

## Daily Journal

### Blog: The Cabela's incentive

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Editor

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Greetings:

If you're the outdoorsy type, you just may be happier than a coondog on a bare leg, to borrow a phrase.

Cabela's Inc. is wants to build a store at County Line Road and Interstate 65. Part of the development is expected to include a 35,000-square-foot water park and a rustic-looking hotel.

The mayor of Greenwood is calling this a destination development, meaning people will travel hundreds of miles to splish and splash in the water park, look at stuffed dead animals, and buy hunting, fishing and camping equipment.

So far that has been the case at other Cabela's locations. The company is a success story.

Cabela's got started in 1961, selling fishing flies by placing ads in outdoor magazines. Now it is a billion-dollar company.

The first catalog came in 1963. In 2004, Cabela's went public, and its stock (symbol: CAB) is traded on the New York Stock Exchange. The company was No. 15 in Business Week's ranking of the top 25 customer service champs.

In 2006, the company broke the \$2 billion mark in total revenue. Earnings in 2006 were \$85.8 million compared to \$72.6 million the previous year.

For Cabela's, the catalog and Internet business still bring in the most money, about \$1.06 billion in revenue in 2006. Retail revenue was \$820.3 million in 2006.

The next few years will be interesting to watch as the Nebraska-based outdoor retailer prepares to grow even bigger. The company will be confronted with what many growing businesses face: the wish to grow but at a pace that does not dilute core products, customer service or a powerful brand name. Often, it's a fine line for a business to walk.

Cabela's currently has 18 stores; four of them were opened last year. Cabela's officials say they want to double the number of retail store openings from last year and get eight new stores up and running this year.

This is what Dennis Highby, president and chief executive officer of Cabela's, said recently about the company's retail growth.

"Our retail expansion plans remain on track. We expect to open a total of eight new stores in 2007, including Hazelwood, Missouri, which opened on April 13. Our other stores planned for opening in 2007 are in Illinois, Connecticut, Louisiana, Indiana, Nevada, Idaho and Washington. Beyond 2007, we are evaluating a number of other locations, and we remain confident significant expansion prospects exist."

Across the road from the property Cabela's wants to develop is competitor Gander Mountain.

Gander Mountain isn't just rolling over as Greenwood city officials are on the verge of giving Cabela's an incentive package.

Cabela's says it needs a subsidy of sorts in the form of a loan from the city of Greenwood to help it build a store.

Gander Mountain officials are raising some interesting public policy questions as they fight for their company.

The issue of whether businesses, including retailers, should get tax breaks is a fascinating one.

Tax abatements, where companies get property taxes reduced, has become as common as a cold. You'll hear officials say tax abatement is a necessary evil and that cities that want to stay competitive have no choice but to offer and grant it. Others call it corporate welfare.

In Indiana, property tax breaks were traditionally given to manufacturing businesses bringing good-paying and good-benefit jobs to the area.

Usually, there had to be significant new jobs created, and those jobs had to come with wages you could raise a family on, purchase a decent house and maybe even put away some money in a college fund.

Over the years, some officials have veered from that, giving the tax break to retailers and others. For example, a Lowe's home improvement store in Franklin got its property taxes reduced when it was granted tax abatement.

The issue is even more notable in Greenwood because the Cabela's, water park and hotel property falls in a tax increment financing district and in the fast-growing Clark-Pleasant school district.

Property taxes paid by businesses in a tax increment financing district are used to pay the cost of road and sewer improvements. The money does not go to schools, libraries or local governments as property taxes typically do.

That means schools and others don't get the additional property tax revenue coming to them so they can serve a growing population. One possible consequence is that you might have to pay more to make up for the breaks being given to businesses.

Under the Cabela's proposal, there would an uber district of sorts within the area already designated as a tax increment financing district. Cabela's property tax payments would be used to pay back the money it borrows from the city.

You'll often hear economic development officials say they need to make sure they don't ignore existing companies in their efforts to bring in new businesses.

Gander Mountain took a risk on the Interstate 65 and County Line Road intersection when few others were willing to. They must feel like they are being sucker punched.

Here's an arrangement I would like: How about using my very own property taxes to pay off my mortgage? Think it will fly?

Here are some views on the Cabela's issue.

Gander Mountain Chief Executive Officer Mark Baker has written a letter to the Greenwood City Council. Here are excerpts:

As a retailer located in Greenwood, you can imagine my disappointment when I learned your city government is considering an \$18 million incentive to our direct competitor to locate right across the street from us.

We compete directly with Cabela's in the outdoor lifestyle retail market and welcome that competition; however, providing Cabela's a tax subsidy to build their store creates an unlevelled playing field and a situation where government is choosing winners and losers in what should be a free market.

Gander Mountain has a strong presence in the Midwest and Indiana, with five stores in the state and our only distribution center located in Lebanon, Indiana. Moreover, we employ over 450 people at our retail locations in the state and our distribution center. The largest of our Indiana stores is in Greenwood, which we built with no public subsidy.

Here's an excerpt from Tuesday's column by Indiana economist Morton Marcus.

But then we do get examples of inappropriate local government behavior. Have you followed what is going on in Greenwood?

A sporting goods store named Cabela's is being wooed with an \$18 million bond deal. A few years ago, in Hammond, Cabela's was hooked by similar public subsidies.

Hammond is depressed and depressing; Greenwood is not depressed, although it too can be depressing. In Hammond there was no nearby competition for Cabela's; in Greenwood competing merchants do exist who are not getting comparable tax breaks.

There are conditions under which public subsidies for economic development are appropriate. Cabela's in Greenwood does not meet those conditions. But November will bring elections for mayor, and a big Cabela's feather would look nice in Mayor Henderson's crown.

Yes, all is normal in our world.

And this comes from an Associated Press story:

Outdoor gear seller Cabela's is fighting Kansas' attempt to collect \$392,000 in sales tax, penalty and interest on Internet and catalog sales.

The case is thought to be among the first to set the stage for clarifying Kansas' 2003 tax law on merchandise bought by Kansans online or through catalogs and delivered to them in the state.

Cabela's, based in Sidney, Neb., is the nation's largest direct marketer. The sales tax assessment does not involve sales at the store. It targets three subsidiaries - Cabela's Catalog, Cabelas.com and Cabela's Marketing and Brand Management.

The Kansas Department of Revenue audited financial records of the subsidiaries from August 2002 to September 2004.

The agency concluded the subsidiaries were "doing business in this state" under a Kansas statute enacted in 2003 and should have forwarded sales tax on tangible personal property delivered to Kansas customers for use in the state.

Recently, the Hammond Redevelopment Commission wanted something from Cabela's in return for issuing bonds, and it got employment guarantees. Cabela's is building a 185,000-square-foot facility in Hammond.

Here is an excerpt from a story in the Times of Northwest Indiana.

City residents will be hired to fill more than two-thirds of the full-time positions available when Cabela's opens this fall, according to an agreement with the outdoor retailer.

Of 165 full-time positions, Cabela's is required to place Hammond residents in 142 of them through a long-negotiated agreement that finally was approved by the Hammond Redevelopment Commission.

"This sort of (local hiring) percentage is unheard of in development agreements," said attorney Kevin Smith, part of the city's team that hammered out the document. "There will be a big line for these jobs."

As construction activity at the 32-acre site moves indoors, the agreement requires that 66 percent of the work there be performed by Lake County contractors, with at least one-third of that by Hammond firms.

At least half of the workers doing the plumbing, masonry, electrical and other work must be Hammond residents and union members, or at least paid at union scale.

Cabela's will be held to regular reporting of these percentages to the Redevelopment Commission, with the penalty for failure to comply pegged at \$2.6 million -- 10 percent of the \$26 million in bonds sold to finance the project.

"It's amazing we got so much for Hammond residents," Redevelopment Commissioner Rosemary Wojdyla said. "And some teeth in it with a dollar cost if they don't comply."

The company also agreed to complete a landscaped berm by the time the store opens to shield homes along Northcote Avenue from the retail site. The company also will relocate a popular biking trail to the western side of the 93-acre former Woodmar Country Club property.

Here's a story that appeared in the Milwaukee Journal-Sentinel in May. Officials didn't want to give tax money to a retailer.

The Washington County Board has refused to pay a \$4 million subsidy to Cabela's Inc., the world's largest direct marketer of outdoor gear, for construction of a store that opened in Richfield in September.

A slim majority of supervisors Tuesday voted against borrowing the funds that the board had pledged to Cabela's in September 2005 as an incentive for building the store in the county.

In exchange for the funds, the county was to become the owner of one or more of the store's museum-quality displays -- freshwater fish aquarium, an indoor replica mountain or wildlife dioramas.

The proposed \$4 million contribution to the company was not necessary to lure it to build in Richfield, said Supervisors Richard Bertram of the Town of Barton and Donald Berchem of the Town of West Bend. They joined several other supervisors in stating their opposition to giving tax dollars to a business.

"Taxpayers do not favor borrowing money and giving it to a ... company," said Supervisor Daniel Knodl of Germantown.

The debt was to be repaid with county sales tax revenue collected on sales at the store.

Best,  
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