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BGR Media Release

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BGR Calls for Scrutiny of Proposed Public Contributions to Convention Center Hotel

Today, BGR releases a report, *Public Contributions to Convention Center Hotel Demand Scrutiny*. The New Orleans Ernest N. Morial Convention Center (Convention Center) is negotiating with a private development team to design, build and operate a 1,200-room hotel attached to the center. The developers have requested various public contributions that, if approved, would exceed \$300 million in today's dollars. A careful analysis is essential to determine whether these contributions are appropriate and to ensure the public receives sufficient benefits.

The report lays the groundwork for this analysis. It describes the hotel project and places it in the context of the Convention Center's capital plans and finances. It then quantifies the requested public contributions and describes how the Convention Center should analyze them based on BGR's research of best practices for public participation in economic development projects.

The proposal is for a \$557.5 million, 1,200-room hotel attached to the Convention Center's upriver end. Convention Center officials said they need the hotel to boost convention attendance and keep pace with competing convention centers, many of which have added similar headquarters hotels. Financing would come from \$516.5 million in

private debt and a \$41 million cash payment by the Convention Center. The developers' also requested a free land lease and up to 40 years of tax rebates and exemptions that could push the total public contribution to \$329.5 million in today's dollars.

The proposal calls for the Convention Center to receive any money left over after satisfying the hotel's annual operating and debt service costs. However, it includes no details about these potential payments. The Convention Center also would receive ownership of the hotel after 40 years.

The negotiations began in early June and are on a fast track. The Convention Center plans to present a tentative deal for its board to approve on August 22, possibly just a matter of days after the terms become public. In the report, BGR calls on Convention Center officials to provide ample time for public input and to thoroughly evaluate and justify any public contributions to the hotel project.

BGR has repeatedly called for government entities to take a rigorous approach to reviewing economic development projects. It is not enough for a project to show it will enhance tax revenues or create jobs. A public entity should consider participating in an economic development project only if it can demonstrate that the investment is **strategic, necessary, efficient, effective** and **fair**. BGR's new report discusses how the Convention Center should apply these principles in evaluating proposed public contributions to the convention hotel:

- Projects receiving public contributions should advance priorities in a **strategic** plan for economic development. The hotel project is part of a strategy to better utilize the Convention Center and remain competitive. But because any tax rebates and exemptions would impact other tax-recipient bodies, the Convention Center should demonstrate the project is a top priority for the community as a whole.
- Independent market studies and a financial analysis should demonstrate that public resources are **necessary** to complete the project. An appraisal of the hotel site characterizes it as a prime development location, especially for a hotel. The Convention

Center should clearly explain why the private market cannot build the hotel without the public's assistance.

- The public's contribution should be financially **efficient**, providing only the minimum amount for the project to proceed. The proposal makes no attempt to quantify or justify the requested public contributions. The Convention Center, which identified the proposal's financial components as a relative weakness, should provide clear justifications for the size of any public contributions.
- Public funding for an economic development project should be **effective**, producing a significant positive benefit- to-cost ratio for the public. With few details about the public benefits in the developers' proposal, the Convention Center should demonstrate that the public would get sufficient benefits in return for any contributions.
- Any public support for the hotel project should maintain a **fair** competitive environment for other hotels. The proposed hotel would be among the largest in the city and could draw significant business from existing hotels. The Convention Center should carefully evaluate the proposal's potential impacts on competing hotels.

BGR President & CEO Amy L. Glovinsky emphasized that BGR is not taking a position on the hotel project itself. Rather, she said, the report provides an analytical framework for the Convention Center to evaluate the necessity and appropriate level of any public contributions to the project. "Before committing the public to an economic development project, public entities should perform the same rigorous due diligence afforded to private investors," Glovinsky said. "This includes providing business plans, identifying and minimizing the risk of financial loss, projecting outcomes and ultimately valuing the net return on public participation."

The report and a one-page summary are available on BGR's website, www.bgr.org.

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BGR is a private, nonprofit, independent research organization. Since its founding in 1932, it has been dedicated to informed public policy-making and the effective use of public resources in the Greater New Orleans area. For more information, call 525-4152 or visit BGR's website, www.bgr.org.