

Post-Pandemic Supplemental Report to “Spirit of Charity Innovation District: Analysis of Tax Increment Financing” prepared by Dr. James A. Richardson for GNOF**Updating the Report on the Spirit of Charity Innovation District**

Tax-increment financing (TIF) can be used to provide public dollars for projects in an area such as the Spirit of Charity Innovation District that are not typically undertaken by private parties but, yet, are essential for private investments to be successful. In the Spirit of Charity Innovation District such projects might include the revitalization of the Duncan Plaza along with dealing with challenges from stormwater runoff and drainage, supporting affordable housing alternatives, developing regional transit infrastructure, and assisting in the providing of workforce development programs. These are public projects that require funding by public bodies. A TIF is a useful vehicle to provide the funding over a period of time and to relate the funding to economic activity in the area.

The sales tax for a specific geographic area of a municipality or a district currently produces a certain amount of revenue for the city, the state, and other public agencies. These sales tax revenues from the present tax structure are not expected to grow substantially if the district is not enhanced by new investments which also means public expenditures to upgrade the district. These proposed public expenditures (capital projects and possibly several recurring items such as workforce development but with a long-term impact on the community) will be aimed at promoting and sustaining the success of the long-term development and growth of the Spirit of Charity Innovation District. Hence, to enhance the revenue growth in the area for all public entities.

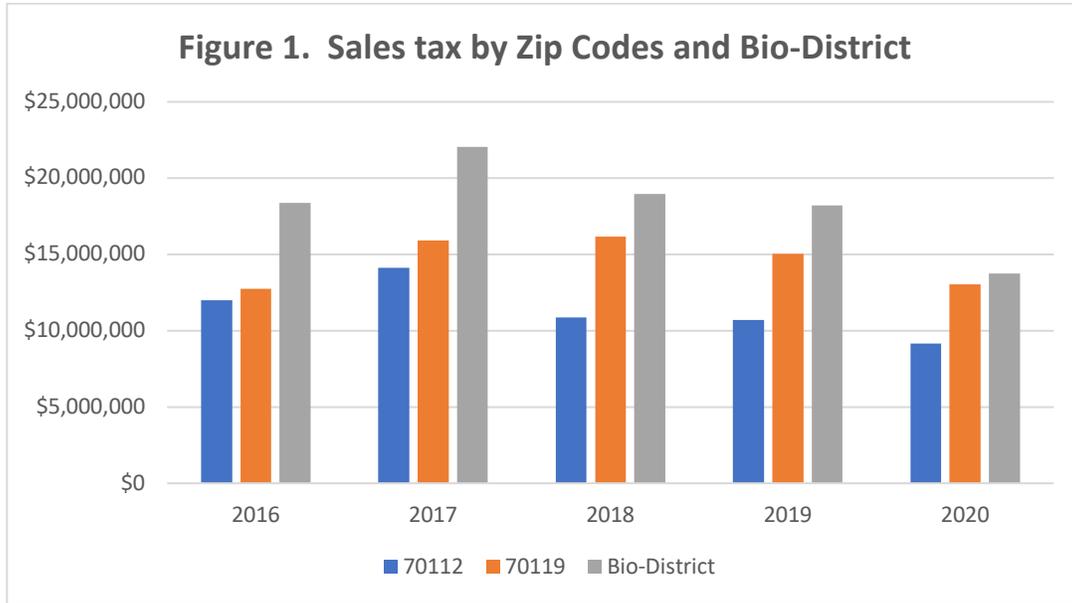
Private investments will drive the economic success of the Innovation District, but the public investments will be a necessary component to encourage the private investments. The long-term development of the Innovation District is an important and significant factor in economic diversification in the New Orleans area and, in turn, the State of Louisiana and this is perhaps even more significant presently because of the pandemic and its short and possibly long-term impact on the New Orleans tourist industry. Private investments are crucial, but private investments are dependent on the desirability of the area. This desirability is related to the public involvement—its ability to be an active participant in the development of the district.

With respect to these issues, this supplement to the “Spirit of Charity Innovation District: Analysis of Tax Increment Financing” as prepared in 2019 has two components:

- (1) a reworking of the revenue estimates for the Bio-District with and without the creation of the Spirit of Charity Innovation District but now taking into account the pandemic that has affected the U.S. economy and the New Orleans economy and
- (2) a focus on the public investments to be supported by the TIF and the significance of these investments in attracting private investments.

Revision of Revenue Estimates

The 2020 pandemic has certainly affected the stream of sales tax collections in Louisiana, New Orleans, and other municipalities around the country. State and local sales tax collections by state fiscal years¹ from zip codes 70112 and 70119 as tabulated by the Louisiana Department of Revenue and estimates of the sales tax collections in the Bio-District² are illustrated in Figure 1. In fiscal year 2020 sales tax collections declined by over 15% in both zip codes. The pandemic became a major issue in New Orleans as of March 2020.



The 2020 Bio-District sales tax collections amount to an estimated \$12.3 million compared to a pre-pandemic estimate of \$18.2 million or a reduction of 24%.³ We assumed that the revenues post-pandemic would decline by 24% in 2021, 20% in 2022, and 8% in 2023 relative to our estimates for pre-pandemic revenues. By 2024 we are estimating that the city will recover from the economic impacts of the pandemic. The large reductions in revenues in 2020, 2021, and 2022 represent the nature of the New Orleans economy, the importance of the tourism industry, and the impact of the pandemic on overall business activity in New Orleans. The assumptions about the return of the tourist industry are very cautious since we have very few definite facts to go on. The purpose of the Spirit of Charity Innovation District is to expand the commercial base of the city and such expansion of new industries is a process that takes time. These new private investments are to augment the current businesses in the area so the TIF will

¹ State fiscal year is from July 1 through June 30 so fiscal year 2020 ended as of June 30, 2020.

² Bio-District sales tax collections are all of the city and state collections in zip code 70112 and an estimate of the collections in zip code 70119 that would be included in the Spirit of Charity Innovation District. These collections do not include the city’s tax on food for home consumption.

³ The reduction of sales tax collections in the Bio-District is more substantial than the reduction in either zip code given the division of sales taxes in zip code 70119.

be supporting activities that are aimed at expanding the New Orleans economy as opposed to transferring businesses from one area of the city of the New Orleans metropolitan area to this district.

The updated estimated revenues, given the changes in the U.S. economy over the last nine months, related to the granting of the TIF and the investment of these dollars in appropriate public projects that support the Innovation District and generates activities and private investments in the Innovation District are presented in Table 1a and the division of these expenditures between the state and local governments is presented in Table 1b with the state and the city both allowing 2% of the increment in state and local sales tax to be included in the TIF. The net new revenues related to the private and public investments in the Innovation District will grow modestly for the first several years and then much more substantially as of 2025 and beyond. This is not surprising. Indeed, it is exactly what a company expects in making a major investment. The net new income shows up once the investment has been completed. The contributions of the public investments will first have to encourage private investments. And, as the private investments come to the Spirit of Charity Innovation District, the additional state and local sales tax collections will be forthcoming. We have to acknowledge and appreciate this is a long-term investment.

Table 1a. Adjusted Sales Tax Estimates for Innovation District: Post-Pandemic*

State Fiscal Year Tax Receipts to State and City, 2%	Post-Pandemic and Pre- Innovation District	Post-Pandemic and post- innovation district	Estimated TIF Dollars to be used for Public Investments in Innovation District
2020	\$12,237,441	\$12,237,442	\$0
2021	\$12,665,752	\$12,740,519	\$74,768
2022	\$13,109,053	\$13,880,460	\$771,407
2023	\$14,246,263	\$16,521,218	\$2,274,955
2024	\$15,699,104	\$18,586,370	\$2,887,266
2025	\$16,988,603	\$19,236,893	\$2,248,291
2026	\$18,240,394	\$20,554,293	\$2,313,900
2027	\$18,605,202	\$21,208,675	\$2,603,473
2028	\$18,977,306	\$22,269,109	\$3,291,803
2029	\$19,356,852	\$23,382,564	\$4,025,712
2030	\$19,743,989	\$24,551,692	\$4,807,703
2031	\$20,138,869	\$25,779,277	\$5,640,408
2032	\$20,541,646	\$27,068,241	\$6,526,595
2033	\$20,952,479	\$28,421,653	\$7,469,174
2034	\$21,371,529	\$29,842,735	\$8,471,207
2035	\$21,798,959	\$31,334,872	\$9,535,913
2036	\$22,234,939	\$32,901,616	\$10,666,677
2037	\$22,679,637	\$34,546,697	\$11,867,059
2038	\$23,133,230	\$36,274,031	\$13,140,801
2039	\$23,595,895	\$38,087,733	\$14,491,838

*replacing Table 3 in the October 2019 Report

Table 1b. Adjusted Sales Tax Estimates for Innovation District Divided by State (2.0%) and Local Revenues (2.0%): Post-Pandemic*

State Fiscal Year Tax Receipts to State and City, 2%	Estimated TIF Dollars to be used for Public Investments in Innovation District (from Table 1a)	Estimated State’s Expenditures for Innovation District Based on TIF	Estimated City’s Expenditures for Innovation District Based on TIF
2020	\$0	0	0
2021	\$74,768	\$37,384	\$37,384
2022	\$771,407	\$385,704	\$385,704
2023	\$2,274,955	\$1,137,477	\$1,137,477
2024	\$2,887,266	\$1,443,633	\$1,443,633
2025	\$2,248,291	\$1,124,145	\$1,124,145
2026	\$2,313,900	\$1,156,950	\$1,156,950
2027	\$2,603,473	\$1,301,737	\$1,301,737
2028	\$3,291,803	\$1,645,901	\$1,645,901
2029	\$4,025,712	\$2,012,856	\$2,012,856
2030	\$4,807,703	\$2,403,851	\$2,403,851
2031	\$5,640,408	\$2,820,204	\$2,820,204
2032	\$6,526,595	\$3,263,297	\$3,263,297
2033	\$7,469,174	\$3,734,587	\$3,734,587
2034	\$8,471,207	\$4,235,603	\$4,235,603
2035	\$9,535,913	\$4,767,957	\$4,767,957
2036	\$10,666,677	\$5,333,339	\$5,333,339
2037	\$11,867,059	\$5,933,530	\$5,933,530
2038	\$13,140,801	\$6,570,401	\$6,570,401
2039	\$14,491,838	\$7,245,919	\$7,245,919

This TIF can be used supporting the redevelopment of Duncan Plaza with an emphasis on drainage issues, making public investments for workforce training, identifying affordable housing alternatives, supporting green infrastructure, improving public transit, creating a friendly environment for small business development and higher education as described in the Greater New Orleans Foundation’s strategic plan for the district. TIF resources can also provide bond financing for capital projects necessary to improve the district or other ongoing activities that will be necessary at the beginning of the development of the district. These are projects that are tailored to the specific needs of this innovation district, though, once the district is developed, it should provide positive economic returns throughout the city and the region.

Public Projects Used to Encourage Private Investment

The ultimate success of the creation of the Spirit of Charity Innovation District is related to the private investments occurring in the District or possibly a major investment by the federal government. However, these private or federal investments are related to the desirability of the Spirit of Charity Innovation District for investing dollars in facilities, technology, and people.

There are several projects that have been identified by a number of groups enhancing the desirability of the Innovation District.

RCLCO did a study for the Downtown Development District that highlighted the potential of the development of Duncan Plaza, a highly underutilized area in the Spirit of Charity Innovation District.⁴ The DDD study noted that Duncan Plaza included approximately 185 acres that included some investment but some of these investments were parking lots. The DDD study suggested a major payback to the city and state for making an investment in the area based on two major examples of properties in other cities that had grown substantially due to public involvement in their development:

- (1) Discovery Green in Houston, Texas—a relatively small acreage that was converted to a public park by resources from the City of Houston and a nonprofit organization. It is estimated that the park has been instrumental in encouraging over \$625 million of downtown development. Houston has been a relatively fast-growing city, but the Discovery Green Park took under-utilized property, converted it into park, and then encourage private investors to make use of available properties in the vicinity.
- (2) Washington Park in Cincinnati, Ohio—an eight-acre park just north of downtown Cincinnati that was largely underutilized as of 2007 but by 2012 had been expanded and revitalized. The Washington Park study area included about 195 acres in total with a good mix of land uses including multi-family apartments and commercial properties. Assessed values of properties near the park measure to be almost 50% higher than other properties in the area.

Other downtown development projects include (1) Kyle Warren Park in Dallas with commercial properties having rental rates grow between 32% and 64% in three years following the park's redevelopment and (2) Railroad Park in Birmingham, Alabama with about 134 properties in the vicinity of the park and having an increase in values by about 125% within 5 years.

The purpose of the Spirit of Charity Innovation District is to enhance the development of an area of New Orleans that has been slow to rebound from Katrina. This is an opportune time given that 1532 Tulane Partners, Inc has been selected to redevelop the Charity Hospital Building which has been unused since Katrina and the initiation of the Opportunity Zone program in the *Tax Cuts and Job Act of 2017*. The focus of the proposed TIF is to provide funding on projects that are typically covered by public investments but which are vital to encouraging private investments to take place.

Planned investments in the Spirit of Charity Innovation District include a redevelopment of a hotel with an estimated cost of \$60 million, a redevelopment of a site owned by the New

⁴ Marketing and Financial Feasibility Analysis, Duncan Plaza, New Orleans, Louisiana, May 29, 2018. The study was completed by RCLCO-Real Estate Advisors from the Downtown Development District.

Orleans Public Schools with an estimated cost of \$40 million, a development of apartments at estimated cost of \$40 million, improvements in the transit system with an estimated cost of \$6.6 million, the redevelopment of Charity Hospital with an estimated cost of over \$550 million, and other possibilities including office space, residential alternatives, and other commercial developments. Initiating these investments will establish the opportunity for further investments. RCLCO in its study noted there were a number of underutilized properties in the area that will be the Spirit of Charity Innovation District. The RCLCO study estimated that the Central area (from Poydras Street to Tulane Avenue and bounded by the interstate and Loyola Avenue) declined in value by about 1.8% from 2013 through 2018 for those properties that were not exempt. Other areas in and around the Central area increased in value for non-exempt properties with these changes in property values for non-exempt properties being illustrated in Table 2. The geographic location of these areas is noted in Map 1.

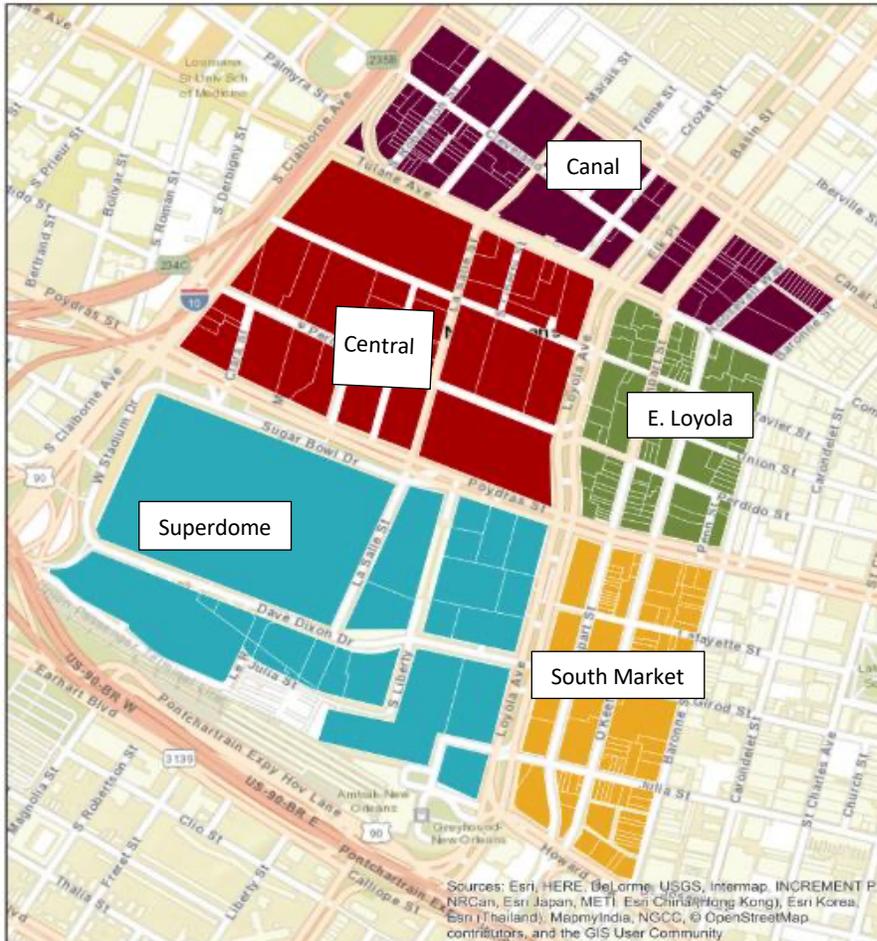
Table 2. Changes in Property Value, 2013-2018*

Defined Area with Innovation District	Average Annual Overall Growth
Central	-1.6%
East Loyola	12.5%
Superdome Area	0.0%
Canal Frontage	4.0%
South Market District	1.8%
Total	4.0%

*RCLCO Study for Downtown Development District, May 29, 2018, page 20. (developed by Axiometrics)

Duncan Plaza is in the geographic area identified as Central and this is the area in which there are a number of underutilized properties. This means that there are properties available for private investments if the overall environment is conducive to investment. This overall environment includes the public services available, infrastructure being in place, and an available work force.

Map 1. Distinct Districts within the Study Area, 2018



Source: Market Feasibility Analysis, Duncan Plaza, RCLCO, May 29, 2018. (for Downtown Development District)

Projected Impact of Investment in the Spirit of Charity Innovation District

The purpose of the TIF is to make public investment that will encourage private investment. As noted previously about \$720 million in private investment is potentially forthcoming in the district. Additional private investments will be encouraged by proposed spending on Duncan Plaza and stormwater management as well as other services such as workforce development. Such a large investment will be spread over several years. In Table 3 we illustrate the impact of this investment taking place over a five-year time period and a ten-year time period.

If the investments are completed over a five-year time period, then this spending will support just over 2,000 jobs per year with personal earnings of \$89 million and state and local tax receipts of about \$12.5 million per year with \$6,767,542 going to the state yearly and \$5,699,402 to local governments. If the investments are made over ten years, then the

spending supports just over 1,000 jobs per year with earnings of \$44.5 million and state and local tax receipts of \$6.2 million per year with \$3,385,253 going to the state and \$2,848,219 going to local governments.

Table 3. Economic Impact of Estimated Investment of \$720 million over 5 and 10 Years

Investment over number of years	Estimated Direct Investment Spending per year	Economic Impact per year	Personal Earnings per year	Net New Jobs per year	State Receipts per year	Local tax Receipts per year
5 years	\$144,000,000	\$283,291,200	\$89,049,600	2,074	\$6,767,542	\$5,699,402
10 Years	\$72,000,000	\$141,645,600	\$44,524,800	1,037	\$3,385,253	\$2,848,219

These are announced investments and the purpose of the TIF is to ensure that these investments take place and to encourage additional investments as well. As noted in the RCLCO study for the Downtown Development District, there are opportunities for expanded investment opportunities, especially in the Central section of the district. Once these investments are made, there will be recurring benefits that will go on as long as the business opportunities are available. The recurring benefits will be related to the particular industries that are attracted to the Innovation District.

Even without the recurring benefits, the present value of the cost of the TIF to the State is \$23,208,979 with a discount rate of 5% based on Table 1b while the state tax receipts associated with the investment as noted in Table 3 is \$29,299,913 over a five-year investment period, again using 5% as the discount rate. The benefit-cost estimate is 1.2624 and this is without including any of the state revenues that will be forthcoming from the ongoing activities related to the investments being made.

The state has suggested that it is prepared to recommend a TIF based on 2% of the state’s sales tax for the Economic Development District in which the Spirit of Innovation Charity District is located but with a \$25 million limit. In this case, the rate of return is estimated to be 2.3579 and, again, this is only including additional state sales tax collections from the capital spending and does not include any of the state revenues that will be forthcoming from the ongoing activities related to the investments being made. If we include the state sales tax revenues related to the capital spending and the ongoing activities, the benefit-cost ratio becomes 4.5811.

Final Comments

The Spirit of Charity Innovation District is an area of New Orleans that can connect the business district, the entertainment district, the sports district, and the medical district together. It can also provide a location for new industries to be initiated. The major investment in Charity Hospital which has been closed since Hurricane Katrina is a major step forward, but its success will depend on the overall activity in the area. The investment climate will be related to the availability of necessary public services. The TIF provides a line of revenues focused on this district. And, as noted, the investments and growth in the Spirit of Charity Innovation District should not be taking activities from other areas of the city but should be expanding the business opportunities for the entire region. The state is recommending a 2% TIF with a limit of \$25 million. The benefit-cost ratio is estimated to be 2.3579 based on the additional sales tax collections related to capital spending of approximately \$720 million without including the sales tax collections that will be related to the ongoing commercial activity. If we include the ongoing commercial activities as well as the \$720 million of capital spending, the benefit-cost ratio is estimated to be 4.5811 with a 5% discount rate.