



GUEST OPINION

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If Lucky's getting lucky, what about the taxpayers?

By Peter Fisher

Is it an incentive, or is it a gift?

It's a serious question cities should ask when faced with a request for subsidies for commercial development, especially retail. We can hope that Iowa City officials take this question seriously when they consider the proposed use of Tax Increment Financing (TIF) to subsidize a grocery store in the Iowa City Marketplace (formerly the Sycamore Mall).

Lucky's Market, a natural foods grocery chain out of Colorado, has decided its store could succeed in Iowa City, and wants to locate in the space vacated by Von Maur. The store's owners (or the mall owners) have asked for a \$1.75 million subsidy to convert the space to a grocery store.

An incentive is an inducement to get someone to do something they otherwise would not do. We often hear the argument that incentives are needed to attract footloose businesses that have a choice of many places to locate.

But retail businesses are not footloose. Lucky's can't sell groceries to Johnson County residents from a store in Illinois. Retail stores go where the local market will support their new business, and they don't go where there isn't the demand to support both their new store and existing competing stores, unless they plan to drive the others out of business.

As a result, there is rarely a case for subsidizing retail.

If the demand for natural foods in Johnson County is sufficient to support another store (New Pioneer has two and conventional grocery stores sell some organic food), then any subsidy is a gift, either to Lucky's or the mall owners or both, for doing what they would do anyway.

Any business has to sell enough to pay the rent or the mortgage; the cost of building a store, or converting an existing space, has to be figured into Lucky's business plan. Hy Vee has built several stores in this area without TIF subsidies.

New Pioneer built its store in Coralville, spent \$1 million to remodel its Iowa City store, and just built a \$1.8 million bakery facility in North Liberty, all without city subsidies. That's business; you sell enough to pay your way, or you go away.

There's another possibility: that the subsidy really is an incentive, because Lucky's has figured out that the demand isn't enough to support their investment in new space. They can't pay their own way. They can turn a profit against the existing competition only if the city pays a goodly share of their up-front costs.

In that case, the TIF subsidies are still a bad idea, because we would be subsidizing one business so it can cannibalize another.

An anchor store may well be important to the viability of Iowa City Marketplace. But the mall owners have every incentive to find an anchor, and to accommodate Lucky's, if that is their best prospect. It is not the job of the taxpayers to subsidize a mall (for the second time — we provided the mall with TIF subsidies for remodeling previously). This not a redevelopment project; it is taxpayers covering a normal cost of doing business.

And, let's be clear: the taxpayers of Johnson County are being asked to subsidize competition for a homegrown business, New Pioneer, that has succeeded on its own for 40 years and is paying the full cost of owning its stores.

What will Lucky's do with the \$1.7 million they save — use it to undercut New Pi's prices, or just ship it back to corporate headquarters in Colorado? Or is this just a gift to the mall owners, who have already agreed to convert the space for Lucky's?

So is it an incentive, or is it a gift? I don't know, but it's a really bad idea either way.

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