



## CASE STUDY UNDERMINES CABELA'S CLAIMS

### Case Study of Cabela's Inc.

Cabela's has been selling supplies for hunting, fishing and other outdoor sports for more than four decades, but in recent years it has gone from being a retailer to being a retail phenomenon. It has achieved this by building a string of mega-stores featuring waterfalls, aquariums, museum-quality wildlife displays--and, of course, a wide selection of gear for the outdoorsperson. The stores are so popular that they have become top tourist destinations in states such as Kansas and Minnesota, drawing millions of visitor-shoppers a year.

Cabela's success is not based entirely on slick merchandising. The company exploits the eagerness of local officials to land one of its stores by getting them to provide tax-increment financing deals and other subsidies that help defray the cost of expansion. So important are these subsidies that, when Cabela's filed an initial public offering prospectus in 2004, the company had to acknowledge their role, warning investors of dire consequences if the public assistance came to an end. The prospectus stated:

Historically, we have been able to negotiate economic development arrangements relating to the construction of a number of our new destination retail stores, including free land, monetary grants and the recapture of incremental sales, property or other taxes through economic development bonds, with many local and state governments... We may not be able to obtain similar economic development packages in the future. The failure to [do so] could cause us to significantly alter our destination retail store strategy or format. As a result, we could be forced to invest less capital in our stores which could have an adverse effect on our ability to construct the stores as attractive tourist and entertainment shopping destinations, possibly leading to a decrease in revenues or revenue growth.

In other words, without subsidies, Cabela's business prospects would suffer. But do the Cabela's subsidy packages pay off for taxpayers? To justify subsidizing a tourist destination, you have to attract shoppers from outside the state, so you capture new sales tax revenue plus new hotel and restaurant business. If you only draw local dollars, that would mean you are merely shuffling those dollars among local vendors.

The Allentown Morning Call set out to determine if the \$32 million subsidy package bestowed on the 247,000-square-foot Cabela's that opened in Hamburg, Pennsylvania in 2003 was paying off. The newspaper went back to the state and local agencies that bragged about the taxpayer benefits of the original deal. But the Pennsylvania Department of Economic and Community Development said it was not tracking sales tax revenue. And Tilden Township said it had no data on local property tax revenues.

So no one knows if the deal is stimulating other new development. None of the public officials could provide any specific numbers about the deal's outcome.

And what about that tourism strategy, with the store projected to attract 6 to 7 million visits a year? Merchants in downtown Hamburg told the newspaper that they are not getting much spill-over traffic. Reporter Sam Kennedy counted license plates in the parking lot, finding more than two thirds were in-state. Cabela's responded by claiming that by dollar volume, less than a third of the store's sales go to Pennsylvanians.

Ultimately, the Call couldn't make a call. "The impact of Cabela's is nearly impossible to assess because Pennsylvania, like many states, doesn't pay close attention to such projects after the ribbon-cutting ceremonies have ended, the news cameras have stopped rolling and the politicians have gone home," it concluded.

In other words, the public officials who take credit for high-profile deals are not about to go back and look to see if they are wasting taxpayers' money. By failing to keep records, they also make it hard for others to discover the truth.

#### SOURCES

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