

**Spirit of Charity Innovation District: Analysis of Tax Increment
Financing**

Prepared for the Greater New Orleans Foundation

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*Executive Summary****Spirit of Charity Innovation District: Analysis of Tax Increment Financing***

Tax Increment Financing (TIF) is a mechanism by which public decisions regarding the use of public resources can be expressed via use of the tax system. The state and city/parish are declaring that a particular project, such as in this case, the rejuvenation of the Spirit of Charity Innovation District is one of the most important commitments the state and city/parish could make for long-term development of the state and city/parish. Hence, the state and city/parish are prepared to allocate public resources to this development project over a number of years.

The Spirit of Charity Innovation District, which is bounded by Poydras Street, Claiborne Avenue, Iberville Street, and Loyola Avenue, accounts for an estimated 9.5% of all sales tax collections in zip code 70112, the zip code in which the district is located. The zip code 70112 accounts for just over 5% of sales tax collections in New Orleans, but not including sales taxes from food for home consumption and prescription drugs. The Spirit of Charity Innovation District presently accounts for about 0.5% of all City-Parish sales tax collections but not including food for home consumption and prescription drugs or motor vehicles. There are no major retail stores in the District nor are there any major food markets so these exemptions do not materially affect the estimated sales tax collections in the Innovation District. This could change as the Innovation District develops but, as of 2019, no major retailers or food markets have a physical presence in the Innovation District. This does not include the sales tax on motor vehicles since these sales taxes are paid to the Office of Motor Vehicles, Department of Public Safety and Corrections. The motor vehicle tax is based on the domicile of the purchaser and not the location of the seller.

Given the relatively small sales tax base of the Spirit of Charity Innovation District as of 2019, we focused on the BioDistrict New Orleans and the zip code 70112. The BioDistrict is a state-created economic development district with taxing and bonding authority, that spans downtown and Mid-City and is charged with growing the programmatic and physical components of a biosciences sector in New Orleans. Retail sales in the BioDistrict represents about 5% of the total retail sales in the city/parish but not including food for home consumption, prescription drugs, and motor vehicles. Based on the BioDistrict, from 2020 through 2040 the TIF will generate an estimated \$66,977,669 in 2019 dollars from 2020 to 2039 with a discount rate of 4%; the economic development district defined by the zip code 70112 the TIF will generate an estimated \$46,740,128 in 2019 dollars from 2020 to 2039 with a discount rate of 4%; and, the Spirit of Charity Innovation District will generate an estimated \$4,440,312 from 2020 to 2039 utilizing a discount rate of 4%. All of the sales tax estimates have been adjusted for the impact of the COVID-19 pandemic on the New Orleans economy with our projections in line with the estimates prepared by the New Orleans Revenue Estimating Conference as of October 2020. The caveat is that any projections made about the pandemic and the New Orleans can be subject to substantial error.

For ad valorem taxation we focused on the city-parish general purpose ad valorem taxes and we focused only on the Spirit of Charity Innovation District. The estimate of the ad valorem collections will depend very much on what occurs in the district with respect to Charity Hospital and other buildings in the district. In the Spirit of Charity Innovation District, the parish received an estimated \$3,484,879 for the general millage or an estimated \$250,530 per mill in 2018. Commercial enterprises paid \$2,786,982 in 2018 and residential units paid \$697,897. There were 34 non-profits in the Innovation District. The estimated growth in ad valorem taxes from 2018 through 2040 amounts to \$5,314,307 in nominal dollars with a present value, utilizing a discount rate of 5.0%, of \$2,929,396.

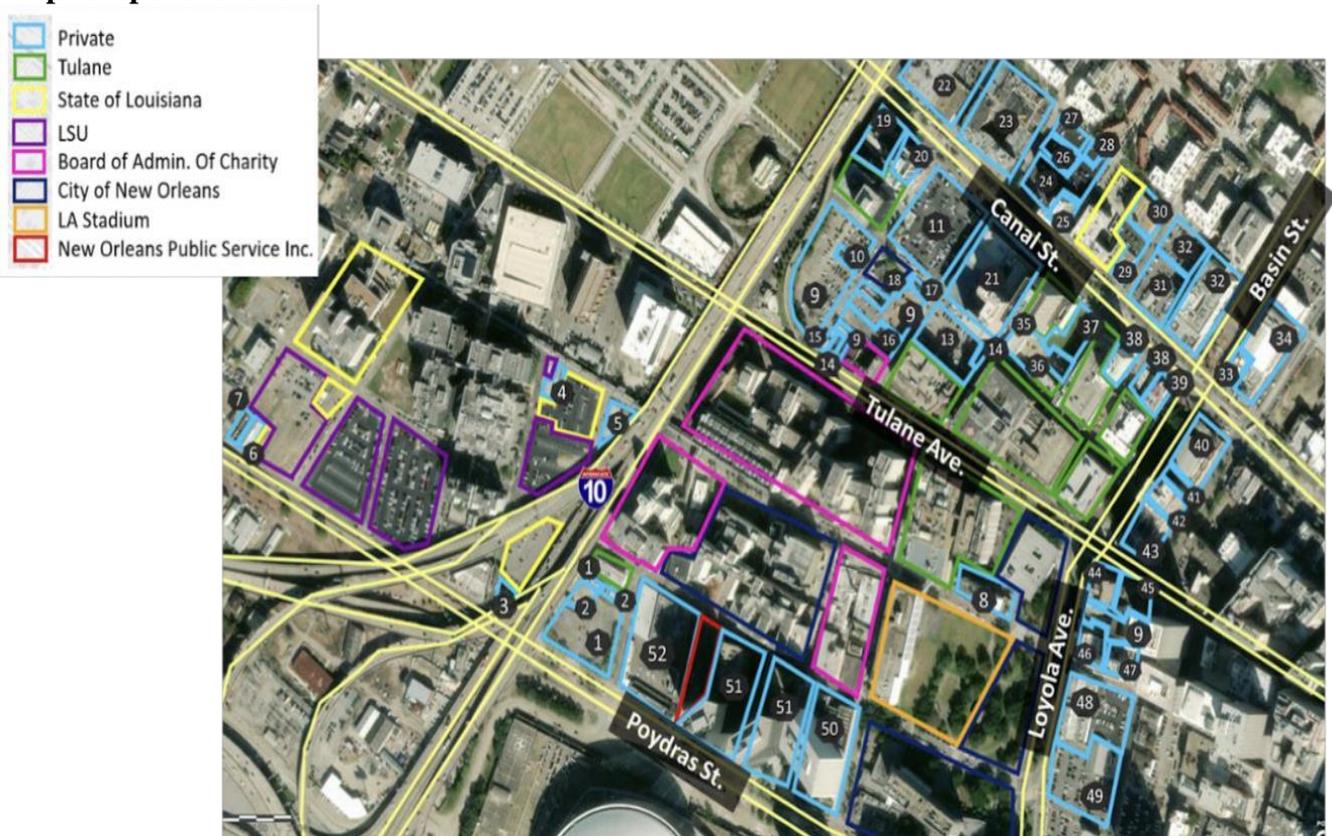
Due to the very specific uses of the ad valorem tax as defined by a vote of the electorate and the relatively low ad valorem tax burden, using ad valorem taxes as a TIF is not commonly done in Louisiana. In fact, all of the TIF's in Louisiana all are sales tax related. However, in the case of the Spirit of Charity Innovation District, an ad valorem TIF might be workable.

These estimates are based on what is now occurring in the innovation district and in the larger BioDistrict and the continued growth in these areas. Efforts at improving the innovation district such as redeveloping Charity Hospital, generating additional research funding for medical research, providing for private companies to invest in healthcare businesses, expanding the exporting of healthcare services, or other such activity should increase the flow of sales tax collections. These are revenue estimates based on a scenario of what we expect to occur; but, precise estimates cannot be made at this time and will ultimately depend on the level of economic activity that can be created in the Spirit of Charity Innovation District. Given that the BioDistrict is an already existing economic development district with an active board representing the major anchor institutions, business, and civic organizations, taxing and bonding authority, defined boundaries, and a legislative charge similar to the Spirit of Charity Innovation District, the BioDistrict is well-positioned to be the state's and city's partner to implement a TIF.

Spirit of Charity Innovation District: Tax Increment Financing

In 2018 the Urban Land Institute released a report calling for a plan to find an adaptive reuse of the Charity Hospital Building and to create a surrounding innovation district that would be bounded by Poydras Street, Claiborne Avenue, Iberville Street, and Loyola Avenue as illustrated in Map 1. The Greater New Orleans Foundation led the process of creating a strategic plan for the development of this innovation district (to be called the Spirit of Charity Innovation District) and is leading this effort to review alternative financing methods to provide financial support for the development of such a district.

Map 1. Spirit of Innovation District



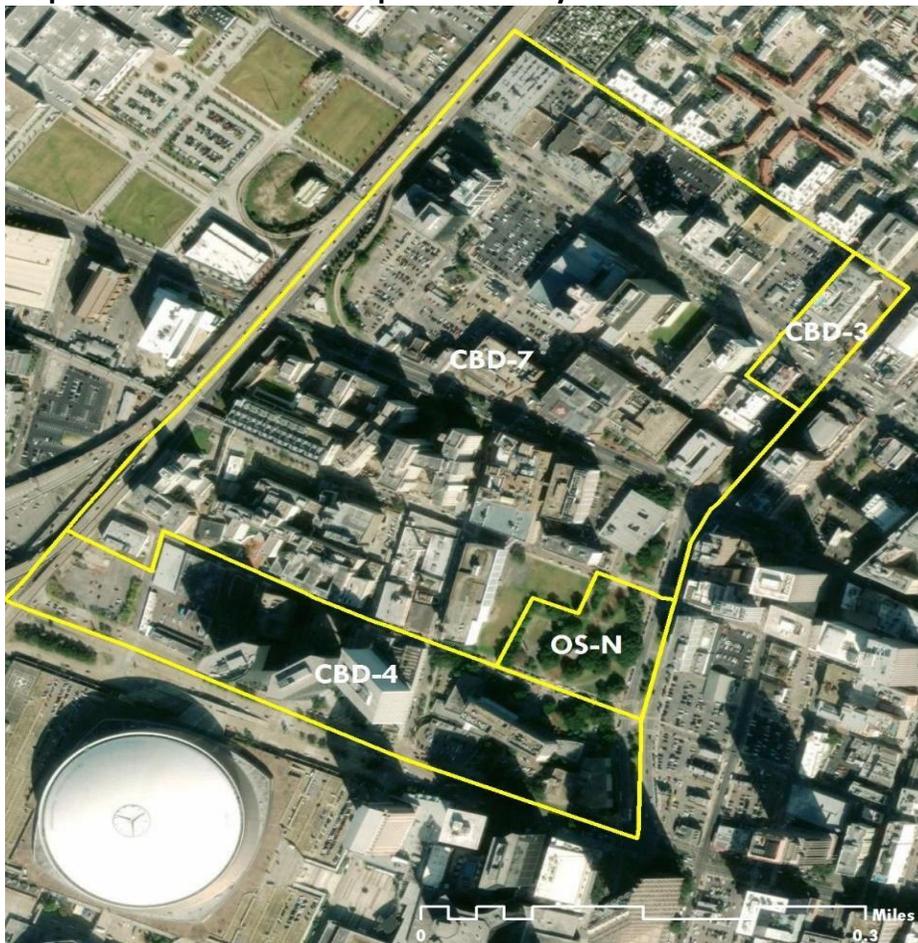
Source: The Spirit of Charity Innovation District, Briefing Book (July 2018), Greater New Orleans Foundation, page 14.

An innovation district is created to facilitate and support metropolitan economies by growing employment in ways that leverage the distinct economic attributes of the cities in which they are located. The Spirit of Charity Innovation District is a small area in New Orleans that covers 116 acres with 6.7 acres being zoned for public park land; presently having an existing FAR (Floor Area Ratio—the floor area relative to the land size) of less than 1 though it is zoned mostly for a FAR of 12. There are no limits on the height of a building in the district. Currently, the Charity District has major employers of the Tulane Medical Center, the Tulane School of

Public Health and Tropical Medicine, the Tulane School of Social Work, the Delgado Charity School of Nursing, the New Orleans Public Library, and New Orleans City Hall as well as the New Orleans Bioinnovation Center, several hotels, office buildings, and several restaurants and bars.

The zoning for the Spirit of Charity Innovation District is illustrated in Map 2. The CBD-7 district is intended to attract large-scale bioscience campuses and supportive services. The bio-science focus takes up an overwhelming majority of the district and many of the activities taking place in the district presently are bio-science related. The CBD-3 zone is directed to support the music and theater district along Canal Street and Rampart. This support comes in the form of residential, retail, and commercial activities. The CBD-4 is an Exposition District intended for large destination uses associated with the use of the Superdome and the Smoothie King Center. And there is green space in the Spirit of Charity Innovation District, OS-N on Map 2—this is Duncan’s Plaza.

Map 2. Districts within the Spirit of Charity Innovation District



Source: The Spirit of Charity: Briefing Book, page 21.

The information in Maps 1 and 2 provide some insight into the types of developments that might be forthcoming. As an example, the innovation district is surrounded by major medical facilities such as the Louisiana State University Health Sciences Center, the University Medical Center, the Louisiana Cancer Research Center, and the Southeast Louisiana Veterans Health Care System and the sports and entertainment district, and the innovation district is a part of the central business district. This district is well-located to work with other major elements of the New Orleans economy, to provide housing and neighborhood amenities for persons who work in these other sections of the city, and to add employment opportunities that support other economic activities within the city.

The innovation district has what had been a major drawback but now will become a major asset and that is the Charity Hospital Building with over 1,000,000 square feet of floor space. This building has been shuttered since Hurricane Katrina. But things are now changing. At the same time that the Spirit of Charity Innovation District was being created, the LSU Real Estate and Facilities Foundation initiated a request for bids for the redevelopment of Charity Hospital. A proposal by 1532 Tulane Partners Inc. was selected and is now in its due diligence stage with this proposal including a major tenant such as Tulane University, other commercial office space, market rate and affordable apartments, and retail space. The rebirth of the Charity Hospital will be a major part of the development of the Spirit of Charity Innovation District; however, the overall district must be part of the development and growth process for the job creating potential of the district to be maximized.

Innovation districts, as designed and promoted by the Brookings Institute, facilitate the creation and commercialization of new ideas and support metropolitan economies by growing jobs in ways that leverage their distinct economic attributes. These districts build on and revalue the intrinsic qualities of cities: proximity, density, authenticity, and vibrant places. Importantly, given the proximity of many districts to low-income neighborhoods and the large number of sub-baccalaureate jobs many provide, their intentional development can be a tool to help connect disadvantaged populations to employment and educational opportunities.

Innovation districts do not just suddenly appear; they require start-up funding and typically this funding will be public dollars or a public investment. And, to a certain extent, the development of the Spirit of Charity Innovation District has already begun. The State of Louisiana reached an agreement with DXC Technology, one of the world's largest technology companies, to open a Digital Transformation Center in New Orleans in November 2017. DXC has committed to having 2,000 jobs to the city within six years—an economic development project leading to 1,819 indirect and induced jobs above and beyond the 2,000 direct jobs. DXC has its offices on Poydras Street across from the Louisiana Superdome on the edge of the Spirit of Charity Innovation District.

And, there is optimism that this is just the beginning of a number of technology firms given, according to Greater New Orleans, Inc., the proposal to restore the Charity Hospital to a mixed-use development, the relatively low cost for commercial office space, the diversity of our region's technology workforce, and New Orleans' high culture that is attractive to millennials, as well as the Digital Media Incentive as administered by the Louisiana Department of Economic Development. If the state and city were able to land a second project, similar in size to the DXC project, in the Spirit of Charity Innovation District, that could lead to an additional 2,000 direct jobs and 1,819 indirect and induced jobs with overall earnings of \$275.8 million.¹ This economic activity could lead to \$20.8 million in state and local taxes, plus setting the stage for even more technology firms to consider New Orleans Spirit of Charity Innovation District. The development of the technology and biomedical sector can be focused in the Spirit of Charity Innovation District but its economic impact will extend well-beyond the boundaries of the District. These technology and biomedical developments represent new economic inputs in the New Orleans regional economy and these are developments that can enhance the medical district and can diversify the New Orleans regional economy, an absolutely essential ingredient for the economic development and growth of the greater New Orleans area.

The rehabilitation of the Charity Hospital with Tulane University being a major tenant, housing options, commercial offices, and retail will add to the District's growth and should serve as an attraction for other developments in the Innovation District. The District requires a plan for its development that will be most beneficial to the City of New Orleans and consistent with the City's long-term development and complimentary with the proposed plan for the Charity Hospital and the state's focus on the technology and biomedical industries. This will almost certainly require state and local public investment in order to facilitate and intensify its growth. In an appendix we examine a more intensive focus on retail activities to promote growth in the Spirit of Charity Innovation District.

This report focuses on methods of financing the District's development with an examination of the potential of tax increment financing (TIF), a method of public funding with the focus on the growth of tax revenues. A TIF is ultimately the choice of the use of public resources. A TIF is using the tax system to direct public resources to a specific project for a defined period of time. This report also provides in the appendices the following: (1) the incorporation of a major retail area within the district in Appendix 1 and (2) application of a TIF to a slightly more expanded Innovation District with the boundaries being Poydras Street, Claiborne Avenue, Iberville Street, and O'Keefe Avenue/Roosevelt Way/Burgundy Street in Appendix 2.

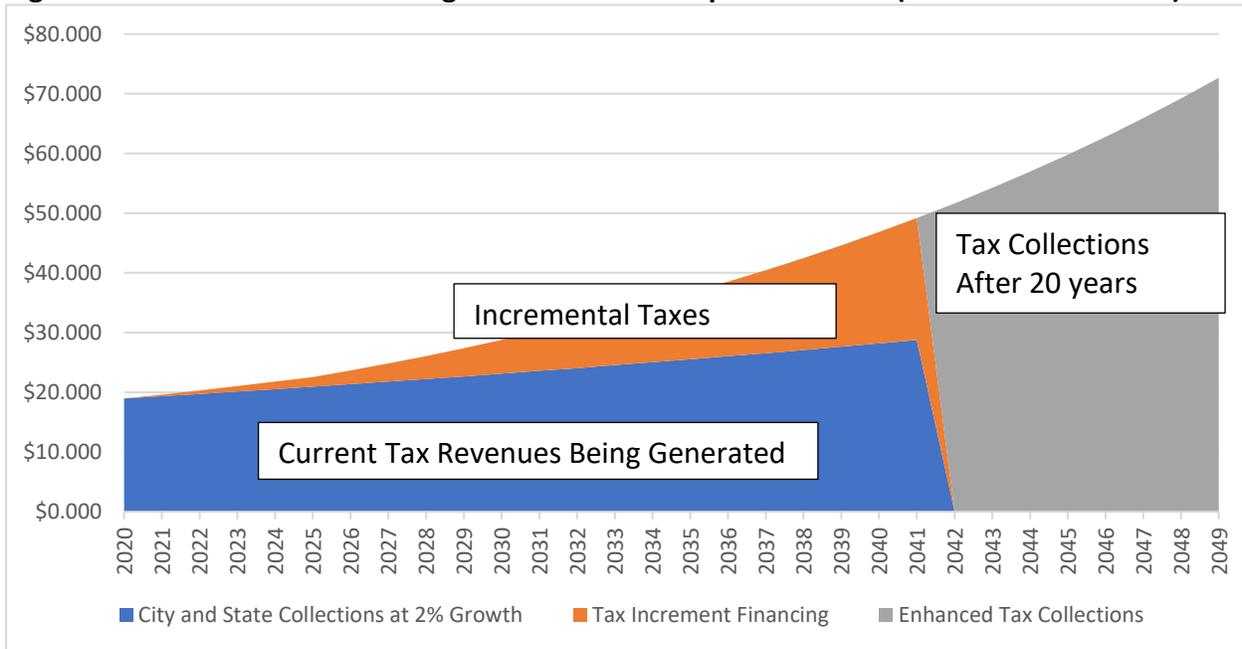
¹ Spirit of Charity, Economic Development Impact Review, Greater New Orleans Inc., Regional Economic Development.

Tax-Increment Financing (TIF)

Tax-increment financing (TIF) can be visualized in Figure 1. The present tax structure or, more precisely, a certain tax such as an ad valorem tax or a sales tax for a specific geographic area of the municipality or a district currently produces a certain amount of revenue for the city or other public agency. As of a certain time a portion of or all of the growth in this revenue stream can be used for public purposes especially designed for the district. This TIF can be used to support public investments for workforce training, affordable housing, green infrastructure, improved transit, 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.

In our example, Figure 1 illustrates the state (4.45%) and city (2.5%) sales tax projections over a thirty-year period based on sales tax collections from zip code 70112. In one case, the underlying assumption is that the Charity Hospital is not improved and the economy in the Spirit of Charity Innovation maintains its current employment and businesses so sales tax collections could grow, for an illustrative purpose, at an estimated 2% per year in zip code 70112. The improvements in the Charity Hospital plus other investments in the area could result in economic growth such that the sales tax collections grow by 5% per year. The difference between the sales tax collections at 5% versus sales tax collections at an estimated 2% per year is the tax increment that could go to the Spirit of Charity Innovation District. After the TIF expires, all of the tax collections go to the state and city governments.

Figure 1. Tax Increment Financing Model Based on Zip Code 70112 (in millions of dollars)



We created Figure 1 with very specific diameters of the state and local tax. And the very first step in creating a TIF is to state several definite decision points: (1) what tax or taxes will be used in creating the TIF and whose tax base will be used—a sales tax from the state, the city/parish, the school board, other local agencies with a sales tax or the state or an ad valorem tax from the city, the school board, or other local agency; (2) how much can we expect to generate with the TIF; (3) what projects will be funded with the TIF—capital improvements so the TIF will be used to support the repayment of bonds or some ongoing project that can be phased out after a certain amount of time; and (4) for how long will the TIF be granted.

We will focus on the choice of the tax to be used in creating the TIF and the estimate of how much revenue might be generated on an annual basis by the TIF. The choice of the tax will depend on the state and local tax structure and the nature of the existing taxes—that is, are they for general purposes or are they dedicated to specific activities. The TIF will have to focus on existing state and/or local taxes for general purposes. If the state is included in the definition of the TIF, then the tax will be the sales tax since the state does not have an ad valorem tax.

Once we have identified the tax or taxes to be used in the TIF, we then have to estimate the amount of tax revenues we could expect the TIF to generate over the next 20 to 30 years with this being based on the characteristics of the TIF. For example, we could note that the sales tax collections currently being received would be retained by the city and state and what is generated above that amount could be earmarked for the Innovation District.

The 2% sales tax growth is for illustrative purposes to show how the tax increment program could work. However, as a TIF becomes a reality, we must carefully select the appropriate sales tax growth rates that will be used for TIF projections. Given that any projections would be subject to error, we could also indicate that the City of New Orleans would keep all revenues now being received from the selected TIF area and the Economic Development District would receive, as an example, the next \$250,000 to \$500,000 per year from the City of New Orleans and the State of Louisiana. This is merely a range for illustrative purposes, but it also notes that the District must have a reliable revenue stream if it is to make any long-term commitments.

The exact TIF must be completed as the status of sales tax collections in this section of the city is examined as the initiation of the TIF is nearing and the projected spending that must take place to accommodate the growth of the district.

Ad Valorem and Sales Taxes in Orleans Parish

The ad valorem in New Orleans based on information from the 2018 Annual Report of the Louisiana Tax Commission is structured as follows:

Parish Taxes, 2018:	13.91	mills
\$53,813,090.78		
School Taxes, 2018:	45.31	mills
\$175,289,082.92		
Other Ad Valorem Taxes, 2018		
Act 443 of 2005-Unrestricted-LA R.S. 47:1925.8,	1.19	mills
\$4,603,707.98		
Fire & Police:	6.40	mills
\$24,759,824.64		
Public Library:	5.64	mills
\$21,810,254.64		
Board of Liquidation	22.50	mills
\$87,044,898.83		
Sewerage & Water Board	16.23	mills
\$62,788,387.02		
Audubon Zoo & Aquarium	3.31	mills
\$12,805,271.78		
Law Enforcement District:	2.80	mills
\$10,832,254.08		
Economic Development and Housing	1.82	mills
\$7,040,965.15		
Parkway & Recreation Department	3.00	mills
\$11,605,986.51		

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Street & Travel Control	1.90	mills
\$7,350,458.12		
Capital Improvements & Infrastructure	1.82	mills
\$7,040,965.15		
Police & Fire (not covered by homestead exemption)	12.97	mills
\$50,477,480.64		
Total Parish and Local Taxes		
\$584,477,480.64		

Total Assessed Value and Total Assessed Value exclusive of the Homestead Exemption:
\$4,345,161,720 and \$3,868,662,170

The ad valorem tax, parish-wide, generates \$3,868,662 per mill. In 2018 the City of New Orleans received \$53.813 million for 13.9 millage, but some of these dollars may already be allocated for specific programs and cannot be re-routed. Other ad valorem taxes were assessed with specific purposes such as the school system, fire and police, the public library, the Board of Liquidation, Sewerage & Water Board; the Audubon Zoo & Aquarium; economic development and housing; capital improvements; and other specific uses of the ad valorem tax collections. In the tax increment financing model we will focus on the overall improvement in property values with the 13.91 millage being applied since the other mills are identified for and approved by the electorate for specific activities.

The city’s sales tax based on information from the Louisiana Association of Tax Administrators is as follows:

- New Orleans School board: 1.5% and 1.5% on food and drugs
- New Orleans Regional Transit Authority: 1.00% and 0.5% on Food and Drugs
- City: 2.5% and 2.5% on food and drugs.
- State: 4.45% with exemptions on food for home consumption, prescription drugs, and Residential utilities²

The sale tax, including the 2.5% general sales tax inclusive of food and drugs in the tax base and the 1.5% sales tax on hotel and motel rooms, amounts to an estimated \$92.88 million per 1 sales tax penny for the entire parish based on 2018 budget estimates³. The general sales tax, not including food and drugs and hotel and motel rooms, generates parish-wide just over \$75 million per one cent. The general sales tax without food and drug but with the 1.5% tax on hotel and motel rooms generates just about \$87.7 million per penny.

We will focus the analysis on the 2.5% city tax on the city sales tax base, excluding food for home consumption and prescription drugs but including the 1.5% hotel-motel tax as we focus

² Louisiana Department of Revenue

³ 2019 Annual Operating Budget, City of New Orleans, page 76.

only on the Spirit of Charity Innovation District. Food for home consumption and prescription drugs should not be a major component of the sales tax base in the Spirit of Charity Innovation District. As it grows and becomes more populated, food for home consumption and prescription drugs will become a greater component of the retail purchases in this district.

The state sales tax rate is 4.45% as of July 2018, but we will focus on a rate of 2.5% which is equivalent to the City's sales tax rate. The state sales tax does not include food for home consumption, prescription drugs, and personal utilities plus a list of other items. The state sales tax collections credited to New Orleans do not include the sales taxes paid by large companies that may submit their sales tax collections from their headquarters nor do they include hotel and motel taxes. The state sales tax per penny is estimated to be \$66.4 million. Hence, we have to be careful as we make projections for the state sales tax. In fact, if a sales tax TIF is created with state participation, we need to work carefully with the Louisiana Department of Revenue on exactly the sales tax collections that are being considered and documented.

As we focus on a larger sales tax district such as the BioDistrict, we will also include food and drug in the tax base since there are stores providing food for home consumption in the larger district area. Sales tax collections are based typically on where the product is purchased and not where the person who buys the product may live. The exception is motor vehicles.

Tax Increment Financing—Sales Tax

The proposed Spirit of Charity Innovation District is in zip code 70112. The commercial make-up of the Innovation District as compared to the commercial make-up of zip code 70112 is presented in Table 1 with the commercial make-up being defined by hotels, restaurants, alcohol beverage outlets, and live entertainment permits. The existing commercial structure in the Innovation District, as defined by hotels, restaurants, alcohol beverage outlets, and live entertainment permits, represents just under 10% of all activities in zip code 70112.

We also extended the Spirit of Charity Innovation District from Loyola Avenue to O'Keefe Avenue/Roosevelt Way/Burgundy Street with all of the other boundaries being the same (Poydras Street, Iberville Street, and Claiborne Avenue) with this analysis being included in the Appendix 2. This additional block in designing the Spirit of Charity Innovation District adds 5 hotels to the district, 6 full-service restaurants, 2 major theaters (the Orpheum and the Saenger), a number of bars, and a variety of businesses including fitness centers, florists, hair studios, hostels, and a major bank. We note that adding just one block to the Charity Innovation District increases the number of hotels, restaurants, bars, theater, and businesses, even including a major bank. These numbers describe the economic make-up of the Charity Innovation District and an expanded Charity Innovation District. This makes clear that drawing the boundaries of an economic development district is quite important.

Table 1. Commercial Description of Zip Code 70112 and Innovation District

Business Activities	In Zip Code 70112	In Innovation District	Innovation District as % of 70112	Innovation District Expanded	Expanded Innovation District as % of 70112
Hotels and B&B's	32	3	9.4%	8	25.0%
Short-term Rentals	N/A	1	---	1	---
Full Service Restaurants	53	4	7.6%	10	19.0%
Alcohol Beverage Outlets	92	8	8.7%	11	12.0%
Live Entertainment Permits	13	2	15.4%	4	30.7%
Total	190	18	9.5%	34	17.8%

The current economic activities in the Innovation District and zip code can be measured by the sales tax collections collected in the zip code in which the Innovation District is located with other zip codes in New Orleans. This information is presented in Table 2. The number of sales tax filers in zip code 70112 represents from 4 to 5% of all sales tax filers in Orleans Parish based on state collections and the percent of overall sales tax collections in the entire parish that comes from zip code 70112 varies from 5% in SFY 2014 to just over 8% in SFY 2016.

Measurement of sales tax collections by zip codes does not include sales tax collections by larger companies that may have stores throughout the state—these companies will provide their sales tax collections from a single location. And the state sales tax collections do not include sales tax collections on motor vehicles or any sales tax collections on hotel and motel rooms.

The state sales tax collections are also affected by different sales tax rates being assessed. In state fiscal years 2014 and 2015, the state sales tax rate was 4% while in state fiscal year 2016 the average state sales tax was 4.25% with the state rate going to 5% as of April 2016. In state fiscal years 2017 and 2018 the state's rate was 5% but for state fiscal year 2019 the state's sales tax rate is 4.45%. The sales tax rate becomes significant as we focus on the overall sales tax base with the sales tax base being defined as the state's tax base.

Table 2. State Sales Tax* Collections by Zip Code, 2014 – 2018 (in millions)

State Fiscal Years	70112	70113	70116	70119	70130	All others
2014	\$7.360	\$3.992	\$9.527	\$11.132	\$44.320	\$70.848
2015	\$9.553	\$5.687	\$10.408	\$11.579	\$48.242	\$75.493
2016	\$13.021	\$10.484	\$12.239	\$12.674	\$52.614	\$84.532
2017	\$15.206	\$14.508	\$13.994	\$15.852	\$61.504	\$105.878
2018	\$12.147	\$15.513	\$14.731	\$16.202	\$63.545	\$108.515

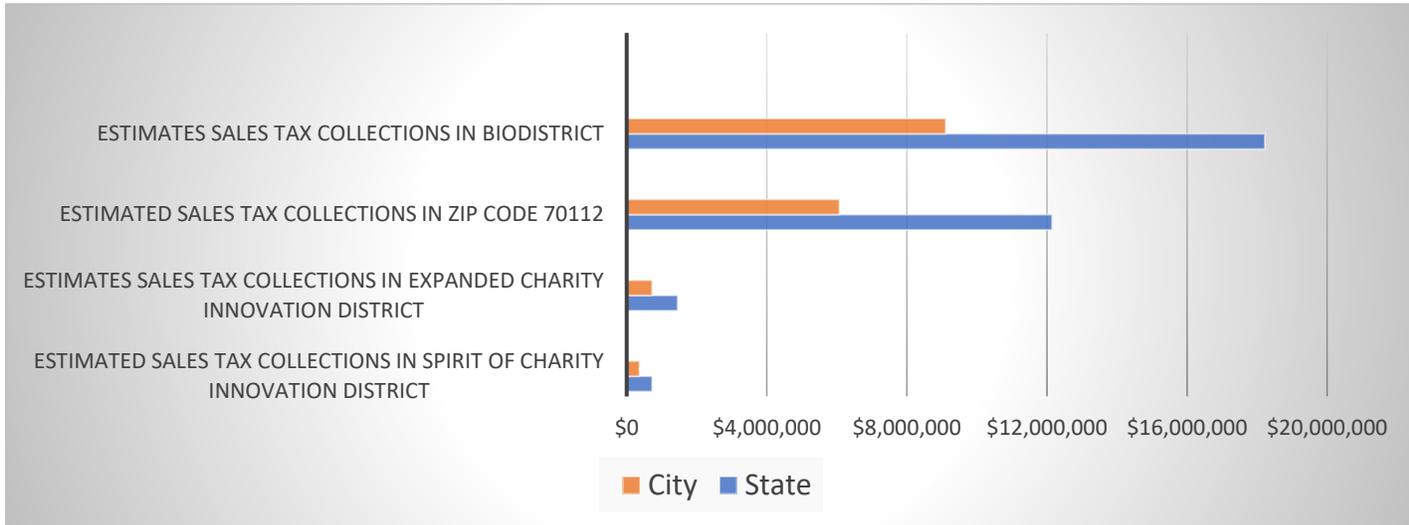
*State Sales Tax Rates: SFY 2014 and SFY 2015, 4%; SFY 2016, 4.25% based on 4% from July 2015 to March 2016 and 5% from April 2016 through June 2016; SFY 2017 and SFY 2018, 5%.

In Figure 2 we provide estimates for 2018 for state and city sales tax collections for the Spirit of Charity Innovation District, zip code 70112, and the BioDistrict. The Innovation District is in zip code 70112 and the BioDistrict is composed of zip code 70112 plus some areas in zip code 70119.

State sales tax collections and city sales tax collections are both illustrated on Figure 2. The state sales tax estimates do not include any purchases of food for home consumption, prescriptions, and residential utilities. The state sales tax collections are estimated based on tax information by zip code from the Louisiana Department of Revenue but this information does not necessarily include all state sales tax collections forthcoming from the area. Some sales tax collections are paid to the state from the company's headquarters which may not be located in the area in which the purchase is actually made. Also, the state sales tax collections do not include motor vehicles nor hotel-motel sales taxes.

The estimated city sales tax collections are based on estimated taxes paid in the various areas with these taxes including general sales taxes and any sales tax on food for home consumption, prescription drugs, and residential utilities. We do not include the sales tax on motor vehicles or hotel-motel rooms. This allows a more comparable comparison of state and local sales tax collections, but, at some point, we must ask the city to provide, if at all possible, actual tax collections in the various regions in which a TIF might be applicable. This is crucial for estimating future revenues for the City as well as being able to budget responsibly for the Innovation District using funds from the TIF.

Figure 2. Estimated Sales Tax Collections by Innovation District, Zip Code 70112, and the BioDistrict for 2018

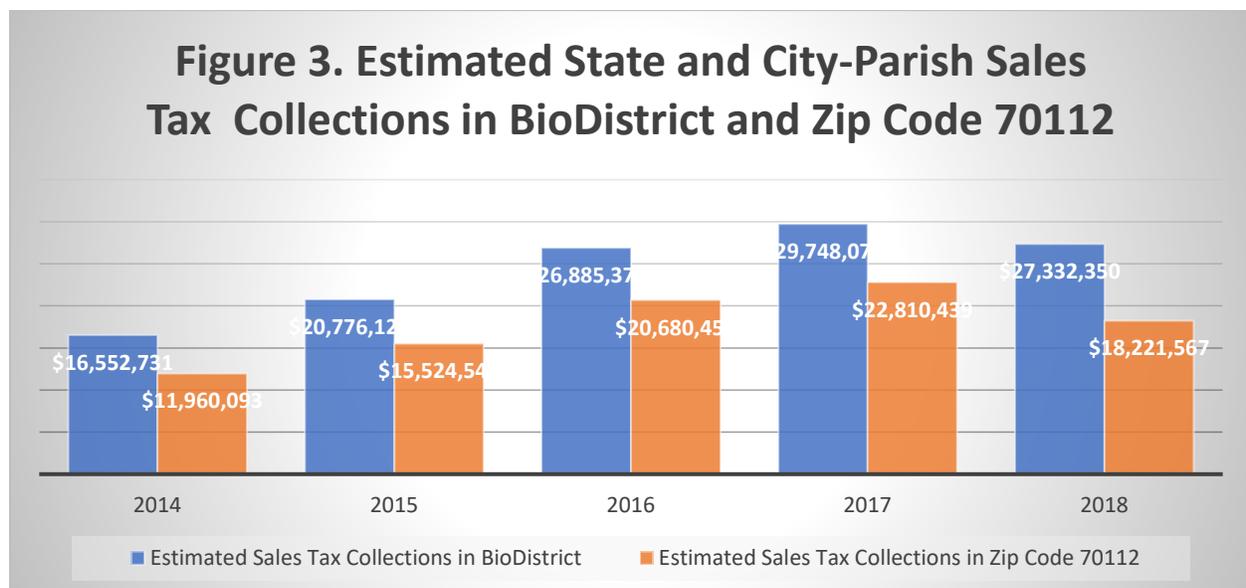


These estimates of state and local sales tax collections by the Innovation District, zip code 70112, and the BioDistrict provide the background information necessary in extrapolating the results of creating a specific TIF. For illustrative purposes, we will make the following conditions of the TIF: (1) both state and city sales taxes will be included in the TIF with both entities allowing tax increments associated with 2.5% sales tax rates; (2) the incremental financing will be forthcoming from any sales tax collections generated above the sales tax collections associated with a 2.5% sales tax rate plus a 2.0% estimated annual growth factor; (3) the TIF will be established for a twenty-year time horizon; and, (4) the TIF will be defined as either the Spirit of Charity Innovation District, zip code 70112 as the District, or the BioDistrict.

In Figure 3 we present the estimated state and city-parish sales tax collections generated in zip code 70112 for SFY 2014 through SFY 2018 and the city-parish sales tax collections in the BioDistrict which covers some of zip code 70112 and 70119. The Innovation District is in zip code 70112 and is in the BioDistrict. BioDistrict New Orleans is a state-enabled economic development district with taxing and bonding authority governed by a 15-member board of commissioners representing anchor institutions, business organizations, and the community. The 1,500-acre district spans the downtown and Mid-City areas of New Orleans with a mission of developing bioscience facilities and programs within the District. The estimated population in the Innovation District and the Mid-City part of the BioDistrict is about 18,000 persons with 80% living in the Mid-City area or in zip code 70119 and the other 20% living in the Innovation District. In Figure 3 we focused on the BioDistrict and the zip code 70112 District since they generate the most tax revenues. We can downsize the districts to the Spirit of Charity of Innovation or we can expand the district by moving the boundaries from Loyola Avenue to

O’Keefe Avenue/Roosevelt Way/Burgundy Street with all of the other boundaries being the same (Poydras Street, Iberville Street, and Claiborne Avenue) as described in Appendix 2.

State and City-parish sales tax collections in the BioDistrict ranges from \$16.5 million in 2014 to \$27.3 million in SFY 2018. In zip code 70112 the estimated city-parish sales tax collections ranged from \$11.9 million in 2014 to \$18.2 million in 2018. These are state and city-parish sales tax collections but not including sales taxes on food for home consumption, prescription drugs, residential utilities, and motor vehicles. These City estimates are based on state revenue collections by zip code. These estimates have taken into account the changes in the state sales tax rate, going from 4% to 5% in April 2016 so SFY 2016 had an effective tax rate of 4.25%. SFY 2017 and SFY 2018 have an effective tax rate of 5.0% and in SFY 2019 the state sales tax rate declined to 4.45%.



The estimated sales tax for each TIF is presented in Tables 3-5 for each of the possible districts with both the state and the City of New Orleans tax increments above the projected 2% growth for sales taxes associated with a 2.0% sales tax rate. In Table 3 the TIF is based on using the boundaries of the BioDistrict, as opposed to just the boundaries of the Innovation District. The Innovation District has not been established by the State Legislature as an economic development district, while the BioDistrict was created as an economic development district as of 2005. And, the Innovation District fits well with the overall purpose of the BioDistrict which has a medical focus with emphasis on healthcare research being a significant economic driver, making the BioDistrict a logical partner for the receipt of any revenues associated with a TIF. Finally, the projections associated with the sales tax TIF do not suggest any movement of tax collections from one area of the city to the BioDistrict. In Table 4 the TIF is organized around the zip code 70112 which encompasses the Spirit of Charity Innovation District. In Table 5 we define the TIF as the Spirit of Charity Innovation District. In the appendix in Table A.1 we focus on estimates for the expanded Spirit of Charity Innovation District. All of the tax estimates have

been adjusted for the estimated impact of the pandemic on New Orleans and state sales tax estimates in the BioDistrict, zip code 70112, and the Spirit of Charity Innovation District. The sales tax estimates were initially reduced by just over 24% which is in line with the 23% reduction in sales tax collections as suggested by the New Orleans Revenue Estimating Conference as of October 2020. Obviously, any estimate of sales tax collections for the next several years are subject to error since we are still examining the long-term impact on economic activity.

This TIF district, as it is structured, should not move businesses from the tourist industry, the entertainment district, or the sports district or other parts of New Orleans to the Innovation District. Its sales taxes will grow because of the overall growth of the industries within the BioDistrict and the emerging opportunities with the restructured Charity Hospital and other surrounding developments.

Table 3. Projected Sales Tax with and without Investment: Innovation District as BioDistrict

Year	Sales Tax Receipts to State and City, 2% Growth without any TIF	Projected Sales Tax Receipts with TIF and investments	Dollars Used by Innovation District for Further Investment
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

Table 4. Projected Sales Tax with and without Investment: Innovation District as Zip Code 70112

Year	Sales Tax Receipts to State and City, 2% Growth without any TIF	Projected Sales Tax Receipts with TIF and investments	Dollars Used by Innovation District for Further Investment
2020	\$9,748,141	\$9,748,142	\$0
2021	\$10,086,350	\$10,145,891	\$59,542
2022	\$10,439,372	\$11,053,682	\$614,309
2023	\$11,344,988	\$13,156,644	\$1,811,656
2024	\$12,501,955	\$14,801,225	\$2,299,270
2025	\$13,528,845	\$15,319,268	\$1,790,423
2026	\$14,525,707	\$16,085,231	\$1,559,524
2027	\$14,816,221	\$16,889,493	\$2,073,272
2028	\$15,112,546	\$17,733,967	\$2,621,421
2029	\$15,414,797	\$18,620,665	\$3,205,868
2030	\$15,723,093	\$19,551,699	\$3,828,606
2031	\$16,037,554	\$20,529,284	\$4,491,730
2032	\$16,358,305	\$21,555,748	\$5,197,443
2033	\$16,685,472	\$22,633,535	\$5,948,063
2034	\$17,019,181	\$23,765,212	\$6,746,031
2035	\$17,359,565	\$24,953,473	\$7,593,908
2036	\$17,706,756	\$26,201,146	\$8,494,390
2037	\$18,060,891	\$27,511,204	\$9,450,313
2038	\$18,422,109	\$28,886,764	\$10,464,655
2039	\$18,790,551	\$30,331,102	\$11,540,551

Table 5. Projected Sales Tax with and without Investment: District defined as Spirit of Charity Innovation District

Year	Sales Tax Receipts to State and City, 2% Growth without any TIF	Projected Sales Tax Receipts with TIF and investments	Dollars Used by Innovation District for Further Investment
2020	\$926,073	\$926,073	\$0
2021	\$958,203	\$963,859	\$5,656
2022	\$991,740	\$1,050,100	\$58,360
2023	\$1,077,774	\$1,249,882	\$172,108
2024	\$1,187,685	\$1,406,116	\$218,431
2025	\$1,285,240	\$1,455,330	\$170,090
2026	\$1,379,942	\$1,528,097	\$148,155
2027	\$1,407,541	\$1,604,502	\$196,961
2028	\$1,435,692	\$1,684,727	\$249,035
2029	\$1,464,406	\$1,768,963	\$304,557
2030	\$1,493,694	\$1,857,411	\$363,717
2031	\$1,523,568	\$1,950,282	\$426,714
2032	\$1,554,039	\$2,047,796	\$493,757
2033	\$1,585,120	\$2,150,186	\$565,066
2034	\$1,616,822	\$2,257,695	\$640,873
2035	\$1,649,159	\$2,370,580	\$721,421
2036	\$1,682,142	\$2,489,109	\$806,967
2037	\$1,715,785	\$2,613,564	\$897,779
2038	\$1,750,100	\$2,744,243	\$994,143
2039	\$1,785,102	\$2,881,455	\$1,096,353

The sales tax TIF is a statement of how the state and city-parish want to spend their revenues. If the TIF is used to provide a revenue stream for bond repayments, then this decision cannot be adjusted until the bonds are fully repaid. The projections assume a 2% growth in sales tax collections under normal conditions meaning that no special activities or investments will be made in the Spirit of Charity Innovation District. We know the status quo will not be the standard given the commitment to redevelop Charity Hospital. With the investment in the Charity Hospital and other activities in the innovation district that will be propelled by the TIF investment and other new investments in the district, it is expected that the district will grow and this growth will not negatively impact growth in the city in other areas.

The best way of comparing the three alternative TIFs is to compare the present value of the dollars flowing to the district for investments to be made in the community. The discount rate used is 4% or the Triple A Corporate Bond Rate as of 2018. The comparisons are as follows:

BioDistrict	\$66,977,669
Zip Code 70112	\$46,740,128
Innovation District	\$4,440,312.

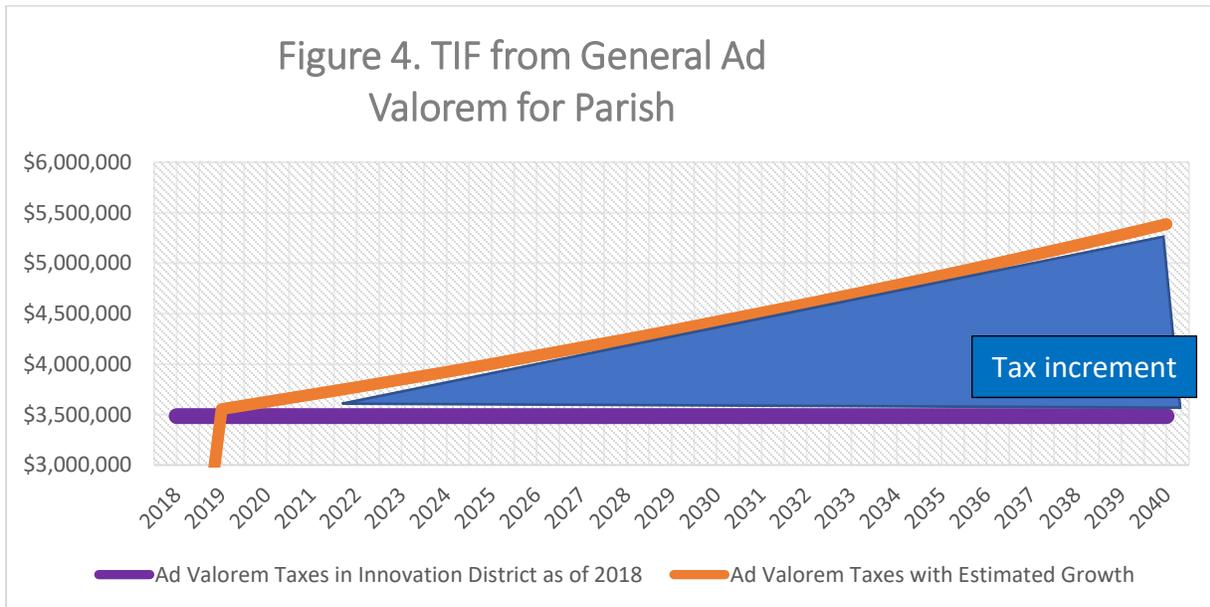
These estimates are based on the following assumptions: (1) sales tax collections will be diminished by about 24% in 2021 and then gradually get back to its expected level of collections with the caveat that any projections after the pandemic are subject to error; (2) activity in the various areas that we define as economic development districts will generate growth in sales tax receipts by an estimated 2% without any major change in business activity in the area once past the pandemic level; (3) given that there will be a major investment in rebuilding Charity Hospital and it is anticipated that other investments in this area will be made, we anticipate that the economy will generate growth in sales tax receipts of 3.5% from 2021 through 2025 and then 5% from 2026 to 2039; and, (4) the growth will be net new growth in the greater New Orleans region and will not move businesses around from one section of the city or region to another. These are projections of how a TIF can work.

Other investment alternatives are illustrated in Appendix 2 with the Innovation District being augmented by several blocks around the Innovation Center.

Tax Increment Financing—Ad Valorem Taxes

In 2018 the general millage for the city-parish of New Orleans was 13.91 mills generating \$53.813 million for the budget of the city-parish. Parish-wide, the ad valorem revenues per mill was \$3,868,662. Since 2010 the ad valorem revenues per mill has grown from \$2,766,726 to \$3,868,662 in 2018. This increase in revenues per mill has been consistent from 2010 through 2018 with the average increase being 4.3%. We do not project the pandemic to affect the value of property dramatically in New Orleans or in other cities around the country.

In the Spirit of Charity Innovation District, the parish received and estimated \$3,484,879 for the general millage or an estimated \$250,530 per mill. Commercial enterprises paid \$2,786,982 in 2018 and residential units paid \$697,897. There were 34 non-profits in the Innovation District. In Figure 4 the ad valorem taxes for general city-parish purposes as of 2018, the estimated growth in ad valorem taxes from 2018 through 2040, and the estimated tax increment. The nominal value of the tax increment from 2019 through 2040 is \$5,314,307 and the present value, utilizing a discount rate of 5.0%, is \$2,929,396.



For ad valorem taxation we focused on the city-parish general purpose ad valorem taxes and we focused only on the Spirit of Charity Innovation District. The estimate of the ad valorem collections will depend very much on what occurs in the district with respect to Charity Hospital and other buildings in the district.

Due to the very specific uses of the ad valorem tax as defined by a vote of the electorate and the relatively low ad valorem tax burden, using ad valorem taxes as a TIF is not commonly done in Louisiana. In fact, all of the TIF’s in Louisiana, all are sales tax related.

Summary and Conclusions

TIF’s are mechanisms by which public decisions regarding the use of public resources can be expressed. The state and city/parish are declaring that this project, in this case, the rejuvenation of the Spirit of Charity Innovation District is one of the most important commitments the state and city/parish could make to spur additional economic growth in the Greater New Orleans area.

The Spirit of Charity Innovation District is estimated to account for about 9.5% of all sales tax collections in zip code 70112 and the zip code 70112 accounts for just over 5% of sales tax collections in New Orleans, but not including sales taxes from food for home consumption and prescription drugs. The Spirit of Charity Innovation District presently accounts for about 0.5% of all City-Parish sales tax collections but not including food for home consumption and prescription drugs. There are no major retail stores in the District nor are there any major food

markets so these exemptions do not materially affect the estimated sales tax collections in the Innovation District. This could change as the Innovation District develops, but, as of 2019, no major retailers or food markets have a physical presence in the Innovation District. This does not include the sales tax on motor vehicles since these sales taxes are paid to the Office of Motor Vehicles, Department of Public Safety and Corrections. The tax is based on the domicile of the purchaser and not the location of the seller.

Given the relatively small sales tax base of the Spirit of Charity Innovation District as of 2019, we focused on the BioDistrict and the zip code 70112 as alternative economic development districts when considering a sales tax TIF. Retail sales in the BioDistrict represents about 5% of the total retail sales in the city/parish but not including food for home consumption, prescription drugs, and motor vehicles. Based on the BioDistrict, from 2020 through 2040 the TIF will generate an estimated \$66,977,669 in 2019 dollars from 2020 to 2039 utilizing a discount rate of 4%; the economic development district defined by the zip code 70112 the TIF will generate an estimated \$46,740,128 in 2019 dollars from 2020 to 2039 utilizing a discount rate of 4%; and, the Spirit of Charity Innovation District will generate an estimated \$4,440,312 from 2020 to 2039 utilizing a discount rate of 4%. Given the BioDistrict is an already existing economic development district with an active board, taxing and bonding authority, and an aligned mission with the Spirit of Charity Innovation District – the BioDistrict is well-positioned to steward funds received as a result of a TIF within the District. All of these estimates have been adjusted for the substantial impact of the COVID-19 pandemic on economic activity in New Orleans and throughout the nation and the world.

The 2% sales tax growth, used in arriving at the estimates from 2020 through 2040, is for illustrative purposes to show how the tax increment program would work. However, as a TIF becomes a reality, we must carefully select the appropriate sales tax rate that will be used to project the city's and state's sales tax collections over a long time period. Given that any projections would be subject to error, we could also indicate that the City of New Orleans would keep all revenues now being received from the selected TIF area and the Economic Development District would receive, as an example, the next \$250,000 to \$500,000 per year from the City of New Orleans and the State of Louisiana. This is merely a range for illustrative purposes, but it also notes that the District must have a reliable revenue stream if it is to make any long-term commitments. The present value of having a fixed amount of dollars in the TIF as mentioned from \$250,000 to \$500,000 amounts to \$3.5 million to \$7.0 million over the twenty-year period from the city and the state.

Efforts at improving the innovation district such as generating additional research funding for medical research, providing for private companies to invest in healthcare businesses, expanding the exporting of healthcare services, or other such activity will increase the flow of sales tax collections and this increase may be more robust than we have anticipated. If this occurs, then it might be possible to redistribute sales tax collections to the state and city-parish prior to the 2040 deadline. But we must note these are general projections that will differ based upon actual investments that are made.

For ad valorem taxation we focused on the city-parish general purpose ad valorem taxes and we focused only on the Spirit of Charity Innovation District. The estimate of the ad valorem collections will depend very much on what occurs in the district with respect to Charity Hospital and other buildings in the district. In the Spirit of Charity Innovation District, the parish received an estimated \$3,484,879 for the general millage or an estimated \$250,530 per mill in 2018. Commercial enterprises paid \$2,786,982 in 2018 and residential units paid \$697,897. There were 34 non-profits in the Innovation District. The estimated growth in ad valorem taxes from 2018 through 2040 amounts to \$5,314,307 in nominal dollars with a present value, utilizing a discount rate of 5.0%, of \$2,929,396.

Due to the very specific uses of the ad valorem tax as defined by a vote of the electorate and the relatively low ad valorem tax burden, using ad valorem taxes as a TIF is not commonly done in Louisiana. In fact, all of the TIF's in Louisiana, all are sales tax related. However, in the case of the Spirit of Charity Innovation District, an ad valorem TIF based upon the city's general purpose 13.91 mills might be workable.

All estimates are based on the continued growth of the New Orleans without any major thrust from activities due to the Spirit of Charity Innovation District. If the Charity Hospital renovation is highly successful and the further development of the Innovation District is also successful, then the growth of the entire region will be positively affected. However, until we know much more about the renovation of the Charity Hospital and further possible developments within the Innovation District, we cannot make more reliable estimates.

Appendix 1. The Retail Focus in the Spirit of Charity Innovation District

In Louisiana TIFs have always been sales tax based. The simple reason is that most ad valorem taxes are tied to specific activities so only a few mills will be provided for general government. And, local governments in Louisiana are sales tax oriented. Sales tax collections are connected to retail activity. Hence, to generate the largest amount of dollars from a TIF, focus on retail activities. One possibility for the Spirit of Charity Innovation District would be to focus on expanding the retail market, a market that could cater to the expanding employment in the Health District and accommodate the increased activity in the renovated Charity Hospital as well as any the arrival of DXC Technology by 2022 and any other gains from the technology industry as well as serving the tourists who come to New Orleans and provide alternative retail opportunities for citizens in and around the New Orleans area.

One of the positive impacts of the development of a major retail center in the Spirit of Charity Innovation District could be to connect the activity at One Canal Place and surrounding activities at that end of Canal Street all the way down Canal Street to Claiborne Avenue. This would connect the tourist area to the entertainment and sports area as well as to the fledging medical district area and hopefully the growing technology area. However, to make this connection work would require additional tourists or visitors from areas outside New Orleans.

And, this becomes the issue if we start with the retail focus. We may create spending in and around the Spirit of Charity Innovation District especially if we are able to attract national and international outlets, but we cannot be sure if we are not just spreading the retail spending around the city as opposed to creating net new sales. In examining the TIF proposal, both the State and the City, in their due diligence, will focus on the possible movement of retail activity from different places in New Orleans to this Spirit of Charity Innovation District. If this is the case, both parties may not be supportive of a TIF and understandably so.

The focus on creating a district with medical expansions and technology businesses plus other such occupations will create a growing economy. These activities will supplement the New Orleans economy and not just move dollars around. But, retail activity will be next in line to expand its presence in this area of New Orleans. Creating a successful TIF district should start with the new businesses focused on medical and technology and creating a variety of housing opportunities in the area so persons can live and work in the same general area if that is their preference.

With the creation of new businesses in New Orleans, along with the growing employment and population, is successful, then the retail component of the Spirit of Charity Innovation District will come to life. This retail will accommodate the persons living and working in the Innovation District, but will reach out to attract other consumers as well. It will help connect the activities

near One Canal Place with the activities in the Spirit of Charity Innovation District. As the District is being planned, retail and green space are important factors that cannot be ignored. It is just my judgment that retail is not the first component of the plan, but it is an essential component of a long-term strategy to build New Orleans.

Appendix 2. A TIF for the Expanded Innovation District

As another possible TIF district, we expanded the innovation district to extend the Spirit of Charity Innovation District from Loyola Avenue to O’Keefe Avenue/Roosevelt Way/Burgundy Street with all of the other boundaries being the same (Poydras Street, Iberville Street, and Claiborne Avenue). This TIF will potentially take off once the basic activities in the Innovation district has grown and additional retail will become part of the economic environment. This retail will not be a substitute for retail in other parts of the city, but will accommodate the growing innovation district and will possibly be increase tourist retail trade in the entire city.

Table A.1.2. Projected Sales Tax with and without Investment: District is Expanded Innovation District

Year	Sales Tax Receipts to State and City, 2% Growth without any TIF	Projected Sales Tax Receipts with TIF and investments	Dollars Used by Innovation District for Further Investment
2020	\$1,949,628	\$1,949,628	\$0
2021	\$2,017,270	\$2,046,935	\$29,666
2022	\$2,087,875	\$2,149,734	\$61,859
2023	\$2,268,998	\$2,370,580	\$101,582
2024	\$2,500,391	\$2,650,749	\$150,358
2025	\$2,705,769	\$2,910,661	\$204,892
2026	\$2,905,141	\$3,217,046	\$311,905
2027	\$2,963,244	\$3,377,899	\$414,655
2028	\$3,022,509	\$3,546,793	\$524,284
2029	\$3,082,959	\$3,724,133	\$641,174
2030	\$3,144,619	\$3,910,340	\$765,721
2031	\$3,207,511	\$4,105,857	\$898,346
2032	\$3,271,661	\$4,311,150	\$1,039,489
2033	\$3,337,094	\$4,526,707	\$1,189,613
2034	\$3,403,836	\$4,753,042	\$1,349,206
2035	\$3,471,913	\$4,990,695	\$1,518,782
2036	\$3,541,351	\$5,240,229	\$1,698,878
2037	\$3,612,178	\$5,502,241	\$1,890,063
2038	\$3,684,422	\$5,777,353	\$2,092,931
2039	\$3,758,110	\$6,066,220	\$2,308,110

These estimates also reflect the impact of the pandemic on the New Orleans economy.