's retail stores of similar size (Meridian Business Advisors, 2006). However, considering the number of total visitors to Washoe County, the number of new tourists visiting because of Cabela's is likely not as high as the Meridian report indicates. According to the Reno-Sparks Convention and Visitor Authority, Washoe County had an estimated 5.7 million visitors in 2002, and the number has declined every year since to an estimated 4.4 million visitors in 2009. The Opening of Cabela's in late 2007 seemed to have little effect on the downward trend. Below is a chart showing the pattern in the number of visitors to the Reno-Sparks area.

Figure 1: Total Visitors to the Reno-Sparks Area.

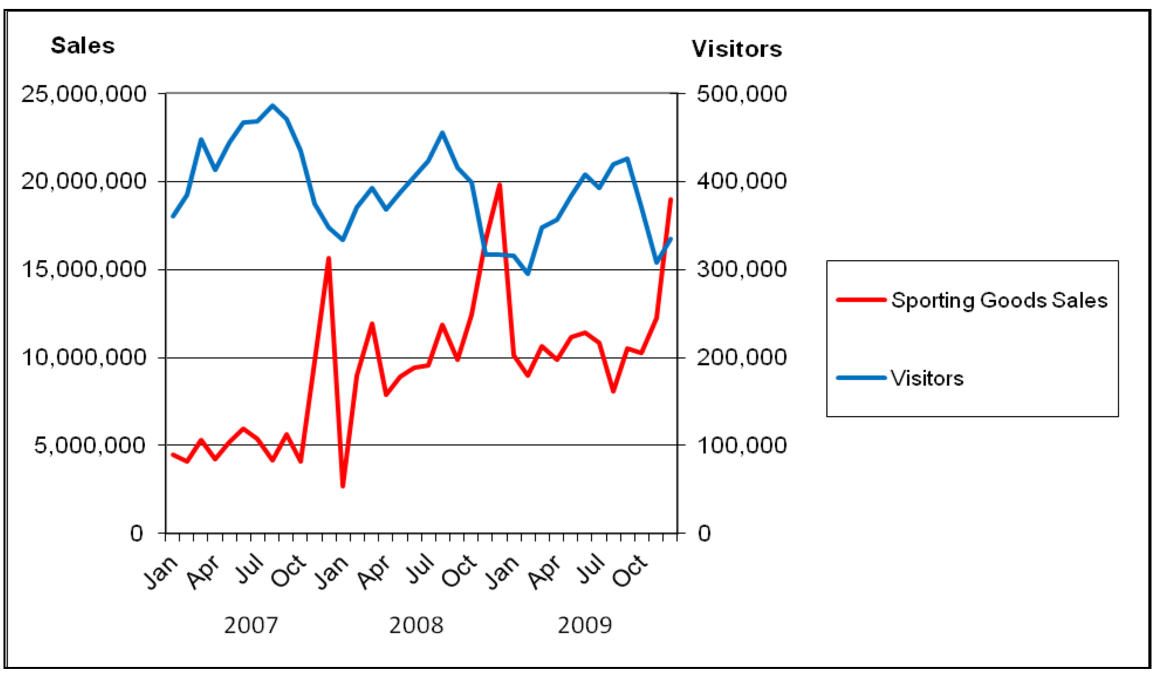


Source: Reno-Sparks Convention and Visitor Authority, 2010

While the claim that 2.5 million people enter the Cabela's store per year could be reasonable, there does not seem to be much of an effect on the total number of visitors to the Reno-Sparks area because of the project. There is no doubt that tourists are visiting Cabela's, however it is unlikely that Cabela's is drawing new visitors to the area.

Evaluating the correlation between visitors and sporting goods sales also shows that Cabela's may be simply diverting existing spending rather than generating new spending. This observation is also important when evaluating the claim that the store generates over half of its sales from out of states visitors. Below is a chart showing the monthly visitors and monthly sporting goods taxable sales from large sporting goods stores.

Figure 2: Monthly visitors vs. Sporting Goods sales from 2007 to 2009



Source: Nevada Department of Taxation, 2010 and Reno-Sparks Convention and Visitor Authority, 2010

Cabela's does appear to impact total sporting goods sales in Washoe County following its opening in late 2007. There are the usually spikes in sales during the Christmas shopping seasons, and sales for the rest of the year are relatively flat. The total sporting goods sales in 2008 were $56 million more than in 2007. This is quite close to the projected yearly sales for the Cabela's store. However, as the graph above indicates, as the number of visitors drops, the total sporting goods sales increase. The correlation coefficient between the number of visitors and sporting goods sales is -.51, which indicated that as the number of visitors increases, the total spending on sporting goods decreases. The correlation is not overly strong, but the reports and projections about Cabela's would indicate that the correlation should be positive, not negative as the data shows.

More analysis involving the correlation between sporting goods sales and visitor statistics continue to raise questions about whether Cabela's is truly generating new tourist spending. In Washoe County, one activity definitely related to tourism is gaming. Using the same visitor data as above and total Washoe County gaming win (Nevada Gaming Commission, 2010), the correlation between visitors and gaming win is .86. As expected, this is a strong correlation and indicates that as more people visit the area the amount spent on gaming increases. The correlation between gaming win and sporting goods sales is -.55, which indicates that as spending on gaming increases, spending on sporting goods decreases. Since, gaming and visitors are highly correlated this result is expected. However, it does provide some preliminary evidence that Cabela's could be diverting tourist money from existing tourist revenue sources. This finding is supported by the report that indicated the proportion of spending on gaming by Washoe County tourists declined from 2002 to 2007 (Info Search International, 2008). The negative correlation between gaming win and sporting good could indicate that tourist reduce their spending on certain activities in order to spend their money on other things. Neither of the correlations calculated provide definitive answers, however they certainly do not support the claims that Cabela's is generating new spending and is attracting tourists to the area.

Another important element of estimating the effects on sales and use taxes outside of the district that is missing from the Meridian report is the estimated effects of Cabela's having a store in Nevada. Catalog and online sales contribute a very large proportion of Cabela's revenue. It is generally the responsibility of a purchaser to submit the sales tax on catalog and online sales if the company does not collect the tax with the purchase (NRS 360B). However, if there is a retail location in the state, the seller is required to collect sales tax. Following the construction of the Cabela's store in Reno, all catalog and online sales will create sales tax revenue. There is no mention or attempt to calculate the amount of sales tax collected on catalog and online sales following the opening of the Reno store.

Another significant problem in the report is the lack of analysis in attempting to estimate the amount of existing sales displaced by the Cabela's store. The law requires that the City Council consider any displacement effects of any project applying for tourism improvement district financing (NRS 271A.080(2d)). As noted above, the City Council makes the statement that no other report was used to evaluate the Cabela's project (City of Reno, 2006). Therefore, the Meridian report should supply enough information to meet the legal requirements to approve a tourism improvement district. Again, the report fails to provide enough information for the City Council to make their required findings.

The Meridian report provides only two paragraphs of analysis for the very important consideration of displacement effects. If the project replaces existing retail sales that contribute 100% of the sales tax with sales that only contribute 25%, there could be significant tax revenue losses. The Meridian report states that the amount of sales that Cabela's displaces is "unknown and difficult to estimate." The report then states that for "discussion purposes only" displaced sales could be between $1.5 million to $3.7 million (Meridian Business Advisors, 2006). While the estimation of displaced retail sales is indeed difficult and complex, there was very little analysis provided before making the above claims. Since the staff at Meridian Business Advisors found the analysis too difficult, it is also very likely that the City Council also did not devote much attention to actually attempting to estimate any displacement effects. This would have been in violation of the tourism district law as it states specifically that displacement of existing retail sales must be considered before approving a project.

The final analysis done by Meridian Business Associates was to estimate the amount of revenue the Cabela's projects collects from out of state visitors. Attracting out of state customers is crucial to a successful tourism improvement district. The most important reason is that tourism improvement districts are retail establishments selling mostly non-essential consumer goods. Retail spending on consumer goods is primarily from disposable income. A consumer can do two basic things with their disposable income. They can either spend it or save it. The propensity to save in the United States is quite low. Over the last ten years the saving rate has varied between 1.7% and 4.3% (Bureau of Economic Analysis, 2010). That means that people spend most of their disposable income regardless of economic climate, shopping options and other considerations. If consumers do not spend their disposable income in one store, it is likely that they will spend it somewhere else. In short, consumers have never had a problem with finding somewhere to spend their money and if the Cabela's store did not exist, locals would spend their money elsewhere. Consequently, if the tourism districts are not attracting out of state spending, then they must be diverting local spending from existing establishments. In order to reduce the effects of local spending displacement, the tourism improvement district laws requires that a governing body find that a "preponderance [of the] proceeds from sales and use taxes will be attributable to transactions with tourists who are not residents of this State" (NRS 271A.080(6b)). The Nevada Commission on Tourism must also make this finding. For the Cabela's project, the City of Reno and the commission used the estimates from the Meridian report to make their finding.

The Meridian report used data supplied by Cabela's that tracked the location of customers purchasing items from their catalogs and online sites within 150 miles of the Reno store. Cabela's then projected that 70% to 80% of their catalog/online customers would make their purchases at the store rather than ordering through the internet or mail. The Meridian report supported this claim with several other market research studies that indicated that while consumers often used the internet to research items, they preferred to make their purchases in an actual store. Cabela's also reported that of the catalog/online sales occurring within 150 miles of Reno, 85% were from Californians. This indicated that in the region being served by the store, 85% are Californians and 70% to 80% would change from catalog/online sales to in store sales. Multiplying the two percentages returns an estimate of 59.5% to 68% of the sales at the Reno Cabela's would be from Californians. The Meridian report chose to exclude the lower estimate in its summary of findings. In the summary section of the report, only the high estimate of 68% is included. The city council could have figured the lower estimate from data given as this paper did, but it was not clearly indicated in the report. There was also no mention of visitors from any states other than California.

During a May 2009 public discussion concerning possible amendments to the tourism improvement district law, a Cabela's spokesperson claimed that their own analysis concluded they would generate approximately 57% of their sales from out of state shoppers (Senate Committee on Government Affairs, 2009). What study the Cabela's representative was referring to is unknown. However it is interesting to note that if the Meridian report chose to include the lower estimate provided to them by Cabela's corporate data, it would be very similar to Cabela's estimates. In their explanation of methodology, the report indicated that Cabela's estimated a range of online/catalog sales would translate to in-store sales. However, the Meridian report only uses the highest estimate.

The percentage of sales that is attributed to out of state visitors is crucial to estimating the success of a tourism improvement district. As discussed above, if the project is not attracting new out of state spending, then it is likely diverting local spending from existing stores that contribute 100% of their collected sales tax. Due to the importance of the preponderance finding and the lack of required reporting from the projects, the author collected license plate data from the Cabela's location. Surveys were taken in the parking lot and counted the number of in state and out of state license plates. A detailed description the survey methods and the complete results are included in the appendix. This information is used to estimate the proportion of locals and tourist shopping inside the stores. The license plate survey does not directly address the question of what percentage of retail sales are attributable to out of state shoppers. It is unknown if there is a difference in the average amount of spending between in state and out of state shoppers. One hypothesis is that out of state tourists may spend more due to the fact that they are not likely to return again for some time. However, the Cabela's retail stores are advertised as tourist attractions and are definitely unique stores. Therefore, tourists may be much more likely than locals to go to the store simply to see it and walk around while not making a purchase. Since they are familiar with the store already, local shoppers are much more likely to go to the store with the intent to make a specific purchase. Also, locals are more likely to make large purchases than tourists due to the problems associated with transporting a large item on a plane or over a long distance drive. Without more information, it is impossible to determine any difference in spending between locals and tourists.

However, the license plate survey is the best approximation available for this research paper since the stores refuse to release their corporate surveys that track their sales.

The license plate data collected at the Cabela's location estimated that approximately 47% of shoppers at Cabela's were from outside of Nevada. A total of 789 cars were counted over several days giving a 95% confidence interval of 43.79% to 50.76% of shoppers from outside of Nevada. The survey data cannot provide a rejection of the assumption that a preponderance of visitors to Cabela's are from out of state. Also, the survey data does indicate that the proportion of out of state shoppers is significantly higher on weekends and holidays than during weekdays. Since the Reno-Sparks area is primarily a weekend destination (Info Search International, 2008), this shows that Cabela's is successfully targeting tourists, even if not to the extent originally proposed. The license plate data does indicate that the Cabela's is attracting tourists, but it also indicates a significantly lower proportion of out of state sales than the Meridian report estimated.

Another method of putting the preponderance claim into perspective is to analyze the number of visitors to Washoe County and the number of visitors to Cabela's. The Reno-Sparks Convention and Visitor Authority estimated that in 2006 there were 5,097,591 visitors to Washoe County. Info Search International (2008) estimated that 4% of visitors to the area were from Nevada. They also found that 56% of visitors shopped while in the area. Following these estimates, approximately 2.74 million out of state visitors participated in some form of shopping during their stay. Cabela's estimated that the annual number of visitors to their store would be 2.5 million. If it is assumed that visitors and residents spend about the same per visit, Cabela's would need to attract at least 1.25 million out of state visitors to their store. If Cabela's were to meet this goal, approximately 46% of all tourists who go shopping would have to shop at Cabela's.

Using the Cabela's 2009 estimate of out of state revenue of 57% (Senate Committee on Government Affairs, 2009), which is very similar to the low estimate inferred from the Meridian report and not refuted by the license plate data, Cabela's generates $21.5 million in sales from Nevada residents. The above estimate was calculated using the initial total sales estimate of $50 million. Based on total spending on sporting goods, it does not appear that Cabela's is diverting a large amount of spending from existing sporting goods stores (Nevada Department of Taxation, 2010). However, following the discussion above concerning disposable income, it is highly unlikely that Nevadans suddenly found an extra $21.5 million to spend at Cabela's. Most likely, the increase in spending at Cabela's came with a decrease in spending on other consumer goods in the area. Based on the above discussion and calculations, the displacement effects of the Cabela's projects could be estimated to be a maximum of $21.5 million in taxable sales.

The Reno Council made the required findings and approved the Cabela's tourism improvement district in September 2006. The Nevada Commission on Tourism agreed with the preponderance finding and the Governor determined the project would contribute to economic development while not harming education funding. Neither the

Commission nor the Governor undertook any additional discussion or review of the estimations provided by the Meridian report.

Following the creation of the Cabela's district, the City of Reno and Cabela's determined the amount of the bond that would be issued to help pay for the project and approved the ordinance (City of Reno, 2007). The ordinance approving the bonds contains several interesting elements that relate to the approval process. It also includes a feasibility report that evaluates the amount of bonds issued and estimates the ability to amortize the bonds within twenty years. The first important observation is that Cabela's deemed the original sales estimations too high and recommended them to be adjusted to lower values.

The Meridian report used to evaluate the Cabela's project and create the tourist improvement district projected sales revenue to be $400 per square foot, which was much higher than Cabela's corporate average. This number was used to create an estimate of $50 million in sales per year. As the law states, the City of Reno would not be liable for any bonds issued to a tourism improvement district. Therefore, Cabela's would bear the responsibility for failure to pay off the bonds. In order to reduce the amount of bonds issued, and the subsequent debt liability, the yearly sales estimate was reduced $348 per square foot for a total of $45 million. This reduced the total amount of bonds issued from $40.5 to $34.7 million (City of Reno, 2007). While the exact reasoning behind the adjustment to the sales projection is not known, it definitely appears that the City Council and Cabela's did not disapprove of the sales estimates during the approval process. However, when determining the amount of bonds that

Cabela's would be liable for, the estimates were lowered to match the national corporate sales average for 2006 (Cabela's Incorporated, 2010).

The second observation from the bond proceedings is that the Reno City Council decided to add additional safeguards for the bonds issued to Cabela's. Cabela's agreed it would not build another Cabela's store within 150 miles of Reno as long as the STAR bonds were outstanding. Cabela's also agreed to fund a debt service reserve with the city to help ensure the payment of the bonds. In addition, Cabela's also agreed to work toward establishing bus service to the development (City of Reno, 2007).

There is no required reporting once a municipality approves a project and the developers have not voluntarily offered sales statistics for the project. Therefore, there is no way to verify the initial claims and estimation presented during the approval process. The above analysis attempts to provide additional information that can be used to modify the proposed economic and fiscal effects of the Cabela's project. In addition, alternative estimates provide a range of possible outcomes that were not included in the initial report. The analysis of the approval process and the estimations used also provide information that is very useful in discussing political and policy implications of the project.

Legends Analysis:

The Approval process for the Legends at Sparks Marina shopping center development followed the same requirements as the Cabela's project. The same eight requirements listed in the methodology section had to be met before the tourism improvement district could be created and the bonds issued. However, due to the added complexity of the project, the findings and estimations required were also much more complicated. Instead of one large retail store as with the Cabela's project, the Legends development proposed over one million square feet of retail with dozens of different stores, ranging from small boutique shops to the world's largest sporting goods store. Also included in the Legends proposal were several restaurants, nightclubs and entertainment locations. The findings required to create the district were primarily based upon two commissioned reports. Meridian Business Advisors prepared the first report, which estimated the fiscal and economic effects of the project (Meridian Business Advisors, 2006). McClure Consulting LLC produced the second report, which focused on estimating the displacement effects and the percentage of revenue attributable to out of state shoppers (McClure Consulting LLC, 2006). The McClure report was amended several times over the course of the approval process. In general, the Legends approval process had much more discussion of the project than the Cabela's process. Several groups brought up challenges to the estimations in the report and several revisions were made. The Legends approval process began in early 2006 and the district was not approved until 2007.

Just as with the Cabela's project, the first two requirements were easily met as there were no current businesses operating within in the district boundaries. There were no discussions needed to determine that there were no businesses operating within 120 days of the creation of the district. The second determination that the project will benefit was based on the finding that the project reduced blight and the project will be built as proposed (Sparks City Council, 2006).

The Sparks City Council made the determination on March 31, 2006 that the Legends project will have a positive fiscal effect (City of Sparks, 2006). In making this finding the Council considered all of the components as required by law (NRS 271A.080(3)). The four considerations were the amount of all taxes, the use of pledged money, increased public costs, and multiplier and/or displacement effects. The Council based its findings on the Meridian report and the February version of the McClure report.

The Meridian report estimated the fiscal effects for 2006 to 2009. The four-year period was chosen to cover the two-year construction phase and two years of business once the project was complete. It is unclear why the Legends report only calculates fiscal effects for four years rather than the entire life of the district. The 2006 to 2009 estimates do provide annual numbers that could be projected for the life of the district. Since the 2009 estimate represents a fully completed and operational project, it is assumed that in making their findings the Sparks City Council simply repeated the 2009 estimate for the duration of the district. The McClure report provided annual estimates for the fiscal effects, which could be applied to any life span of the project.

The first component of the tax effects is the property tax impacts of the project. The site of the Legends shopping center had previously been declared a redevelopment district. Therefore, any increase in property tax revenue as a result of the Legends project is retained by the redevelopment agency and not added to the general fund.

The Meridian report estimated the total property tax revenue for the period 2006-2009 for only the Redevelopment Agency and the City of Sparks. It is not clear why the property tax revenues were not calculated for Washoe County and Washoe County School District as they were in the Cabela's report. The Meridian report also estimated the sales tax revenue as a result of the project. The combined sales and property tax estimates for 2006 to 2009 are included in the table below.

Table 6: Legends Tax Revenue Estimates from Meridian Report.

	Property Tax	Sales Tax
Redevelopment District	$8,310,200	-
City of Sparks	$58,800	$1,411,000
Washoe County	-	$5,861,200
Washoe County School District	-	$10,648,00
State of Nevada	-	$9,648,000
Tourism Improvement District	-	$67,695,200

In order to calculate the sales tax revenue, the report used total sales estimates. However, it is not clear in the Meridian report how the total sales estimates were calculated. The numbers were different from the McClure report so it appears that Meridian arrived at their own calculations. The Meridian report estimated total sales per square foot of $489.50. The McClure report also calculates total sales, although their result is slightly lower with an overall average of $453.59 per square foot. The projected retail sales are the single most important estimation made during the approval process because the retail sales drive all the other estimates. Despite the importance of these estimates, neither report offers any discussion of the estimates used in their calculations.

To put estimated sales from the two reports in perspective, Washoe County total taxable sales peaked before the recession in 2007 at $7.1 billion dollars (Nevada Department of Taxation, 2010). The Meridian and McClure report estimated Legends sales to be $666 and $613 million respectively once the project was fully operational. Therefore, the two reports estimated that the Legends shopping center would provide approximately 9% of the total taxable sales in Washoe County.

As section three of the tourism district law requires (NRS 271.080(3c), the Meridian report also estimates the increased costs that result from the development. In their report, Meridian concludes that only the City of Sparks will have increased costs as a result of the Legends project. The City would have to increase police, fire, and public works expenses to provide services to the new development. The report estimated the increased services to cost $1,881,300 over the period from 2006 to 2009. The cost for 2009, which represents the first full year of the complete project, was $619,500. Meridian estimated the City of Sparks would receive $3,005,100 in revenue from property and sales tax as well as business license fees for 2006 to 2009. The estimate of Sparks' revenue in 2009 was $1,112,200. Therefore, the Meridian report estimates that the City of Sparks will have net gain of $1,123,900 for the period of 2006-2009 and an annual gain of $492,700 per year once the construction was complete and the project operating to its full potential. The above information for the City of Sparks is displayed in the table below.

Table 7: Legends Cost and Revenue Estimates from Meridian Report.

	2006-2009	2009
Revenue	$3,005,100	$1,112,200
Costs	$1,881,300	$619,500
Surplus	$1,123,900	$492,700

The Meridian report estimated that there would be no increased costs to the Washoe County School District or Washoe County. The report claimed that the project will draw most of its employees from the existing labor pool and therefore would not put any new burdens on the school system or the County's resources. Meridian cited December 2005 unemployment numbers to show that there were currently enough unemployed workers to fill the newly created positions. The report states that there may be limited labor force increases but that they would be negligible and therefore were not estimated.

The Washoe County Commission reviewed both the Meridian and McClure reports. They had several issues with some of the assumptions used to produce the estimates. The County Commission was concerned that the reports exaggerated the retail sales per square foot estimates. They commissioned a staff report and indicated that their research included two estimates that indicated a total sales revenue average of $341 and $392 per square foot for large shopping malls. The Commission staff report also criticized the McClure report's estimation of sales for specific stores as well. The McClure report estimated restaurant sales to be $625 per square foot while the commission's research indicated national averages were approximately $369. The County Commission also found the estimations for the Scheels location and other large-scale retail stores to be inflated compared to several estimates from other projects and national averages (Sherman and Hull, 2006). The Commission then produced their own estimates, which indicated a range of possible sales tax revenue and included one scenario with a negative fiscal impact. These estimates along with the commission's comments and concerns were included in the Sparks City Council Meeting on March 31. The Sparks City Council reviewed the Commission's concerns, but no further action was taken by the Council in making their determination of a positive fiscal effect (Sparks City Council, 2006).

The Washoe County School District and the Washoe County Commission raised complaints with the Meridian report's conclusion that there would be no effects on costs borne by the school district and the county (Sherman and Hull, 2006 and Washoe County School District Board of Trustees, 2006). Despite their concerns, the Washoe County School District chose to give their approval to the project with the idea that extra revenue allocated to the district not used to make bond payments could be used to alleviate any increased costs (Ciesnyski and Kramer, 2006). The Meridian report also mentions that state law contains several sections that would allow specific payments or extra revenue to be directed to the School District (NRS 271.080(8b) and NRS 360.855). The concerns of both groups were reviewed during the meeting to make the determination of positive fiscal effects, but the City Council took no further action to address the concerns (City of Sparks, 2006). In addition, the City Council decided to initiate a turbo payment structure in which any revenue collected and returned to the district above the amount required to make payments on the issued bonds would be used pay down the interest on the bonds. This removed the possibility that any additional revenue collected could be sent to the School District.

Using the national sales average for large shopping malls provided by the Washoe County Commission's report show an alternative fiscal effect for the City of Sparks. The Meridian report estimated sales to be $489 per square foot while the commission report found two different national averages of $341 and $392. Since it is unclear which estimate is more accurate or more applicable to the Legends project, alternative sales figures will be calculated using the midpoint of the two estimates, which is $366.50. Using this sales estimate, produces the adjusted estimates for revenue and costs shown below.

Table 8: Adjusted Legends Cost and Revenue Estimates.

	2006-2009	2009
Revenue	$2,267,052	$837,276
Costs	$1,881,300	$619,500
Surplus	$385,752	$217,776

The City of Sparks is still estimated to receive a net gain from the project, but the amount of the surplus is greatly reduced when compared to the estimate in the Meridian report.

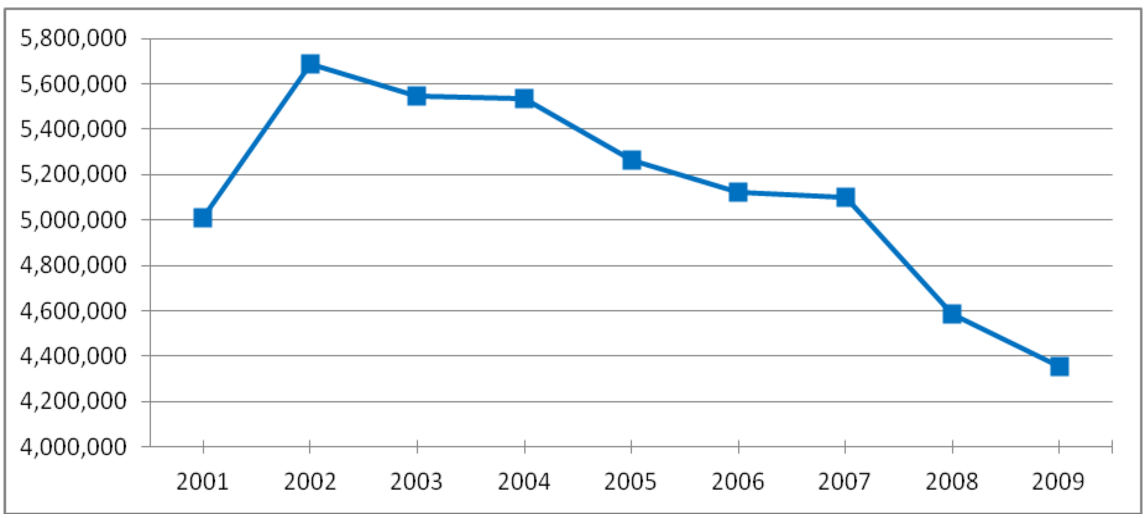
The final considerations before determining the project would have a positive fiscal effect were the effect on sales and use taxes as a result of increase and/or displacement of existing retail outside the district. The Meridian report provided the estimations on the increases and net economic effects of the Legends project while the McClure report provided estimates relevant to both outside increases and displacement effects. The total induced economic impact report by Meridian was $694 million. This estimate included construction costs as well as retail sales impacts for one year of operation following project completion. Therefore, it is difficult to interpret the $694 million estimate. It is most reasonable to estimate the economic impact as construction impact and retail impact following project completion as two separate estimates. Therefore, the Meridian report projects that upon completion the Legends project will have an annual impact of $327 million. It is not clear if this is an estimate of total economic activity or increased taxable sales as a result of the project. This is a significant problem as the law requires the Council to consider sales and use tax changes outside the district. It is unclear what the Meridian report is estimating, making it very hard to estimate sales and use tax changes as a result of the Legends project.

The McClure report also addresses the issue of induced spending as a result of the Legends shopping development. The McClure report claims Legends will draw an additional 800,000 visitors to the region. The report estimates that these new visitors will have an economic impact of $934 million. Again, it is unclear as to whether this estimate is an increase to taxable sales, making it very difficult to make the required consideration of sales and use tax effects. The total taxable sales in Washoe County in

2009, the first full year Legends was open, was $5.25 billion (Nevada Department of Taxation, 2010). If the estimate of $934 million dollars is taxable sales, the McClure report's estimate would represent an increase in total county taxable sales of 18.8%.

The estimated 800,000 new visitors as a result of the Legends project is a key factor in estimating the total economic impacts. According to the Reno-Sparks Convention and Visitor Authority, Washoe County had an estimated 5.7 million visitors in 2002, and the number has declined every year since to an estimated 4.4 million visitors in 2009 as seen in the chart below.

Figure 3: Total Visitors to the Reno-Sparks Area.



Source: Reno-Sparks Convention and Visitor Authority, 2010

The number of visitors peaked in 2002, so the decline is not simply a result of the economic downturn of recent years. When making projections concerning the number of new visitors per year, the declining trend was already known. Without consideration of the downward trend, the estimated increase of 800,000 visitors represents a 15%

increase from 2005 tourist estimates and an 18% increase from 2009 numbers (Reno-Sparks Convention and Visitor Authority, 2010).

The McClure report estimated the total displacement of existing retail sales as a result of the Legends project to be $256 million in taxable sales. The report indicates that the estimate of displaced sales was calculated from the percentage of square feet of retail space in Legends that would be supported by locals. The exact methods and assumption used to calculate this estimate are not clear. However, given the total sales projections it appears to be reasonable. The McClure report estimates that total sales for the Legends project will be approximately $613 million, with an estimated 56% attributed to out of state visitors. This leaves approximately $270 million in retail sales to local shoppers. As discussed earlier, given the propensity to consume and patterns in disposable income spending, it is unlikely that a new retail store will generate significant new spending from local shoppers. Most of the spending done at Legends by locals will come at a cost to spending at other locations. There is likely to be some growth in retail spending due to population growth and economic growth. This is increase is observed in the different between of $14 million between the displacement and local contribution to Legends sales.

Although the displacement effects appear to be accurate, an important consideration is missing. In the analysis and estimation of economic multiplier and impact effects, the reports use estimates of the total Legends retail sales. The multiplier effects of diverted sales cannot be added to the economic impact of the development, as these sales were already present and contributing to the local economy. The total economic impact could be altered in two ways. Either the displaced sales should be subtracted from the new sales before economic multipliers effects are calculated. Alternatively, the economic multiplier effects should be calculated for the displaced sales, and then subtracted from the total economic impact of the Legends project. Adjusting the Meridian report estimate using the estimated displaced sales reduced the economic impact of retail sales from $327 to $184 million.

Despite the many challenges and alternative projections, the Sparks City Council made their finding that the Legends project would have a positive fiscal effect based on the Meridian and McClure reports on March 31, 2006 (City of Sparks, 2006). The Council made their finding without further analysis pertaining to the questions and requests of the Washoe County School District or the Washoe County Commissioners.

The next step in the approval process was the findings that the project will cause business to locate to the district and sales and use taxes collected from the district to increase, and that a preponderance of the sales and use taxes from the district will be from out of state shoppers (NRS 271A.080(6)). The first two conclusions are straightforward and were made easily by the City Council. The preponderance finding is much more complex. As discussed earlier in the Cabela's analysis, attracting out of state customers is crucial to the success of a tourism improvement district. If the tourism district is not attracting out of state spending, then it is diverting local spending from existing establishments. Although the Sparks City Council did not request any amendments to the reports before determining that the project would have a positive fiscal effect, they did request further analysis and amendments before making their preponderance determination. The McClure report was amended and the percentage of sales attributed to out of state tourists was reduced from 56% to 53%. The Sparks City Council then unanimously approved the finding that a preponderance of sales would come from out of state tourists on August 28, 2006 with very little discussion or consideration of the estimates made in the McClure report (Sparks City Council, 2006).

Prior to the approval of the preponderance finding in the City Council, there had been challenges to the McClure report. The Sparks City council had requested additional outside opinions regarding the estimations of tourist spending at the Legends development. The first outside opinion was provided by Kim Fraser of Kim Fraser Associates (2005 and 2006), which disagreed with the percentages of tourist sales estimated by the McClure report. She cited the large amount of national retailers that would be located in the Legends development and questioned why tourists would be attracted to stores that existed in their own towns. She also stated that given the fact that many tourists either arrived by airplane or traveled long distance by car, it was unlikely that they would make large purchases such as furniture, electronics, and other home furnishings because they could not easily take their purchases home. Despite this problem, the McClure report indicated that large national retailers, such as Wal-Mart, Target, Best Buy and Fry’s, would receive almost 40% of their sales from tourists. Fraser also wrote that based on her extensive experience developing tourist oriented shopping centers, the estimated percentages of revenue from tourists for smaller stores and restaurants were too high considering the distance from Legends to other attractions.

Fraser was not asked or did not she volunteer her own estimates on the percentage of revenue likely attributable to non-residents.

The City Council also asked for another outside opinion from Real Estate Research Consultants. In their response (Real Estate Research Consultants, 2006), they indicated there appeared to be some questionable assumptions in the McClure report. However, they also indicated that estimating the percentage of retail spending by tourists was a very difficult problem and that there was no universally accepted standard procedure. They concluded by saying that although different opinions may be reached regarding the McClure report, they found no conclusive evidence the report was inaccurate.

The Sparks City Council made their preponderance finding with the information provided by the reports. However, the Nevada Commission on Tourism, which is also required to approve the preponderance findings (NRS 271A.070), deliberated for several months and asked for more information several times before making their finding. The Commission received the same reports and outside information as the Sparks City Council used to make their determination. However, the Commission found several issues with the reports and McClure Consulting made several rounds of changes following requests from the Commission. The Commission continued to delay their approval of the preponderance study due to the lack of confirmed retailers in the Legends development. The Commission was worried that since the preponderance estimates were highly sensitive to the type of business that would locate in the development, they could not make their decision until they knew which retailers would open in the district. The Commission delayed rulings several times and repeatedly asked for more verified lease agreements in their September 26 and November 29 meetings. Commission members finally concluded during their December 11 meeting that they could approve the preponderance findings based on the projected clients and the potential for the project to be built rather than based upon definitive clients and reports (Nevada Commission on Tourism, 2006). The Commission eventually unanimously approved of the preponderance findings in December of 2006.

The percentage of sales that is attributed to out of state visitors is crucial to estimating the success of a tourism improvement district. As discussed above, if the project is not attracting new out of state spending, then it is likely diverting local spending from existing stores that contribute 100% of their collected sales tax. The estimates for the Legends project were very close to the threshold for determining that a preponderance of revenue would come from out of state shoppers. During the approval process, the McClure report was amended several times. In their final version, dated August 21, they estimated that 53.26% of the sales tax revenues generated by the Legends project would be attributed to tourists. This estimate did not leave much room for error, therefore, a closer review of the McClure estimates point is necessary.

The first observation is that the McClure report estimated national retail anchor stores to receive 39% of their revenue from tourists. This is the high end of estimates for similar retail markets included in the McClure report. These stores include retailers like Wal-Mart, Target, Best Buy and Fry’s. The estimates for national retailers are all the same even though in their February 2006 report, McClure Consulting states, “shopping for electronic goods is not typically a high priority for tourist shoppers." The report made many of its conclusions based upon data collected by the Travel Industry Association of America (TIA, 2001). In addition, the McClure report proposed that two unnamed junior anchor stores of a combined 58,148 square feet would contribute $18.8 million in taxable revenue, of which 67.5% would be attributed to out of state shoppers. It is unclear what these stores would be and what type of retailer could be expected to attract such a high tourist component. One of the main tourist components to Legends is the Scheels sporting goods store. At over 200,000 square feet, it is the world's largest sporting goods store and contributes significantly to the appeal and novelty of the Legends shopping center. The McClure report estimated that it would generate 74.5% of its revenue from tourists. This estimate is even higher than the estimate for the Cabela's super store.

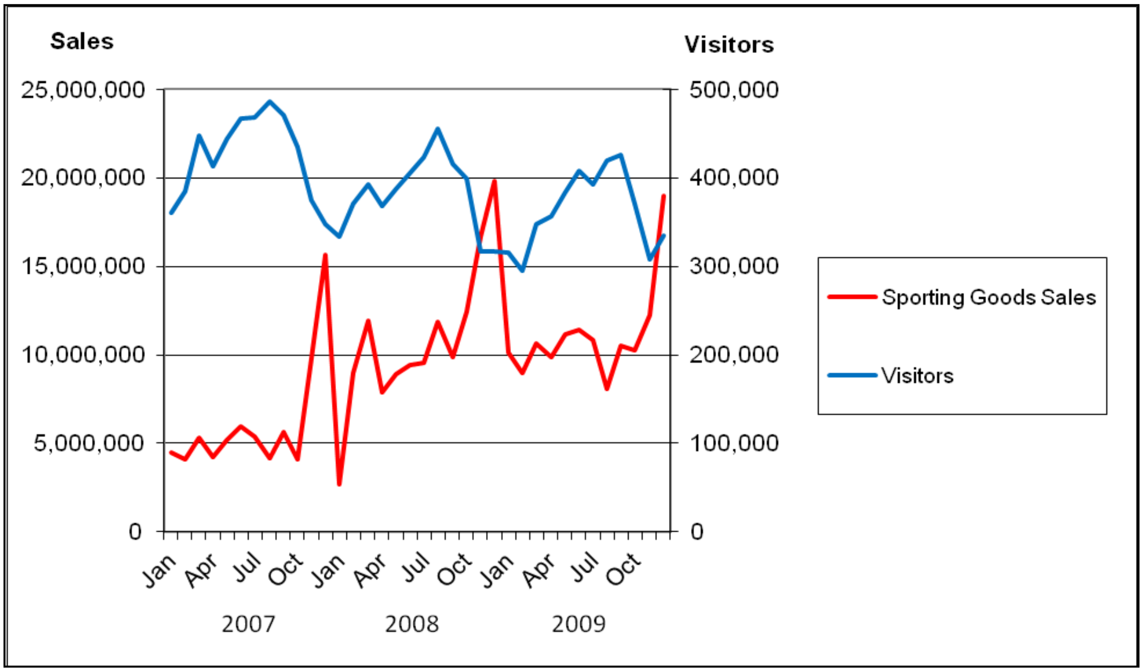
The assumed percentages of out of state sales for the national retailers and the Scheels store are very influential on the total out of state sales for the Legends shopping center. This is due to these few stores contributing approximately 49% of total sales at Legends. The McClure report concluded that national retailers located in cities with similar visitation rates to the Reno-Sparks area collected approximately 30% to 40% of their revenue from out of state tourists. In the report submitted to the City Council, they estimate the national retailers in Legends will receive 39% of their revenue from out of state tourists. If the low estimate of 30% is used for the national retailers, the estimated proportion of total Legends sales attributable to out of state visitors drops below 50%. In another scenario, if the national retailers attract the midpoint estimate of 35% sales to out of state, and if the Scheels store performs similar to Cabela's with 58% out of state sales, the total tourist percentage of Legends sales drops below 50%.

Due to the importance of the estimates of the percentage of sales attributable to out of states visitors, the author collected license plate data at the Legends shopping center. As with the Cabela's survey, this survey does not provide a direct estimate of sales revenue from tourists, however, it is the best approximation available. For the same reasons as cited before, it is assumed that in state and out of state shoppers spend roughly the same amount. Therefore, the percentage of out of state license plates should be similar to the percentage of retail sales from out of state shoppers. The Legends parking lots are very large and the number of cars counted was high enough to break the survey into to four different sections of the shopping center. The four sections were the parking lot in front of the Scheels main entrance, the lot near Best Buy and the southern entrance to the mall, the area near the northern entrance, and the lot in front of the Target store. A description of the survey methods and the complete results are included in the appendix.

The license plate survey indicated that 17.5% of the shoppers at Legends were not from Nevada. A total of 4216 cars were counted over several days giving a 95% confidence interval of 16.38% to 18.68% of shoppers from outside of Nevada. This survey indicates that Legends is nowhere near attracting a preponderance of retail sales from out of state visitors. If the proportion of license plates is similar to the proportion of actual shoppers, out of state shoppers would have to be spending over four times as much per visit as locals in order for Legends to be generating a preponderance of out of state retail sales. As would be expected, the parking lot in front of the Scheels main entrance had the largest proportion of out of state license plates with 25.4% and the Target parking lot had the lowest at 8.5%. This does indicate the Scheels is somewhat of a tourist attraction. It was nearly twice more likely that an out of state shopper parked in front of Scheels than any other area of the mall. Also indicating that Legends is attracting some tourist attention is the fact that the proportion of out of state license plates was significantly higher on weekends and holidays than during weekdays.

Since Scheels is proposed to be the biggest draw to tourists, there should be a connection between visitors and sales from sporting goods stores. However, as discussed in the Cabela's project analysis, there appears to actually be a negative correlation between the number of visitors and sales revenue from sporting goods stores as can be seen in the chart below.

Figure 4: Monthly visitors vs. Sporting Goods sales from 2007 to 2009.



Source: Nevada Department of Taxation and the Reno-Sparks Convention and Visitor Authority, 2010.

Scheels opened in late 2008, so there is only one year of analysis, but it is clear that during the summer months as the number of tourists increase, sporting goods sales do not follow the same pattern. It is also interesting to note that although the Cabela's development appeared to cause an increase in sales, the opening of Scheels in late 2008 did not cause another similar increase. The initial spike following the opening of Scheels in late 2008 follows the reoccurring Christmas shopping increase and sales return to normal levels after the holiday season.

The McClure report estimates that the Scheels store will generate $79.9 million in taxable sales. If the McClure estimate that tourist sales will make up 74.5% of total

Scheels sales is correct, the store would be generating approximately $59.5 million in new sporting goods sales. From the total taxable sales of sporting goods data shown in the table this is clearly not happening. The total sporting good sales for the 12 month period prior to Scheels opening was $123 million. The total sporting good sales the 12 month period following the opening of Scheels was $138, for a difference of $15 million (Nevada Department of Taxation, 2010). The discussion in the Cabela's analysis concerning correlations between sporting goods sales, gaming win and visitors also provide evidence that the Scheels store in Legends is also not quite the tourist draw that is was proposed to be.

Comparing the total number of visitors to Washoe County and the proposed visitors to Legends puts the claims of the McClure report into perspective. The McClure report estimates that the Legends shopping center will attract approximately 3 million shoppers per year. Following the calculations done for the Cabela's project using estimations from the "2007 Reno-Tahoe Visitor Profile Study" (Info Search International, 2008), the estimated market capture for Legends is very high. As calculated earlier, an estimated 2.74 million tourists participated in some form of shopping during their stay in 2007. Following the assumption that tourists and locals spend approximately the same, the preponderance estimations indicate that Legends would attract approximately 1.59 million out of state shoppers. This translates to an estimation that 58% of all tourists to Washoe County who go shopping would visit Legends. This market capture is extremely high when considering the fact that the Legends development is isolated from most of the tourist attractions in the area.

Another comparison between existing tourism trends and the projected retail sales from tourists at Legends is helpful. Info Search International (2008) estimated that total shopping and gift spending during a visit to the Reno-Sparks area was $118 per person in 2007. This translates to $577 million dollars in shopping expenditures by tourists when using the estimate of 4,893,687 out of state tourists in 2007 provided by the Reno-Sparks Convention and Visitor Authority (2010). The McClure report estimates that approximately $325 million per year in retail sales at Legends will be from out of state visitors. Even when adding the questionable estimation that Legends would attract 800,000 new visitors per year, the McClure report claims that Legends would add approximately $57 to the average shopping expenditures per trip. This represents a 48% increase.

The final stages of the approval process for the Legends project were the Governor's approval and the inclusion of a turbo payment structure for the bonds issued. As with the Cabela's project, the Governor did not conduct any additional analysis or discussion on the projections made by the reports. The approval of the turbo payment structure set the amount of the bonds issued to $201,840,000. This was based on receiving approximately $30 million per year from the 75% of total sales taxes allocated to the district, which is slightly lower compared to $34 million per year as estimated in the reports. The City decided to give a small cushion to ensure the minimum payments were met. The turbo structure then allows the City of Sparks to use any extra revenue collected to pay down the bonds rather than having them returned to the general fund. The benefit of this method is that the total interest payments are lower if the extra revenue is used to pay off the bonds earlier than scheduled. The negative aspect with using the extra revenue for this purpose is that it would have otherwise gone to the general fund to finance normal government expenditures.

As with the Cabela's project, there is no required reporting once a municipality approves a project and the developers have not voluntarily offered sales statistics for the project. Again, there is no way to verify the initial claims and estimation presented during the approval process. The above analysis attempts to provide additional information that can be used to modify the proposed economic and fiscal effects of the Cabela's project. In addition, alternative estimates provide a range of possible outcomes that were not included in the initial report. The analysis of the approval process and the estimations used also provide information that is very useful in discussing political and policy implications of the project.

Discussion of Cabela's:

By reviewing the approval process and the reports and documents produced during the process, a few observations can be made about the Cabela's project. After reevaluating the approval process, there were several significant errors. The first is that the initial total sales estimates were likely too high. This was the driving factor for many other estimates of fiscal and economic effects and therefore caused numerous other estimates to be overstated. The Meridian report estimated the average annual sales to be $50 million, which translates into $400 per square foot of retail. This estimate significantly overestimates the sales per square foot when compared to Cabela's overall retail sales averages, which were $301 and $308 per square foot in 2008 and 2009 respectively as reported in Cabela's annual report to investors. Cabela's also reports that as the number of Cabela's locations increase and as competition increases it is likely that retail sales per square foot will decline (Cabela's Incorporated, 2010). Despite this, the Meridian report estimates annual sales using $400 of revenue per square foot for the entire period ending in 2028.

It is likely that during the first few years the new Cabela's store in Reno would outperform the average Cabala's retail store, due to its novelty and the excitement of having a new unique store in the region. However, it seems unlikely that over twenty-two years and with new competition entering the area, the store would continue to retain its novelty and uniqueness and be able to outperform the corporate average. When compared to the retail sales per square foot from the Cabela's corporate data, the Meridian report overestimates the annual sales by approximately 29% and the total sales for the next twenty years by $350 million. Adjusting the estimates by using different data returns a negative fiscal effect for the city of Reno. Although it is not a conclusive finding, evidence suggests that the Meridian report exaggerates the total sales revenue generated by the Cabela's store and that there is potential for Cabela's producing a net fiscal loss for City revenue.

Another major problem found in the approval process is that not all costs for additional governmental services needed because of the project were calculated. The Meridian report simply omitted necessary increases in county government services such as increased community services like libraries, parks, courts, and sheriff services. These costs were not calculated and therefore the fiscal effect on Washoe County is not included in the report or the City Council's findings.

The report did not estimate the sales and use tax effects on existing development outside the district. There were estimations of the total economic impacts but despite the law requiring an analysis of tax effects they were missing from the report. Their analysis of economic impact exaggerated multiplier effects of the Cabela's project. The estimations of economic impact included simultaneous construction and retail effect despite the fact that these two activities could not possible take place at the same time. The Meridian report's estimated economic impact of $324 million is likely inflated due to the claims that Cabela's would attract 2.5 million new visitors to the area. This visitor estimation indicates that Cabela's would increase the total number of visitors to Washoe County by 47.5% from 2005 numbers. The Meridian report estimate claims Cabela's would not only cause a record number of tourists to visit the area, it also claims the increase would come after four years of declining numbers (Reno-Sparks Convention and Visitor Authority, 2010). Further analysis of visitor trends and sporting goods sales also indicated the Cabela's does not appear to be the tourist attraction that the City Council touted it to be. The trend in the number of visitors has continued to decline following the opening of Cabela's and there appears to have been very little impact from the project.

The Meridian report and the City Council did not conduct a legitimate attempt to analyze displacement effects despite the importance of the estimate. The report stated that there were no standard methods to calculate displacement and offered a guess of

$1.5 million to $3.7 million. The spirit of the law surely requires more than a statement guessing the amount of displaced sales because it was concluded that the analysis is too difficult. Based upon the estimates of out of state revenue, this paper estimates approximately $21.5 million in displaced sales. This estimate is made by assuming spending at Cabela's by locals is coming at a cost of spending by local at existing retailers. The Meridian report estimation of displaced sales assumes that the spending at Cabela's by locals displaces very little spending at other local retailers. The Meridian report gives no information as to where the additional spending money would come from. It is very likely that the Meridian estimate of displaced sales is significantly underestimated.

The report also embellished the proportion of sales revenue attributable to out of states visitors. The analysis in the Meridian report began with a range of possible out of state percentages. However, the report only included a final estimate, which represented the high end of the range. It is unknown if the report deliberated biased the preponderance estimate by excluding the low range estimate, or if it was simply due to error. Regardless of the reason for the omission, the Meridian report does give an exaggerated estimate of the proportion of sales that would be attributed to out of state shoppers. In addition, both Cabela's officials (Senate Committee on Government Affairs, 2009) and the author's license plate survey indicate that the lower estimate is more accurate.

Finally, the Meridian report increased all estimates of the fiscal effects by including two additional years following the termination of the tourism improvement district and the subsequent bonds. The inclusion of two additional years past the termination of the tourism district and its subsequent funding changes the fiscal effects drastically. It also conflicts with the requirements of the law. Section 8, subsection 3 of NRS 271A states that the independent consultants and the governing body make fiscal effects findings related to "the project and the financing thereof." The Cabela's tourism improvement district and the associated financing must be terminated in 2026 as per state law. Therefore, including fiscal effects that are no longer impacted by the financing of the project does not follow the requirements indicated in the law. Not only do the fiscal findings reported by Meridian and used by the City Council not follow the law, the offending extra two years of data significantly increase the surplus estimates and make the project appear more attractive.

Any one of the above problems deserved particular attention from the City Council prior to approving the project. The combination of all the errors should have definitely drawn a few red flags and prompted city officials to demand more information. However, no additional outside analysis or second opinions were sought and the Council approved the project based upon the Meridian report's numbers.

However, changes were made to the projected revenues and fiscal effects following the approval of the project. Cabela's reduced the estimated sales per square foot prior to issuing any bonds for the project. In addition, the City put several financial safeguards in place to help ensure Cabela's would make their payments. While the additional safeguards seem reasonable, they indicate that the City of Reno did not have as much confidence in the project as the approval process would have indicated. The ordinance issuing the bonds and the tourism improvement district law states explicitly that the City of Reno would not have any liability for the issued bonds. However, the additional agreement to maintain a debt service account indicates there must have been some concern that if Cabela's defaulted on the loans that the City could be negatively affected. While the additional agreements were sound policy, the City council could have addressed them from the beginning rather than after the project was approved and underway. The revision of the Meridian report findings and the additional agreements strengthen the argument that estimates and claims were knowingly inflated during the approval process in order to present the Cabela's project in a more favorable light.

Discussion of Legends:

After reevaluating the Legends approval process, there were several significant errors. The first was that there was no attempt to estimate the property tax effects on Washoe County and the Washoe County School District. The reasoning for this omission was the there was no estimated fiscal effects on either entity. The fact that the reports estimated that neither Washoe County nor Washoe County School District would incur any significant increases in costs is a questionable conclusion. The Meridian report cited unemployment statistics that indicated there were 9,000 unemployed workers in the area due to an unemployment rate of about 4.3%. However, the Meridian report also claims that Legends will add about 6,400 new jobs. If these jobs were to come from the existing labor force, the unemployment rate would drop to 1.2% (Bureau of Labor

Statistics, 2010). Not only would this be a record low, it is also well below most estimates of full employment and therefore very unlikely to happen. Most likely, short and long-term workers would move to the region to fill some of the new positions and therefore would bring new costs to local governments. The Washoe County Commission and the School District challenged this conclusion, and even provided their own estimations. However, the City Council approved the findings without addressing their concerns. In addition, the turbo payment structure eliminated any chance that extra revenue could be returned to the school district if costs were to increase.

The estimated sales revenue, which was the driving factor in concluding many of the fiscal and economic impacts, was likely exaggerated in the reports. The County Commission showed evidence that the estimates were not comparable to other regional shopping centers. Adjusting the Meridian report's fiscal effects using alternative sales estimates drastically reduce the positive fiscal effects. Just as with the opposing opinions concerning costs, the City Council acknowledged the concerns but did nothing to address them or investigate further.

Two important calculations were also missing from the estimates approved by the City Council. There was no attempt to measure the sales and use tax effect of the project on businesses outside of the district despite the law specifically stating that it must be considered (NRS 271A.080(3)). The reports estimated the economic impact but it was unclear how this impact would affect tax revenues. Another critical omission occurred during the calculation of the displacement effects of the development. While the displacement estimate from the McClure report appeared reasonable, the multiplier effects of the displaced retail were incorrectly included in the estimation of total economic impact. The result is an inflated total economic impact estimate.

The reports calculated the total economic impact estimates assuming that Legends would bring in an additional 800,000 new visitors each year. However, 800,000 new visitors do not fit the trend in the number of visitors per year to Washoe County. The reports claimed that Legends would reverse the downward trend in the number of visitors and that has not been the case. The McClure report already exaggerated the economic impact by including displaced retail, and evidence shows that the visitor effects are also overstated.

One of the most important estimates conducted is also likely to be inaccurate. The estimate that 53% of sales revenue would be attributed to out of state visitors was criticized by outside researchers and does not appear to be realistic when compared to area trends and total sales. Visitor numbers and taxable sales figures do not show a significant impact from the Legends project. This supports the conclusion that Legends is not drawing new tourist spending but instead displacing existing retail. In addition, the author’s license plate survey data show strong evidence against the claim that over 50% of sales revenue is attributable to out of state shoppers. There appears to be a much higher percentage of local spending than the reports estimated. Therefore, the displacement effects are likely much higher than estimated. The displaced retail sales are being shifted from stores that contribute 100% of collected sales tax to Legends, which contributes only 25% of collected sales tax. Therefore, there are likely to be significant negative tax effects.

A significant issue concerning the Legends project is that it was not completed on schedule and it remains incomplete. As noted, this is likely to be decreasing the tourist appeal and reducing the total sales. The law requires a tourism improvement district and all associated funding to cease after twenty years, and all projections were made for twenty years. Therefore, for the projections to remain accurate, each year the project remains behind schedule requires a year with revenues above the projects numbers to balance the estimates. The analysis shows the estimates were exaggerated, further reducing the actual economic and fiscal effects is the fact that the project is now approximately two years behind schedule. For the proposed economic effects to be seen, the project would have to outperform the already inflated projections.

Another noteworthy problem with the Legends analysis was that neither the City Council nor any other government body ever addressed the potential that Legends shopping center would divert tourist spending from existing tourist retail and entertainment locations. It is certainly reasonable to assume that Legends could increase tourist spending on retail shopping. However, it is also likely that this increase would come at the cost of decreased spending on other tourism activities. This effect could be quite large. Data from Info Search International (2008) indicate that while both per trip total spending and shopping expenditures are growing, shopping spending has grown slower than total spending. Considering how large of an impact on tourism the McClure and Meridian report project Legends to have, it is especially important to ask what displacement effects on the tourism economy the project would have. Given that all consumers, including tourists, have limited budgets, any significant increase in one area of tourist spending would likely come with a decrease in another area.

The City Council should have addressed any one of the above issues, and the combination of them surely should have prompted more analysis or research. The County Commission, the School Board, and outside reviewers pointed out several areas of concern to the City Council. However, several times the Sparks City Council ignored the objections and chose to continue to use estimations from the two reports despite the many noticeable problems.

Conclusions:

This paper evaluates the meetings, documents and reports produced for and during the approval process for the Cabela's and Legends developments. By analyzing the approval process, it is clear that the City Councils used many questionable assumptions and estimations to make the required findings in order to create the tourist improvement districts for both projects. The analysis of the estimations and projections for both projects shows it is very likely that either project is performing as proposed. Revenue projections for both projects appear to be inflated and taxable sales figures do not support the proposed sales figures. In addition, the reports either completely ignored or underestimated the increased costs to local and regional governments as a result of both projects. As a result, it is very likely that the projects are not meeting the net fiscal gains projected during the approval process. It is nearly impossible to determine the exact net fiscal effect of the projects. However, the analysis shows that projected fiscal effects are likely exaggerated, meaning that governments and taxpayers in the Reno-Sparks area are not getting what the developers promised them.

The exaggerated proportions of sales to out of state visitors and the understated displacement effects for both projects further contribute to reducing the net fiscal effects gains proposed. While the Cabela's store may be generating more than half of its revenue from out of state visitors, the proportion is likely less than initially proposed. Although the Legends project is still not complete and could change over time, currently it does not seem to be generating even close to a preponderance of sales from out of state visitors. As the true proportion of out of state spending declines, the amount of revenue displaced from existing retail increases. As more locals shop at Cabela's and Legends, local retailers who contribute 100% of their sales tax to the general fund lose business to the new developments that keep 75% of their sales tax. As shown in the analysis, the reports exaggerated the percentage of out of state shoppers for both projects. The result is decreasing sales tax revenue as spending at existing retailers shifts to the special tax districts created for Cabela's and Legends.

There are also several interesting public policy questions that arise from the analysis. The first is that the combination of the two projects was never considered. The projects underwent evaluation and approval in the same year and both cities were aware of the other's plans. There was no attempt to analyze the projects as a regional growth strategy. The law requires the Governor to approve the projects and determine that the projects and the use of the pledged money "will contribute significantly to the economic development and tourist in this State" (NRS 271A.080(8)). The Governor was the only non-local entity who had authority over the project approval process. In both cases, the governor did not expand the discussion and analysis beyond the individual projects. There were no regional issues or cumulative effects taken into consideration.

In addition to the Governor's unique role as a state level figure in the approval process, He also has the unique responsibility to consider the projects and their role in economic development and tourism in the state. For both projects, no questions were asked as to how they would contribute to the economic development of the state. In addition, there was no attempt made to analyze the effects the projects would have on the existing tourism economy of the area. As discussed in the previous sections, both projects had the potential to displace existing tourism revenue. The projects could be shifting tourist spending from existing tourist oriented retail and/or shifting tourist spending from gaming and other activities to shopping. Conversely, the projects may also help to increase the regional presence and notoriety of the Reno-Sparks area and augment the tourism market although the regional taxable sales, visitor numbers and license plate data indicate the former appears to be happening. In either case, the large-scale impacts of the projects were not evaluated for the two developments.

The analysis in this paper indicates that the two projects are not performing as proposed. Revenues are likely lower than estimated, costs were ignored, and displacement effects are likely higher than estimated causing tax revenue problems. Currently the cities cannot take legal action to compensate for any negative effects of the projects. Often cities do not fully recognize or assess the risks associated with economic development incentives. Furthermore, development incentives rarely provide disincentives for underperformance or methods for compensation when development projects do not meet expectations (Furton, 1995). Cities rarely evaluate and understand the risks associated with an underperforming development project. This is evident in Sparks City Attorney Chester Adams' letter to the City Council indicating that the financial and legal responsibilities of the City of Sparks were misunderstood and misrepresented during the approval process (2006). As long as the bonds issued are paid on time there will likely be no legal problems. However, Chester Adams' letter indicated that if issues were to arise because of the Legends project there may be serious legal and financial problems.

There are also serious equity issues that are ignored when cities engage in these types of policies. As shown, the Cabela's and Legends projects are likely displacing a large amount of existing retail. The two projects are being built with diverted tax revenue. Existing businesses are being forced to complete with developments that are given taxpayer funded subsidies. In Washoe County, a normal business must submit 7.725% of their taxable sales to the State, while all but 1.9% of Cabela's and Legends sales tax is returned to either directly or indirectly to the companies. This is a 5.8% difference in revenue that existing businesses must overcome to compete with Cabela's and the many businesses in Legends. One locally owned bike shop has closed since Scheels opened in the Legends shopping center. Although he has not closed his store yet, the owner of a sporting goods store has raised issues about the fairness of the law (Myers, 2009). Also, an entire shopping center was closed and bulldozed after Sparks approved the Legends project.

This paper does not attempt to perform a comprehensive analysis of the two projects. There are still many questions that deserve further analysis. For example, the long-term effects of the projects are not understood. Further research is needed as to whether tourism retail sales should be a significant element of the region's economic strategy. Retail sales are highly susceptible to economic trends, and therefore are an unstable tax base. The political and equity implications of economic development subsidies should also be addressed. Additional research could evaluate the risks associated with the projects, such as debt liability, defaults and incomplete development. Further discussion concerning improvements to the legal structure of tourism improvement districts is warranted. There have been attempts in the past to amend the law, although they were unsuccessful. Also, similar research could be done concerning the Reno City Council's creation of two new STAR bonds projects in downtown Reno. Many questions remain surrounding the Cabela's and Legends development, however this paper does reach several important conclusions.

While the review and analysis indicated that the methods and the assumptions that produced the fiscal, economic and preponderance estimates were questionable, the significant result of this analysis is not that the reports were likely biased. The more important conclusion is that both City Councils ignored noticeable errors in their decision making process. As was shown in the analysis section, this paper challenged and questioned the estimates without any proprietary or confidential data. Certainly, the methods used in this paper were within the technical and professional abilities of the Reno and Sparks City Councils and their staff. In addition, when complaints or questions were raised, they were disregarded or ignored. The underlying question is that, if this paper through simple analysis and review of public documents found all of the above mentioned problems, why did the municipalities fail to find them? The most realistic explanation is that the municipalities had already reached a decision concerning the projects, and the legal approval process was simply a bureaucratic necessity.

The political willingness to conceal and ignore the negative information is fueled by the almost universal belief that growth is good. Despite the considerable amount of existing retail displaced by the new developments, the new growth they brought was widely applauded. This urban growth model of public-private partnerships and the celebration of new and exciting development projects is outlined in John Logan and Harvey Molotch's seminal work, "Urban Fortunes" (1987). The examples of the Cabela's and Legends projects fit the mold perfectly of civic boosterism, public-private partnerships and the emphasis on new growth with little consideration for existing establishments and sustainability. In their work, Logan and Molotch outline several key factors that identify the typical urban growth project. The characteristics the authors identified that were present during the Cabela's and Legends developments were: passing tax burdens from the specific project to the general tax base, ignoring labor conflicts, emphasizing the private aspect of the development while ignoring the public side, media attention given to the project, incorporating cultural aspects such as art, theaters, and sports, downplaying necessary increases in government services and ignoring equity issues such as the type of jobs offered at the new development. In his follow up work to "Urban Fortunes," John Short (1999) contributed ideas that help put the Cabela's and Legends development process into context. Local politicians, agencies and the developers touted the projects as game changers in the local economy. They were presented as new, unique and able to bring the local economy notoriety and regional attention. These characteristics exemplify urban boosterism projects. Cities market these types of projects as necessary for growth, but usually result in simply shifting resources and development from older neighborhoods to new development areas (Logan, Whaley, and Crowder, 1999). These effects are evident in the Reno-Sparks area as Parklane Mall was closed and demolished, and Target closed an existing store and opened a new location at Legends.

The underlying driving force behind the two projects was the belief that new growth is good for the area. It appears the municipalities had already decided that these projects were necessary and the tax breaks were justified regardless of potential problems. This explains the complete lack of concern and effort to create meaningful and realistic fiscal and economic estimates. Aside from incompetence, the fascination with civic boosterism projects and the unquestioned assumption that new growth is good offer the only explanation for the unanimous approval and the lack of concern for potential fiscal and economic problems. The Cabela's and Legends projects utilize new and relatively unique economic development incentives, however, they do not represent a substantially new economic growth strategy. Until the emphasis on growth and the political desire to publicize new projects is reduced, cities will continue to create and publicize new development projects. As this paper shows, the municipalities pushed aside critical understanding and economic evaluation and allowed the excitement and unquestioned desire for new growth to drive the creation of the Cabela's and Legends developments. Although this paper leaves many questions unanswered, it does provide insight into the approval process, the potential biases in estimations and the political motivation behind the projects.

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Appendix: License Plate Survey Description and Data

The percentage of sales that is attributed to out of state visitors is crucial to estimating the success of a tourism improvement district. As discussed in the paper, if the project is not attracting new out of state spending, then it is likely diverting local spending from existing stores that contribute 100% of their collected sales tax. Due to the importance of the preponderance finding and the lack of required reporting from the projects, the author collected license plate data from the Cabela's and Legends locations. Surveys were taken in the parking lots and counted the number of in state and out of state license plates. This information was used to estimate the proportion of locals and tourist shopping inside the stores. The surveys were conducted over several different days including weekdays, weekends and holidays during the Christmas and post Christmas shopping season.

The license plate survey does not directly address the question of what percentage of retail sales are attributable to out of state shoppers. It is unknown if there is a difference in the average amount of spending between in state and out of state shoppers. One hypothesis is that out of state tourists may spend more due to the fact that they are not likely to return again for some time. However, both retail stores are advertised as tourist attractions and are definitely unique stores. Therefore, tourists may be much more likely than locals to go to the stores simply to see them and walk around while not making a purchase. Since they are familiar with the store already, local shoppers are much more likely to go to the store with the intent to make a specific purchase. Also, locals are more likely to make large purchases than tourists due to the problems associated with transporting a large item on a plane or over a long distance drive. Without more corporate sales information, it is impossible to determine any difference in spending between locals and tourists. Therefore, the license plate survey is the best approximation available for this research paper since the stores refuse to release their corporate surveys that track their sales.

The survey was taken over five different days, of which three days were during the Christmas shopping season and two days were in the spring. The Christmas season days were Friday, November 27 (Black Friday), Wednesday December 16, and Saturday December 19. The spring days were Wednesday May 5, and Saturday May 22. The specific time of day for each sample varied slightly, but were all conducted between late morning and early evening. In order to reduce the number of employee cars counted, the parking lots were visually inspected approximately 30 minutes before the stores opened to locate where employees parked. These areas are not included in the survey results. This method is not completely accurate since neither location has a dedicated employee parking area. It is likely that some employee cars were included and some shoppers' cars were excluded. However, given the large number of total cars counted the effects are likely negligible. It is also important to note that weather was unlikely to be a factor during any of the days. There were no travel restrictions over any of the major passes between California and Nevada on the survey days and the worst conditions experienced were slight drizzle and snow flurries on Friday, November 27.

All cars with visible license plates were counted as either a Nevada car or an out of state car. If the car did not have a visible plate, it was not counted. Only parked cars were counted to ensure that cars passing through the parking lot were not counted and that cars looking for parking were not counted more than once. The surveys were done once for each day to collect a single sample to ensure no cars were counted more than once. The method involved walking or driving down each row of parking spaces and counting the Nevada and out of state cars. The same method was used each of the five days. One sample per day was collected from the Cabela's location. However, the Legends parking lot was very large and four different areas were surveyed. The four areas were in front of the Scheels main entrance, the area in front of Best Buy and the South entrance to the mall, the lots near the north entrance and surrounding the Olive Garden Restaurant, and the Target parking lot. The table below displays the complete data.

Table 9: License Plate Survey Results.

		27-Nov	16-Dec	19-Dec	5-May	22-May		Total
Cabela's	Out of State Proportion	54.1%	30.9%	43.8%	41.4%	49.5%		**47.3%**
	Total Cars	268	81	178	58	204		**789**
Target	Out of State Proportion	13.3%	6.7%	4.6%	6.3%	10.1%		**8.6%**
	Total Cars	270	208	218	127	168		**991**
Scheels Area	Out of State Proportion	34.8%	19.8%	20.6%	16.8%	30.3%		**25.4%**
	Total Cars	299	217	360	161	317		**1354**
Best Buy Area/South Entrance	Out of State Proportion	31.0%	15.9%	16.1%	10.3%	15.4%		**19.0%**
	Total Cars	274	214	254	116	266		**1124**
Olive Garden/North Entrance	Out of State Proportion	19.8%	10.0%	7.8%	10.9%	9.8%		**13.0%**
	Total Cars	237	90	77	128	215		**747**
Legends Total:	Out of State Proportion	25.2%	13.7%	14.4%	11.5%	18.1%		**17.5%**
	Total Cars	1080	729	909	532	966		**4216**