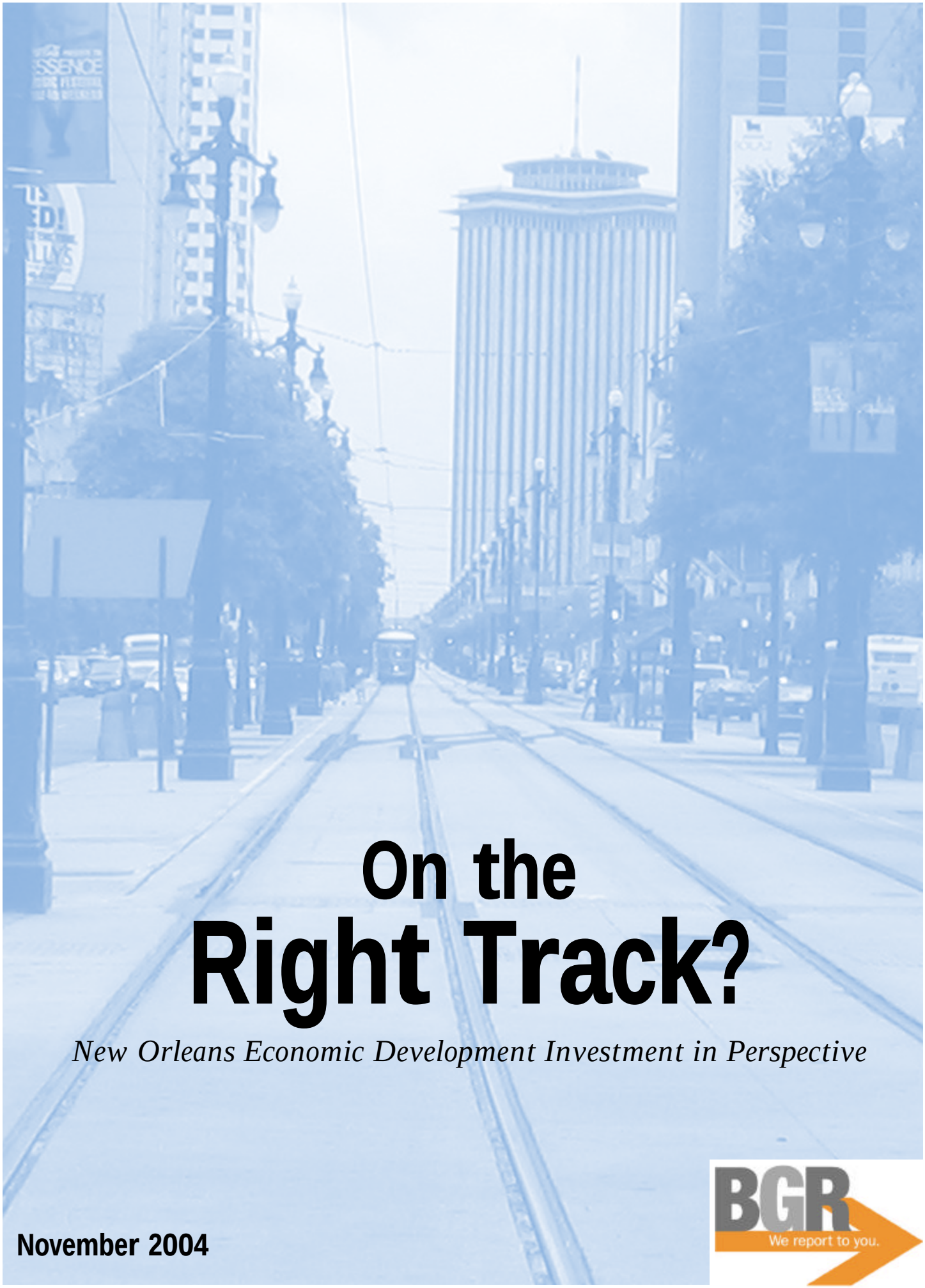

On the Right Track?

New Orleans Economic Development Investment in Perspective

November 2004

BGR
We report to you.

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BGR
The Bureau of Governmental Research is a private, nonprofit, independent research organization dedicated to informed public policy making and the effective use of public resources for the improvement of government in the New Orleans metropolitan area.

The full report and further information on economic development investment is available on BGR's website, www.bgr.org.

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Executive Summary

It is clear to the most casual observer of government that economic development in New Orleans involves substantial amounts of money. Determining how much money and developing an overview of expenditures is challenging, however, even for the well-informed citizen. A multiplicity of programs and participants, together with a lack of centralized oversight and planning, make it difficult to develop a clear picture of individual projects, much less a composite picture that clearly elucidates spending priorities.

To provide citizens and government with a better understanding of their investment, BGR presents in this report an overview of economic development expenditures in New Orleans. Specifically, BGR does the following:

- It quantifies the amount of public funding available for economic development in New Orleans from 1998 through 2002 (the most recent year for which adequate data is available).
- It identifies how the available funds were spent during that period.
- It reviews individual projects that have received multiple public subsidies.
- It reviews the criteria and procedures in place for allocating, monitoring, and evaluating the public's investments.

This report focuses on expenditures, a matter that can be quantified with relative accuracy. It does not attempt the far more subjective task of analyzing the benefits derived from individual economic development investments or projects. The accuracy of projections contained in cost-benefit and similar analyses depends significantly on the validity of the underlying assumptions and estimates. Because of these limitations, BGR was not comfortable relying on existing projections without independent investigation of the underlying factors. BGR takes no position in this report on the merits of individual economic development investments.

A Profile of Sources and Uses

From 1998 through 2002, governmental and quasi-government entities made available in New Orleans approximately $1.1 billion of economic development resources. Approximately $867.7 million was invested in traditional economic development projects or programs. The balance was directed to other uses, such as social services and housing.

Breakdown of Sources

- Local sources provided $602 million (54%) of economic development funding. Federal programs accounted for $274 million (24%), and the State of Louisiana supplied $251 million (22%).
- BGR identified 60 sources of economic development funding. Hotel occupancy taxes were by far the largest source, accounting for $315 million of economic development funds.
- Other large funding sources included the State's capital outlay program ($153 million), the federal Community Development Block Grant (CDBG) program ($95 million), miscellaneous state appropriations ($69 million), and the Restoration Tax Abatement program ($49 million). Collectively, hotel occupancy taxes and these programs provide $682 million, or 61% of all sources. Local property taxes contributed only $69 million (6%).
- Most of the funding for economic development came from state and federal grants ($468 million) and dedicated taxes and related revenues ($451 million). Foregone taxes, defined for purposes of this study as taxes that were abated or diverted to satisfy obligations for privately owned projects, provided $83 million. Federal loans provided another $57 million.

Breakdown of Uses

- Government entities invested 77% of economic development resources in projects or programs designed to promote and stimulate the local economy. Ten percent was invested in communi-

ty improvement and social services; the balance was distributed among other categories.

- Resources were heavily concentrated in tourism and sports teams/facilities. On an industry basis, tourism received the largest share – approximately $293 million, or 26% of all investment. $222 million funded tourism infrastructure, such as the Ernest N. Morial Convention Center expansion, the Aquarium of the Americas, and the Audubon Zoo. The balance went to marketing and special events.
- Another 14% of economic development funding ($154 million) went to sports subsidies. $130 million of that amount supported sports facilities. The balance provided operating subsidies to the New Orleans Saints ($21 million) and the New Orleans Hornets ($3.4 million).
- Approximately $310 million, or 28% of total economic development investment, went to programs designed to develop businesses. Approximately $177 million of that total provided indirect assistance through research and development initiatives, city programs, nonprofit programs, and customized employee training. Another $87 million of assistance was provided directly to businesses. The Restoration Tax Abatement program provided $44 million of tax relief to commercial property owners.
- Five projects received 35% of funds: Convention Center expansions ($155 million), UNO Research and Technology Park ($99 million), Superdome and Arena operations and repairs ($65 million), airport improvements ($43 million), and Jazzland Theme Park ($38 million). These projects totaled $399 million.

A Profile of Layered Investments

In addition to developing a composite picture of investments, BGR reviewed a number of significant projects that received multiple forms of public investment. Specifically, it identified the funding sources and calculated the public investment over the life of the projects. The projects include six real estate or commercial developments and two sports teams and facilities.

Because investments in the projects occur over substantial time periods, ranging from 1988 to 2037, BGR adjusted all amounts in its calculations to 2004 dollars. This means that it increased prior year amounts to reflect the historical impact of inflation, and decreased future amounts by 3% per year to adjust for future inflation. (See tables 1 and 2.)

Layered investments are noteworthy for a number of reasons:

Table 1: Public Investment in Real Estate and Commercial Developments
(All figures in millions of 2004 dollars)

Project	Grants	Foregone Taxes	Total Grants & Foregone Taxes	Loans	Total
American Can Apartments (2000 to 2011)	$3.0	$12.2	$15.3	$7.0	$22.3
D.H. Holmes Redevelopment (1993 to 2005)	0	7.9	7.9	8.5	16.4
Jazzland Theme Park/Six Flags New Orleans (1998 to 2017)	24.9	28.7	53.6	29.0	82.6
MacFrugal's Distribution Center (1988 to 1996)	34.4	4.0	38.5	0	38.5
St. Thomas Redevelopment (1997 to 2023)	60.4	62.8	123.3	0	123.3
Proposed World Trade Center Hotel (2005 to 2035)	0	130.9	130.9	0	130.9
Total	**122.8**	**246.6**	**369.4**	**44.5**	**413.9**

BGR calculations. Totals may not add due to rounding. Interest payments on loans are excluded from the totals, unless the public subsidizes that cost. Where that occurs, interest is recorded as a grant.

- In recent years, complex public investments of this nature have increased in number, size, and scope.
- Public financing for several of the projects extends over long periods of time, up to 40 years.
- In a number of recent and proposed transactions, public funding is replacing significant private equity.
- Information for transactions that involve the use of multiple incentives is often fragmented among various entities or departments that have responsibility for the different pieces. Portions of the project get approved on a piecemeal basis. This creates a risk that no one in government has a clear picture of the project as a whole or its ultimate cost. There is rarely, if ever, comprehensive information easily available to the public on its full investment.

Table 2: Public Investment in Sports Teams and Stadium/Arena

(All figures in millions of 2004 dollars)

Project	Team Subsidies	Stadium/Arena Investments	Total
New Orleans Hornets and New Orleans Arena (1994 to 2026)	$77.3	$186.5	$263.8
New Orleans Saints and Louisiana Superdome (1994 to 2026)	224.8	133.9	358.7
Total	**$302.1**	**$320.4**	**$622.5**

BGR calculations. Team subsidies include subsidies provided under the current leases, from 2002 to 2011 for the Saints and 2003 to 2013 for the Hornets. They also include the cost of capital investment by the public in training facilities for the teams over the lifetime of the investment. Stadium/Arena Investments cover the period from 1994 (when the Superdome debt was refinanced) until the maturity of the debt in 2026.

Expenditures vs. Priorities

The large number of dollars at issue and the continuing heavy concentration of economic development resources in tourism and sports prompt a basic question: are economic development funds being allocated to the community's highest priorities?

The question is impossible to answer, since there is no set of clearly defined priorities. Economic development plans for New Orleans tend to function more as all-embracing wish lists than as useful strategic tools. While they set forth a series of goals and strategies, they fail to define clearly the priorities among the goals. This leaves unanswered fundamental questions, such as whether resources should be directed away from current areas of concentration to investments that further other goals, such as diversification of the economy or development of small businesses.

It is clear that the process for allocating economic development resources in New Orleans suffers from a number of other serious failings. Expenditures tend to be considered on an ad hoc basis, without evaluation of their relative value or the "opportunity cost" of a particular investment. This is particularly true in the area of tax abatements and similar incentives, where the indirect, intangible nature of the investment obscures the cost and weakens fiscal discipline.

In addition, little, if any, consideration is given to the relationship between overall economic development strategies and the provision of general government services in the city. The success of economic development is intimately related to the sufficiency of basic public services. Weaknesses in public schools, transportation, streets, and other services and infrastructure can undermine economic development efforts. Yet, the impact of diverting funds from these basic building blocks receives only the most cursory attention.

Evaluation of programs has been rare, leaving a large information gap. The Nagin administration did undertake a comprehensive review of the Restoration Tax Abatement program, which led to changes in the program. The administration has also made changes in two other programs, the City of New Orleans Economic Development Fund and the HUD Section 108 loan program. It is currently reviewing the UDAG Repayment Fund.

Complicating Factors

The development and coordinated implementation of an economic development strategy for New Orleans is complicated by a number of factors. One is fragmentation of responsibility in the economic development arena. Despite the impressive size of the total pool of economic development funds, there is no one "investor" in control. The City itself had full or significant control of only 35% of the economic development funds. Another 40% was directed by five special purpose entities. The rest flowed through a variety of special entities established over the years to handle individual pieces of the economic development puzzle. BGR identified 37 governmental or quasi-governmental entities that receive or administer economic development funds.

This fragmented structure clouds the issue of whether the public's funds are being invested in the most efficient and effective manner. In addition, the vested interest of players in specific programs makes it difficult to redirect funds.

The City's ability to redirect resources is restricted by other factors, including programmatic limitations on the use of funds and long-term commitments. The cost of the most recent commitments is not reflected in the totals for 1998 to 2002, since they were not yet payable. These newer commitments, which extend far into the future, are expected to cost $157 million between 2003 and 2007 alone.

Despite these very real obstacles, the City has the ability to refocus spending in significant programs, such as CDBG and Restoration Tax Abatements. It also has the opportunity to redirect spending over time through future state capital outlay requests and the judicious use of various tax incentive programs.

Investment in Private Projects

One particularly troubling trend in the use of economic development incentives is the growing local public investment in privately owned projects. The cost of these incentives, which include abated or diverted tax revenues, will increase significantly in the next few years as projects approved to date come online. Without disciplined planning and implementation, such investments are likely to proliferate.

The City's control and oversight in this area is very weak. Interestingly, huge subsidies are provided on the basis of projections of economic benefits. Yet, there is little in the way of consequences for the failure to deliver on the projections.

Conclusion

It is clear that a lack of disciplined planning and implementation are serious problems. Significant amounts of money are being expended without clearly defined priorities. Projects are considered on an ad hoc basis, without a disciplined evaluation in the broader context of goals, strategies, and priorities. As a result, public investment, particularly in private ventures, runs the risk of being based on political, rather than rational, economic considerations. The dangers of poorly conceived investment – whether in the form of grants or foregone taxes – is exacerbated by the lack of consequences for failure to deliver on the projections and claims used to promote the public investment.

A billion dollars is a lot of money to spend on an ad hoc basis. The allocation of the next billion deserves careful thought and scrutiny.

Recommendations

In preparing this report, BGR reviewed dozens of programs and projects. While it is beyond the scope of this report to offer detailed recommendations on each of these, BGR is offering broad recommendations in three critical areas: planning, accountability, and the evaluation of major projects.

Because this report focuses on the use of economic development incentives in New Orleans, most of the recommendations are directed to the City of New Orleans. BGR recognizes, however, that economic development is a significant regional issue and must be considered in that context.

Connecting Expenditures to Priorities

- The City should develop and incorporate into its economic development plan a clear set of priorities and a clear strategy for achieving its goals. Rather than reciting a long litany of economic development goals designed to satisfy all constituents, the economic development plan should reflect the City's considered judgment as to the relative importance of competing needs (e.g., diversification, small business development, work force development, education, infrastructure improvements), define areas of focus, and develop specific strategies. The plan should take into account the availability of, and constraints on, various funding sources.
- The City should develop a proactive, as opposed to developer-driven, approach to economic development and the use of incentives and subsidies. To maximize benefits while minimizing costs to the public, it should aggressively foster competition in the development of targeted areas or properties, through well constructed and administered processes using bids and requests for proposals. Where business retention or attraction is a priority, the City should follow clearly established benchmarks in determining whether public investment is appropriate and, if so, the form and amount of such investment.
- The economic development plan should serve as the basis for investments and subsidies that are under local control, for tax dedications, and for state capital outlays in New Orleans.
- Before any government entity authorizes funding or subsidies for a major project in New Orleans, the Mayor's Office of Economic Development should prepare and publish a written evaluation of whether, and if so how, a proposed major project fits into the City's economic development priorities and strategy.
- The City should evaluate the current deployment of resources against the City's priorities to determine whether available resources should be redirected.
- The City and State should fund only those projects that support the City's highest priorities, maximize benefits and minimize costs, and fit strategically.

Creating Accountability

- The City should prepare an annual statement that clearly describes and quantifies the City's economic development investments. The statement should include a calculation of both expenditures and the amount of taxes foregone by taxing bodies under programs such as the Restoration Tax Abatement, PILOT, and TIF.
- When subsidies are awarded on the basis of projected benefits, the City should periodically perform and publish a retrospective analysis to determine whether the projected benefits have materialized. To enable the City to do so, the developer should contractually commit to keep and provide the data and records needed to perform the analysis.
- To the extent possible, cooperative endeavor and other agreements governing public investments should contain

provisions that enable the City to reduce its investment or impose financial penalties if the projected economic benefits from a project (e.g., jobs and private investment) do not materialize.

- In the case of projects involving the use of multiple incentives, the Mayor's Office of Economic Development should prepare and publish a summary of the proposed project and financing, including a description of all requested funding/subsidies and the various approvals required. The office should publish the summary before any approval process is initiated and provide status reports and updates disclosing proposed changes in a timely manner.
- Entities administering incentive programs without formal performance measures should review best practices and develop and implement a meaningful set of performance measures.
- Notices, agendas, and minutes of all economic development entities should be posted at a "one stop shop" on the City's internet site.
- The City should reexamine the multitude of local economic development entities, in light of its priorities, to determine whether functions or entities should be consolidated or eliminated.

Evaluating Major Projects

- The City should develop a set of standard policies and procedures for reviewing and evaluating major projects. The procedures should, among other things, establish a centralized framework for reviewing the suitability and size of public investment in major development projects.
- The City should not consider projects unless they are supported by financial statements, business plans, projections, and other documentation of the type and quality that would be required by a reputable financial institution for a comparable type of project.
- In no case should public subsidies serve as a substitute for adequate private capital in a transaction.
- Once a project is awarded to a developer, public bodies should reject requests for public assistance that were not included as part of the developer's proposal. Such requests should trigger a new procurement process.
- Incentives and investments should not be approved on a piecemeal basis. Before any state or local body commits to an investment of public funds for a project, all requests for public funding should be on the table.
- The City should develop in-house capacity to analyze proposed transactions. In order to alleviate political pressure, the employees performing analyses should have civil service protection.
- A favorable cost/benefit analysis should be a starting point, rather than the deciding factor, in the City's evaluation of projects.

Overview

Introduction

This section provides an overview of the main findings of the study. Readers interested in more detailed information may consult the other sections of this report. The Layering Section summarizes the layers of public investment provided to selected individual projects. The Administration Section reviews the government entities involved in economic development, the planning process, and the administration of 10 economic development programs. The Sources Section, which can be found on our web site at www.bgr.org, describes the individual sources of funding by government, with background information and financial data from fiscal years 1998 to 2002.

What is "Economic Development"?

In defining the scope of this study, BGR faced a number of threshold issues, including the meaning of the term economic development.

Definitions have been offered by many groups, including the federal government, business associations, and community development advocates. In general, two schools of thought have emerged. One school views economic development in terms of job creation, business growth, and the expansion of the tax base. Government support typically involves grants, loans, tax breaks, or other incentives for businesses.

The other school focuses on community development as a whole, wedding fiscal and economic growth to the goal of increasing opportunities for the socially, economically, and educationally disadvantaged. Government investment involves both traditional incentives for local businesses and investments to improve low-income communities and increase opportunities for low-income residents, either directly or through community-based organizations. This appears to be the de facto approach in New Orleans.

For the purposes of this study, BGR adopted a hybrid concept that embraces investments made to stimulate business and employment activity, to stimulate growth in the tax bases, or to increase job skills of New Orleans residents.

A Word on BGR's Methodology

BGR gathered data from a variety of documents, including financial reports and audits, program reports, organizational documents, guidelines and procedures, budget documents, meeting minutes, contracts and agreements, property records, assessment records, tax records, city archives, and other public records.

BGR also reviewed a variety of city ordinances, state and federal laws, court cases, and government regulations. It gathered additional information from news articles, academic journals and books, press releases, promotional material, pamphlets, web sites, and from observation of public meetings and interviews with program administrators.

Scope of the Report; Limitations

Because economic development is such a broad concept and so closely intertwined with other government functions, determining which programs to include as sources and uses of economic development funding posed a significant challenge. BGR made the following decisions in that regard:

- BGR included programs and projects with a strong economic development component or intent. It included projects for which proponents justified public investment on the basis of economic development, regardless of whether the projects would, in BGR's judgment, advance the goals of economic development.
- BGR included funding for programs, such as Community Development Block Grants, that have economic development as one of a number of eligible uses. It included such funds even if they were used for other purposes, such as social services and housing. The rationale was that, regardless of their ultimate use, such funds were available to decision makers for economic development.
- BGR excluded funding for programs dedicated solely to housing. It included housing as a use where the funds were derived from sources that include economic development among the eligible uses.
- Although BGR included federal and state economic development funds expended in New Orleans, it excluded federal and state tax incentives (such as tax exemptions for bonds and federal and state tax credits) that did not affect city revenues.
- BGR generally excluded expenditures for traditional government functions, such as health, education, law enforcement, levee protection, regulatory matters, sewer, water, and ground transportation infrastructure. Although these services directly impact economic development, they must be provided regardless of how aggressively the City pursues economic development. BGR included infrastructure expenditures made as part of a public-private partnership to advance a specific project, and the Regional Transit Authority's hotel occupancy tax, portions of which are dedicated to various economic development purposes.
- In the case of the Audubon Commission, the Ernest N. Morial New Orleans Exhibition Hall Authority (Exhibition Hall Authority), the Canal Street Development Corporation, the Downtown Development District (DDD), and the French Market Corporation, BGR included debt service on publicly financed bonds. To avoid double counting, it excluded bond proceeds received by them. Such proceeds are listed separately at the end of the Sources Section. In the case of the City, BGR included specific allocations of bond proceeds from general obligation bonds to specific projects when the allocations were made.
- In the case of entities that operate major public facilities (i.e., New Orleans Aviation Board, the Exhibition Hall Authority, the Board of Commissioners of the Port of New Orleans, the Louisiana Stadium and Exposition District, and the Audubon Commission), BGR included taxes and funds received from federal, state, and local governments. BGR excluded self-generated funds unless they were used to provide economic development funds to others.
- In the case of the six public benefit corporations established to exploit the commercial potential of various city-owned properties (e.g., the French Market Corporation and the Upper Pontalba Building Restoration Corporation), BGR included only net revenue (i.e., property revenue less property expenditures, debt-related costs, and dedicated transfers to the City's General Fund).
- In the Layering Section, BGR included all public funding, regardless of whether the source was an economic development program.

BGR also faced a number of challenges in collecting and aggregating data:

- The fiscal years for entities included in the study end on different dates. Local entities' fiscal years, including the City's,

typically end on December 31. The federal fiscal year ends on September 30, and the State's on June 30. In this report, federal and state fiscal years are aligned with the calendar year (e.g, all funds received in a fiscal year ending in 2000 are considered year 2000 funding).

- For some grants, government entities reported allocations, rather than actual annual expenditures of grant monies. In those cases, BGR included only allocations made during the period from 1998 to 2002. More detail on allocations is provided in the Sources Section.
- Estimates of foregone taxes are based on information provided at the outset of the project by the City, the State, or the beneficiary of the tax relief. In calculating the value of property tax incentives, BGR increased the originally estimated value of property by 1.5% per annum, the average annual increase in assessed value on a citywide basis from 1987 to 2002.

Placing the Information in Context

The five-year period covered by this study includes portions of two mayoral administrations, those of Marc H. Morial and C. Ray Nagin. The Nagin administration took office in May 2002.

Many of the expenditures during that five-year period reflect the priorities and decisions of previous administrations. The Moon Landrieu, Ernest N. "Dutch" Morial, and Sidney J. Barthelemy administrations placed a clear emphasis on tourism investments. During their tenure, a number of major assets and attractions, including the Louisiana Superdome, the Convention Center, and the Aquarium, were built using long-term debt. The Audubon Zoo was significantly revitalized, as were the Warehouse District and the downtown river front. Developments receiving some form of public assistance included Jax Brewery, Woldenberg Park, Canal Place, Spanish Plaza, the Riverfront Streetcar, and the Riverwalk Marketplace.

The City used the Restoration Tax Abatement program liberally to encourage development downtown and in the French Quarter. City properties in the French Quarter underwent major facelifts, and the City dedicated new spaces for public use. The DDD was created in the 1970s to enhance public services in the Central Business District.

The City also targeted other areas for revitalization. The Almonaster-Michoud Industrial District, later the New Orleans Business & Industrial District and now the New Orleans Regional Business Park (Regional Business Park), was formed in eastern New Orleans. Federal funds were used to support various community development programs and infrastructure investment in low-income areas.

Despite these significant achievements, many old problems remained. The City's economy continued to suffer from a lack of diversification, with its dependency migrating from the oil and gas to the tourism industry. The City experienced limited growth in manufacturing jobs. Extreme poverty, a loss of population, a regressive tax structure, a negative business image, infrastructure deterioration, and crime persisted.[1] One of the City's vital economic assets, the Louis Armstrong New Orleans International Airport, dropped steeply in the ranks of the nation's airports. The public education system continued in a 40-year downward spiral, limiting the horizons of the citizenry and compromising the quality of the workforce.

During its first term (1994-98), the Marc H. Morial administration continued a number of tourism and sports projects begun under Mayor Barthelemy, including the Convention Center expansion and construction of the New Orleans Arena and Harrah's New Orleans Casino. Even as it completed these major projects, the administration, cognizant of the shortfalls in the New Orleans economy, began to emphasize the need to diversify the economy (with particular emphasis on the

medical, musical, and high-tech industries); to facilitate doing business in New Orleans; to provide greater opportunities for entrepreneurs and small businesses, particularly disadvantaged ones; and to develop the workforce. It called for further development of the Port of New Orleans, the Airport, and international trade.

The Nagin administration has reiterated the need to address several long-standing concerns, such as the lack of diversity in the economy, the limited access to capital, and the lack of adequate job skills. It has noted several opportunities for growth, including the development of technology businesses, the encouragement of small businesses, and the support of the arts, culture, and convention and tourism industries.

Sources and Uses of Economic Development Funding in New Orleans, 1998 through 2002

From 1998 to 2002, federal, state, and local government entities made available in New Orleans approximately $1.1 billion of economic development resources. Of that amount, approximately $867.7 million was invested in economic development projects or programs.

The remainder was directed to other uses, such as social services and housing.

Sources by Government

From 1998 through 2002, local sources provided 54% of all economic development funding. Federal programs accounted for 24%, and the State supplied 22%.

The following table summarizes the amounts derived from each source:

Table 3: Sources of Economic Development Funding

Sources, 1998-2002	Amount (In millions)
Local	$602.0
Federal	273.8
State	251.0
Total	**$1,126.7**

BGR calculations. Total does not add due to rounding.

Local Sources. Approximately 75% of local funding came from property, sales and hotel-related taxes and related revenues such as interest accrued on such taxes. A breakdown of these revenues indicates that the out-of-pocket cost of economic development for taxpaying residents of New Orleans has been limited. Local property taxpayers have contributed approximately $69.1 million, or only 6% of total sources. Of that amount, approximately $22.5 million was paid by property owners in the DDD, and $1.4 million by property owners in the Regional Business Park.

Visitors to New Orleans paid a much greater share of the local funding than local residents. From 1998 to 2002, visitors paid almost $315.1 million in hotel occupancy taxes dedicated to economic development purposes and, along with local patrons, another $47.7 million in food and beverage taxes dedicated to the Convention Center. The total ($362.8 million) represented approximately 60% of local sources and 32% of total sources.

While the cost of the abatements and exemptions granted for economic development is difficult to calculate, BGR conservatively estimates foregone taxes at $83.3 million. Foregone taxes are defined for purposes of this study as taxes that were abated or diverted to satisfy obligations for privately owned projects. The amount of foregone taxes will increase in future years as a result of tax

increment financings, which are not included in the 1998-2002 numbers, and from diverted or below-value payments in lieu of taxes.

The following table summarizes the amounts received from local sources:

Table 4: Local Sources of Economic Development Funding

Sources, 1998-2002	Amount (In millions)
Local Taxes and Related Revenues	$451.4
Estimated Foregone Taxes	83.3
Public Benefit Corporations, Net Revenues	11.8
Other Revenues	55.5
Total	**$602.0**

BGR calculations.

Federal Sources. A quarter century ago, federal funding for economic development was plentiful in New Orleans and other major cities. Congress invested heavily in programs designed to stimulate investment in the nation's cities, with the goal of assisting them in their battles against poverty, population decline, and economic distress.

But in the 1980s, the U.S. government slashed federal funds for major cities, eliminating some substantial federal programs, such as Urban Development Action Grants (UDAG) and revenue sharing. The ongoing programs generate less money for the City today when inflation is considered. For example, Community Development Block Grant (CDBG) funding peaked at $22 million in 1980,[2] or $45.9 million in 2000 dollars. On an inflation-adjusted basis, CDBG funding has declined by more than 50%.

Despite this funding decline, the federal government still provides a significant amount of funds administered by City and other local entities. From 1998 to 2002, approximately 51% of that funding, or $138.8 million, came from the U.S. Department of Housing & Urban Development (HUD). The largest HUD program was CDBG, which provided $95.4 million for economic development and community-based programs and investments (including social services, public facilities, and other community projects). HUD provided an additional $42.4 million in Section 108 loans and $1 million for brownfield redevelopment. The City has used these loans to fund significant local developments, such as Jazzland Theme Park, American Can Apartments, and the Chateau Sonesta Hotel.

Other significant federal funding sources included U.S. Department of Labor grants for job training ($43.2 million) and U.S. Small Business Administration loan financing ($14.6 million). The job training funds are designed to assist adult and youth workers, workers who have lost their jobs, and welfare recipients seeking jobs.

The Airport relies on the federal government for funding of capital improvements. The Federal Aviation Administration pumped $38.3 million into the Airport from 1998 to 2002.

Among the miscellaneous federal appropriations included in this study, the largest went to the Navy Information Technology Center at the University of New Orleans Research and Technology Park (UNO Research and Technology Park). The Department of Defense appropriated $32.1 million in fiscal years 1998 and 1999 for telecommunications infrastructure and equipment at the center.

State Sources. Most state funding for economic development projects was provided through the capital outlay process. During the period under consideration, capital outlay grants accounted for 61% of such funding. The investments, totaling $153.1 million, were concentrated in large-scale projects. Approximately $101.6 million of that amount flowed into five facilities: the Convention Center ($48.6 million), the Port ($21.3 million), the Audubon Zoo ($11.5 million), the National Center for Advanced Manufacturing, located at the NASA Michoud facility ($11 million), and Jazzland Theme Park ($9.2 million).

In addition, the State provided appropriations totaling $64 million to fund the construction of the Navy Information Technology Center at the UNO Research and Technology Park. It also provided $5.1 million for the operations of the Louisiana Gene Therapy Research Consortium.

Other state programs include the Economic Development Award Program, the Workforce Development and Training Program, the Incumbent Worker Training Program, and a grant program for urban projects and programs. Collectively, these programs provided $26.9 million in funding for New Orleans businesses and nonprofit organizations during the period.

Largest Individual Sources

Of the 60 funding sources available for economic development, hotel occupancy taxes are by far the largest. Other large sources include state capital outlay funds, federal CDBG funds, miscellaneous state appropriations, and local ad valorem taxes foregone through the Restoration Tax Abatement program. Collectively, these five sources total $682.1 million, or 61% of all sources.

The following table summarizes the five largest individual sources for economic development in New Orleans:

Table 5:
The Five Largest Individual Sources

Sources, 1998-2002	Amount (In millions)
Hotel Occupancy Taxes	$315.1
State Capital Outlay	153.1
HUD CDBG	95.4
Miscellaneous State Appropriations	69.0
Restoration Tax Abatement, Estimated Foregone Taxes	49.5
Total	**$682.1**

BGR calculations.

Sources by Type

Most of the funding for economic development came from state and federal grants ($468 million) and dedicated taxes and related revenues ($451 million). Foregone taxes, defined for purposes of this study as taxes that were abated or diverted to satisfy obligations for privately owned projects, provided $83 million. Federal loans provided another $57 million.

General Categories of Investment

To summarize how government entities used the $1.1 billion of economic development resources, BGR developed six general categories: Commercial Stimulation, Urban Redevelopment Projects, Community Development, Government, Administrative Costs, and Retained Funds.

1. Commercial Stimulation

These are investments made to stimulate business and employment activity, to grow the tax base, or to increase the skills and earnings potential of New Orleans' residents. BGR subdivided these as follows:

Business Development

- Grants, loans, and tax relief to businesses or commercial property owners
- Indirect assistance to businesses through customized employee training, research and development partnerships, and city and nonprofit programs
- Targeted neighborhood business assistance, or investments to spur business activity in particular neighborhoods

Tourism Development

- Marketing and promotion of the City to visitors
- Special one-time events of significant size that attract visitors
- Construction or renovation of tourism facilities and infrastructure

Sports Subsidies

- Subsidies to professional sports teams

- Public investment in and operation of sports facilities

Workforce Development

- City and nonprofit programs that prepare individuals for jobs

Major Transportation

- Port investment
- Airport investment

2. Urban Redevelopment Projects
These are investments in large-scale redevelopment projects. These projects include the American Can Apartments, the Saulet Apartments, the redevelopment of the St. Thomas and other public housing sites, and Lincoln Beach redevelopment.

3. Community Development
These are resources that went toward community purposes. BGR divided these investments as follows:

Community Improvement

- Community events
- Community facilities and infrastructure
- Housing assistance
- Other community projects

Social Services

- Programs that assist individuals in New Orleans, such as recreation programs, youth programs, and elderly assistance

4. Government

- City General Fund
- Other city purposes
- Other local government entities
- Military affairs

5. Administrative Costs
These are expenditures on general administration of local economic development entities and programs.

6. Retained Funds
These are adjustments to account for sources received but not used during the period (including deferred revenues and funds allocated but not expended) and expenditures of pre-1998 funds.

Summary of Investments

Government entities invested 77% of economic development resources in Commercial Stimulation, 10% in Community Development, 4% in Administrative Costs, 3% in Urban Redevelopment, and 1% in Government. The balance was accounted for as Retained Funds. The following table summarizes the uses:

Table 6: Uses of Economic Development Funds

Investment, 1998-2002		Amount (in millions)
Commercial Stimulation		$867.7
Business Development	*$310.4*	
Tourism Development	*293.0*	
Sports Subsidies	*154.3*	
Workforce Development	*45.4*	
Major Transportation	*64.6*	
Urban Redevelopment Projects		30.2
Community Development		114.7
Community Improvement	*88.8*	
Social Services	*26.0*	
Government		16.7
City General Fund	*0.8*	
Other City Purposes	*1.3*	
Other Local Government Entities	*9.6*	
Military Affairs	*5.0*	
Administrative Costs		43.3
Retained Funds		54.1
Total		**$1,126.7**

BGR calculations. Totals may not add due to rounding.

Commercial Stimulation
The industry receiving the largest share of investment was Tourism Development. Approximately 26%, or $293 million of all spending, was in that area. Approximately $222.1 million of that amount funded tourism

infrastructure, such as the Convention Center expansion, the Aquarium, the Audubon Zoo, the National D-Day Museum, and the Cabildo. The balance went to marketing and special events.

Another significant expenditure of economic development funds was for Sports Subsidies, which comprised 14% of total investment. Most of the $154.3 million went to public investment in and operation of sports facilities. Capital investments by the Louisiana Stadium and Exposition District (LSED) in the Superdome, the Arena, and Zephyr Field totaled $65 million. The LSED used another $64.8 million of hotel occupancy tax revenues to cover operating costs for the Superdome and Arena.

The remaining $24.4 million consisted of subsidies provided to the Saints ($21 million) and the Hornets ($3.4 million). The Saints' figure includes the first installment ($12.5 million) of a cash subsidy that commenced in 2002. The Hornets' amount represents city funds allocated for the team's future training facility. Other Hornets' subsidies were not included because they took effect after 2002.

Approximately $310.4 million, or 28% of total economic development investment, went to Business Development. Approximately $177.2 million this amount was used to assist businesses indirectly through research and development initiatives ($117.9 million), city and other local government programs ($30.5 million), nonprofit programs ($18.1 million), and customized training for their employees ($10.7 million). Most of the research and development spending ($98.5 million) reflected state and federal investment in the UNO Research and Technology Park. Approximately $14.9 million of the nonprofit program spending was invested in Louisiana ArtWorks' new facility.

Grants, loans, and tax incentives provided directly to local businesses throughout New Orleans totaled $86.9 million during the period. Of this spending, small business financing took a back seat to major expenditures. Approximately $60.2 million of this investment benefited five recipients: Jazzland Theme Park, the Folgers' coffee roasting plant, the Lake Forest Plaza mall, various Entergy power plants, and the Lone Star Industries cement plant. The remaining funds included $17.5 million in small business loans, $350,000 in small business grants, and $8.4 million in tax relief primarily to manufacturing businesses of various sizes.

Another $46.3 million of the Business Development total was targeted at businesses in particular neighborhoods in New Orleans. Approximately $44.2 million of this investment was tax relief for commercial property owners under the Restoration Tax Abatement program. While this program has served property owners in many parts of the city, the bulk of the tax relief was concentrated in hotels, office buildings, and other significant commercial properties in the downtown and French Quarter areas.

Workforce development, another critical area, suffered as a result of transitions and mismanagement. Job training programs funded through the U.S. Department of Labor underwent major changes from 1998 through 2002. Congress terminated the Job Training Partnership Act (JTPA) programs and replaced them with Workforce Investment Act (WIA) programs, effective 2000. During this transition, changes in program administration led to monitoring and performance problems in JTPA programs, as well as delays in implementing WIA programs. The City was placed under state corrective action for its youth training programs.

Urban Redevelopment

From 1998 through 2002, city entities directed approximately $30.2 million, or 3%, of all economic development resources, to four redevelopment efforts. The projects – American Can Apartments, Saulet Apartments, the St. Thomas redevelopment, and Lincoln Beach – formerly were a vacant factory, a railroad property, a deteriorating public housing site, and a defunct recreation area, respectively.

The City's investments in the urban development projects are typically long-term in nature. The American Can development is subsidized by a 40-year financing package and a 10-year payment in lieu of taxes (PILOT); Saulet benefits from a 15-year PILOT. PILOTs of 15 years and 20 years have been approved for the initial phases of the St. Thomas redevelopment; the developer has indicated that it will request additional tax diversions or abatements. In addition, the City Council has approved a tax increment financing (TIF) loan for the redevelopment with a stated maturity of 45 years; the Council expects the actual maturity to be reduced to 13.5 years through prepayment provisions. Since 2002, redevelopments of other public housing sites have received 20-year PILOTs.

Because of the long-term nature of the investments and their recent commencements, the calculations for the 1998 to 2002 period do not reflect the full cost of the projects to the public. When future foregone taxes are taken into account, the public's investment in these projects increases substantially.

Community Development
Community Development programs and projects funded from the sources included in this study totaled $114.7 million, or 10% of total investment during the 1998-2002 period. Approximately $44.2 million of this amount reflected housing assistance programs delivered through the City, other government, or nonprofit entities. Community infrastructure projects, such as street repairs and neighborhood parks, totaled $25.6 million. Community Events, such as neighborhood festivals, totaled $0.9 million. Other community investments, such as subsidies to the New Orleans Museum of Art, totaled $18 million.

Social Services totaled $26 million. These services included programs for the elderly, youth, health, and literacy improvement.

Government
Approximately $16.7 million of the sources were directed toward government purposes not directly related to economic development in New Orleans. These included investments in city services and programs, such as streets maintenance and the development of the City's master plan, and state expenditures on improvements for local military complexes.

Administrative Costs
Economic development funds expended for local governmental entities' administrative costs totaled $43.3 million, or 4% of the total. The Mayor's Division of Housing and Neighborhood Development spent $16.6 million of CDBG funds on administrative costs. The Mayor's Office of Economic Development (OED) spent $1.8 million of CDBG funds and Economic Development Fund monies on administration. (OED spent an additional $6.7 million in CBDG funds on programs).

Administrative costs for other entities varied considerably. The Regional Business Park consumed $2.2 million, or 68% of its taxes and self-generated revenues, for administrative expenses. NOLA Economic Development Corporation, which was subsequently disbanded, spent $402,000 or 44% of total revenues on administrative costs. The DDD spent $6.0 million or 25% of its total revenues (excluding a special purpose state tourism promotion grant). Public benefit corporations spent $6.2 million on administrative costs, or 6% of their total property revenues. Revenues and expenses for these and other entities are described in more detail in the Sources Section.

Development Priorities

Five projects received 35% of total funds invested during 1998 to 2002. The projects were: expansions of the Convention Center, paid with hotel tax and other tax revenues and grants; the UNO Research and Technology Park, paid with state and federal funds; the operation, maintenance, and repair of the Superdome and Arena, paid through hotel occupancy tax revenue; capital

improvements to the Airport, paid through state and federal grants; and the development of Jazzland Theme Park, paid through a city loan, a state grant, and a property tax abatement.

Table 7:
The Five Largest Investments

Investment	Amount (In millions)
Convention Center Expansions	$154.8
UNO Research and Technology Park	98.5
Superdome, Arena Operations and Repairs	64.8
Airport Improvements	43.3
Jazzland Theme Park	38.0
Total	**$399.4**

BGR calculations.

City Control Over Funds

The state and federal governments play substantial roles in determining the uses of economic development funds in New Orleans. For some major funding sources, the City has little or no say in how they are spent. The issue of who controls the money raises an important question regarding the City's economic development approach: If the City wanted to change its economic development strategy, what funds could it realistically shift toward its new goals?

To help determine the answer, BGR looked at the different degrees of city control over the use of economic development funds. For the purposes of this study, these degrees of control are defined as unrestricted, significant, and restricted.

- Unrestricted: The City fully controls the spending of the funds. Examples include the Economic Development Fund and the General Fund.
- Significant: The City has substantial freedom to direct investments of the funds within broad parameters set by state and federal law, or it shares approval authority with another entity. BGR has included state capital outlay funding in this category. Although the State has the approval authority, the City significantly influences the choice of projects to be funded. The City may set priorities, make requests, and work to obtain state capital outlay funds with the assistance of Orleans Parish legislators.
- Restricted: The City's control is dramatically reduced or eliminated through dedications, project-specific awards (other than state capital outlays), or state or federal law. Examples include hotel occupancy taxes dedicated to specific purposes; ad valorem taxes dedicated to specific entities; and the Industrial Tax Exemption, a tax incentive established in the Louisiana Constitution. Changes in the use of these sources would entail changes in state law and/or new voter approvals.

BGR found that during the 1998 to 2002 period, the City had unrestricted control over only $33.6 million of the total sources, or 3%. It had significant control over another 32% of funds. Thus, if the City had wanted to craft a new economic development strategy, it would have had significant flexibility with respect to only 35% of the funding. (See Table 9.)

Losses

While it is beyond the scope of this study to review individual expenditures of economic development funds, BGR has identified several instances of losses reported by local administering agencies or the City.

Losses during the period from 1998 to 2002 included lost revenue due to a bankruptcy, a bad debt, and a court-enforced tax abatement. BGR estimated the total losses at $3.8 million, summarized below:

Table 8: Losses

Losses, 1998-2002	Amount Lost (In millions)
Funds for Jazzland Loan Payment to HUD	$2.4
Regional Business Park Projects	0.8
Days Inn PILOT	0.6
Total	**$3.8**

BGR calculations.

In 2002, the bankruptcy of the operator of Jazzland Theme Park left the City without a repayment source for a HUD Section 108 borrowing used to help fund the project. The annual cost to the City for the borrowing is $2.45 million, $1.4 million of which comes from rent paid by the park's new owner and $1.05 million of which comes from the City's General Fund or other sources. The debt obligation runs until 2017 and will total $37.2 million undiscounted.

The Regional Business Park wrote off a $410,000 loan to a plant in the district and spent $358,000 to renovate a building for a company that never used it.

Finally, litigation over the tax status of the Days Inn hotel in eastern New Orleans following its 1991 bankruptcy put on hold the City's collection of PILOTs from the hotel. In 2001, a court ruled that the hotel was exempt from ad valorem taxes. The court canceled all of the hotel's outstanding tax bills since 1991 and ruled that it was not obligated to make PILOTs.[3] The estimated lost tax revenue for 1998 to 2002 totaled $567,000. The ruling is further discussed in the Sources Section.

It is important to note that the losses in the above table are limited to the period this report covers. In the case of Jazzland, now

Table 9: The City's Control Over Economic Development Investment

	Amounts (in millions)			
Investment, 1998-2002	**Unrestricted**	**Significant**	**Restricted**	**Total**
Commercial Stimulation				
Business Development	$2.2	$133.9	$174.3	$310.4
Tourism Development	12.8	67.3	212.9	293.0
Sports Subsidies	3.5	0	150.8	154.3
Workforce Development	0.1	2.0	43.3	45.4
Major Transportation	0	26.3	38.3	64.6
Urban Redevelopment Projects	10.3	18.3	1.6	30.2
Community Development				
Community Improvement	2.7	67.6	18.5	88.8
Social Services	0.4	8.9	16.6	26.0
Government	1.1	6.2	9.4	16.7
Administrative Costs	1.2	23.8	18.3	43.3
Retained Funds	-0.6	8.8	45.9	54.1
Total	**$33.6**	**$363.2**	**$730.0**	**$1,126.7**

BGR calculations. Totals may not add due to rounding.

called Six Flags New Orleans, the loss had just begun and will extend over a period of many years.

Recent Commitments with Long-Term Impact

In recent years, the City and the State have made a number of long-term commitments that are not reflected in 1998-to-2002 expenditures. These include contractual commitments to sports teams, debt obligations for tourism-related projects, and the diversion of taxes through TIFs and PILOTs. This section estimates the increased cost of these commitments on an undiscounted basis over the period 2003 to 2007.

Expenditures to subsidize professional sports teams will increase significantly in the near future. The increased team subsidies for the Saints, which took effect in fiscal year 2002, will rise over the remaining life of the 10-year lease. The Hornets began receiving team subsidies in 2003. Team subsidies include cash payments, savings on game-day operating costs, state and local tax abatements, and other incentives. They do not include public infrastructure investment, such as stadium financing.

The Exhibition Hall Authority, which operates the Convention Center, has issued bonds since 2002 to fund the fourth phase of the Convention Center. The bonds, payable from hotel occupancy tax revenue, mature in 2033.

Government entities will forego an increasing amount of tax revenue from the growing use of TIF. This financing mechanism has been authorized for three projects: The proposed World Trade Center hotel, the St. Thomas redevelopment, and improvements in Algiers. A similar arrangement has been approved for a Lowe's Home Improvement store, which will receive a TIF-like rebate of city sales taxes. The tax impact of TIFs is not expected to begin until 2004 or later.

Finally, the amount of taxes foregone from PILOTs will also rise. Beginning in 2003, a number of PILOTs redirecting public funds to private projects or requiring payments in amounts less than the taxes that would otherwise be payable take effect. The PILOTs apply to a distribution warehouse in eastern New Orleans and the redevelopment of several public housing sites, including the St. Thomas, Fischer, Guste, and Florida developments.

The following table summarizes the increased cost of these commitments on an undiscounted basis for the period 2003 to 2007:

Table 10: Projected Cost Increases

Projected Increased Costs, 2003-07	Amount (In millions)
Phase IV of the Convention Center, projected increase in debt service	$59.1
Hornets, Operating Subsidies (all subsidies begin in fiscal 2003)	43.8
Saints, Projected Increase in Team Subsidies	26.3
TIF, Foregone Taxes (assuming TIF subsidies begin fiscal 2004)	19.8
Pilots, Projected Increase in Foregone Taxes	7.5
Total	**$156.5**

BGR calculations.

Layering of Subsidies

A number of significant projects have received multiple forms of public investment. In this report, BGR reviews the public investment in eight such projects. As stated in the introduction, it is beyond the scope of this study to conduct a cost-benefit analysis of the individual projects.

Six of the projects are private real estate or commercial developments. BGR's review covered public investment over the life of the project, not just the period 1998 to 2002. The projects are:

- MacFrugal's Distribution Center, a $60 million distribution center development built in eastern New Orleans in 1991 and destroyed by a catastrophic fire in 1996

- D.H. Holmes property, the redevelopment of a defunct department store property downtown into a $21.4 million hotel and a $7.5 million apartment complex in the mid-1990s
- Jazzland Theme Park/Six Flags New Orleans, a $130 million theme park built in eastern New Orleans in 2000
- American Can Apartments, a $44.5 million conversion of a vacant Mid-City factory into apartments and retail space in 2001
- St. Thomas redevelopment, the ongoing $320.5 million redevelopment of a former public housing site in the Lower Garden District
- World Trade Center hotel, the proposed $191 million development of a hotel in part of the World Trade Center building downtown

The other two investments are related to two professional sports teams. BGR divided these investments into two categories: (1) team subsidies, which include cash payments, tax relief, operating cost subsidies, and capital investment in training facilities for the Saints and Hornets; and (2) public infrastructure investments in the Superdome and the Arena. Although public infrastructure is not a direct subsidy to the teams, it is essential for their operation. BGR calculated cash payments, tax relief, and operating cost subsidies over the current lease terms, which for the Saints is 2002 to 2011 and for the Hornets, 2003 to 2012. It calculated investment in training facilities over the lifetime of the investment and investments in public infrastructure from 1994 to the maturity of the outstanding facility-related debt in 2026.

Tables 11 and 12 summarize the quantifiable public investment provided to the projects. It should be noted that some of the projects received additional forms of investment, in amounts that BGR could not quantify. More detailed information on the eight projects can be found in the Layering Section.

Because the investments come in different forms, from one-time grants to multi-year tax abatements, and occur over a substantial time period, from 1988 to 2037, BGR has adjusted all amounts to reflect 2004 dollars. This means that prior year amounts have been increased to reflect the historical impact of inflation,[4] and future amounts have been decreased by 3% per year to adjust for future inflation.

Several observations on the layering of investments are summarized here:

General Increase in Project Size and Scope. In the late 1980s, MacFrugal's Distribution Center received several layers of public investment totaling more than $38.4 million in 2004 dollars. While a substantial investment even today, it was a rarity at the time in New Orleans. In recent years, complex public investments have increased in number, size,

Table 11: Public Investment in Real Estate and Commercial Developments
(All figures in millions of 2004 dollars)

Project	Grants	Foregone Taxes	Total Grants & Foregone Taxes	Loans	Total
American Can Apartments (2000 to 2011)	$3.0	$12.2	$15.3	$7.0	$22.3
D.H. Holmes Redevelopment (1993 to 2005)	0	7.9	7.9	8.5	16.4
Jazzland Theme Park/Six Flags New Orleans (1998 to 2017)	24.9	28.7	53.6	29.0	82.6
MacFrugal's Distribution Center (1988 to 1996)	34.4	4.0	38.5	0	38.5
St. Thomas Redevelopment (1997 to 2023)	60.4	62.8	123.3	0	123.3
Proposed World Trade Center Hotel (2005 to 2035)	0	130.9	130.9	0	130.9
Total	**122.8**	**246.6**	**369.4**	**44.5**	**413.9**

BGR calculations. Totals may not add due to rounding. Interest payments on loans are excluded from the totals, unless the public subsidizes that cost. Where that occurs, interest is recorded as a grant.

Table 12: Public Investment in Sports Teams and Stadium/Arena
(All figures in millions of 2004 dollars)

Project	Team Subsidies	Stadium/Arena Investments	Total
New Orleans Hornets and New Orleans Arena (1994 to 2026)	$77.3	$186.5	$263.8
New Orleans Saints and Louisiana Superdome (1994 to 2026)	224.8	133.9	358.7
Total	**$302.1**	**$320.4**	**$622.5**

BGR calculations. Team subsidies include subsidies provided under the current leases, from 2002 to 2011 for the Saints and 2003 to 2013 for the Hornets. They also include the cost of capital investment by the public in training facilities for the teams over the lifetime of the investment. Stadium/Arena Investments cover the period from 1994 (when the Superdome debt was refinanced) until the maturity of the debt in 2026.

and scope. Examples include the financing for American Can Apartments, Jazzland Theme Park/Six Flags New Orleans, the St. Thomas redevelopment, and the proposed World Trade Center hotel, and the team subsidies for the Saints and Hornets.

Lengthy Time Periods for Incentives. Public financing for several of the projects extends over long periods of time. The MacFrugal's project, for example, was awarded a PILOT of 40 years. The American Can development is subsidized by a 40-year financing package and a 10-year PILOT. PILOTs of 15 years and 20 years have been approved for the initial phases of the St. Thomas redevelopment; the developer has indicated that it will request additional tax diversions or abatements. In addition, the City Council has approved for the redevelopment a TIF with a stated maturity of 45 years (Council expects the actual maturity to be reduced to 13.5 years through prepayment provisions). The TIF approved for the proposed World Trade Center hotel is for 30 years.

Public Investment as Equity. In a number of recent transactions, public funding is replacing private equity. For example, for the proposed $191 million World Trade Center hotel, the private developers are contributing only $3.75 million in equity. The public is foregoing hotel occupancy taxes totaling $120 million.[5]

Fragmented Public Information. Information on transactions involving the use of multiple incentives is often fragmented among the various administrative agencies with responsibility for the different pieces. Portions of projects get approved on a piecemeal basis. This creates a risk that no one in government has a clear picture of the project as a whole or its ultimate cost. There is rarely, if ever, comprehensive information easily available to the public on its full investment.

Administration and Planning

Fragmentation

Despite the impressive size of the total pool of economic development funds, there is no one "investor" in control. The City itself had full or significant control of only 35% of the economic development funds. The rest flowed through a variety of special entities established over the years to handle individual pieces of the economic development puzzle. BGR identified 37 governmental or quasi-governmental entities that receive or administer economic development funds.

More than 40% of the total $1.1 billion was directed by five special purpose entities: the New Orleans Aviation Board, the Exhibition Hall Authority, the Board of Commissioners of the Port of New Orleans (Dock Board), the LSED, and the Audubon Commission. These entities oversaw investment in the following major economic development assets:

- New Orleans Aviation Board – Airport
- Exhibition Hall Authority – Convention Center
- Dock Board – Port
- LSED – Superdome and Arena. Part of the LSED's funding paid for subsidies to sports teams and other local projects.

- Audubon Commission – Aquarium and Zoo

The mayor appoints, with City Council approval, all or some of the members of the Audubon Commission, Exhibition Hall Authority, and New Orleans Aviation Board. The governor appoints all members of the LSED and Dock Board.

Other entities that control portions of local economic development funding include the following:

- The Regional Loan Corporation
- The DDD
- Regional Business Park
- Algiers Development District
- Public benefit corporations, including Canal Street Development Corporation, French Market Corporation, New Orleans Building Corporation, Rivergate Development Corporation, Piazza D'Italia Development Corporation, and Upper Pontalba Building Restoration Corporation
- NOLA Economic Development Corporation (now defunct)
- Industrial Development Board of the City of New Orleans, Louisiana, Inc. (IDB)
- The Louisiana Board of Commerce and Industry
- New Orleans Metropolitan Convention and Visitors Bureau
- New Orleans Tourism Marketing Corporation
- Job 1
- New Orleans Workforce Investment Board
- The Mayor's Office of Environmental Affairs

Administration of Specific Programs

In any economic development incentive program, the quality of administration is important to the efficiency and effectiveness of its performance. As part of this study, BGR reviewed the criteria, procedures, and performance measures for 10 economic development programs that provide local government with unrestricted control or significant control over the use of funds. The selected programs are:

- CDBG small business loans
- City Council/Entergy Economic Development Fund
- City of New Orleans Economic Development Fund
- Enterprise Zone rebates
- HUD Section 108 loans
- Neighborhood Commercial Revitalization (NCR) loans
- PILOT
- Restoration Tax Abatements
- TIF
- UDAG Repayment Fund

BGR reviewed administrative structures of these programs in terms of application requirements and criteria, the award process, and post-award review.

BGR found the following:

- There are no formal criteria for obtaining a TIF. The lack of criteria for using this tool is striking because TIFs approved to date involve significant amounts of local taxes.
- Criteria for the other nine programs range in detail from quantified targets, such as the creation of a certain number of jobs per investment amount, to more general goals. PILOTs require only a cost-benefit analysis.
- The review processes for awards vary significantly. Three programs, TIF, PILOT, and UDAG Repayment Fund, have no formal guidelines for analysis. Only one program, the Restoration Tax Abatement, employs a scoring system to

evaluate applications. However, the scoring is informational only and does not bind the reviewing bodies.

- A variety of entities review applications and proposals. City Council gives final approval incentives in seven of the 10 programs.
- Most data collection is done for the purpose of auditing expenditures or collecting loan repayments. Prior to an Enterprise Zone rebate, the City certifies hiring and purchase requirements. Of the remaining nine programs, four – City of New Orleans Economic Development Fund, CDBG small business loans, NCR loans, and HUD Section 108 loans – review actual performance against performance targets or the claimed benefits to the public. One PILOT agreement has a specific performance requirement; others have none. TIF and Restoration Tax Abatements are among the programs without post-award performance measures.
- There are few penalties for an incentive recipient's failure to reach performance targets.

The findings specific to the programs are discussed fully in the Administration Section.

Planning Issues

The large number of dollars at issue and the continuing heavy concentration of economic development resources in tourism and sports prompt a basic question: are the economic development funds available in New Orleans being allocated to the community's highest priorities?

The question is impossible to answer, since there is no set of clearly defined priorities. Economic development plans for the City tend to function more as all-embracing wish lists than as useful strategic tools. While they set forth a series of goals and strategies, they fail to define clearly the priorities among the goals. This leaves unanswered fundamental questions, such as whether resources should be directed away from current areas of concentration to investments that further other goals, such as diversification of the economy or development of small businesses.

It is clear that the process for allocating economic development resources in New Orleans suffers from a number of other serious failings. Expenditures tend to be considered on an ad hoc basis, without evaluation of their relative value or the "opportunity cost" of a particular investment. This is particularly true in the area of tax abatements and similar incentives, where the indirect, intangible nature of the investment obscures the cost and weakens discipline.

In addition, little, if any, consideration is given to the relationship between overall economic development strategies and the provision of general government services in the City. The success of economic development is intimately related to the sufficiency of basic public services. Weaknesses in public schools, transportation, streets, and other services and infrastructure can undermine economic development efforts. Yet, the impact of diverting funds from these basic building blocks receives only the most cursory attention.

Evaluation of programs has been rare, leaving a large information gap. The Nagin administration did undertake a comprehensive review of the Restoration Tax Abatement program, which led to changes in the program. The administration has also made changes in two other programs, the City of New Orleans Economic Development Fund and the HUD Section 108 loan program. It is currently reviewing the UDAG Repayment Fund.

Complicating Factors

The development and coordinated implementation of an economic development strategy for New Orleans are complicated by a number of factors. One is the fragmentation of responsibility noted above.

The fragmented structure clouds the issue of whether the public's funds are being invested in the most efficient and effective manner. In addition, the vested interest of players in specific programs makes it difficult to redirect funds.

The City's ability to redirect resources is restricted by other factors, including programmatic limitations on the use of funds and long-term decisions and commitments made by both the prior and current administrations. The cost of the most recent commitments is not even reflected in the totals for 1998 to 2002, since they were not yet payable. These newer commitments, which extend far into the future, are expected to cost $156.5 million between 2003 and 2007 alone.

Despite these very real obstacles, the City has the ability to refocus spending in significant programs, such as CDBG and Restoration Tax Abatements. It also has the opportunity to redirect spending over time through future state capital outlay requests and the judicious use of various tax incentive programs.

Investment in Private Projects

One particularly troubling trend in the use of economic development incentives is the growing local public investment in privately-owned projects. The cost of these incentives, which include abated or diverted tax revenues, will increase significantly in the next few years as projects approved to date come online. Without disciplined planning and implementation, such investments are likely to proliferate.

The City's control and oversight in this area is very weak. Interestingly, huge subsidies are provided on the basis of projections of economic benefits. Yet, there is little in the way of consequences for the failure to deliver on the projections.

Summary

It is clear that a lack of disciplined planning and implementation are serious problems. Significant amounts of money are being expended without clearly defined priorities. Projects are considered on an ad hoc basis, without a disciplined evaluation in the broader context of goals, strategies and priorities. As a result, public investment, particularly in private ventures, runs the risk of being based on political, rather than rational, economic considerations. The dangers of poorly conceived investment – whether in the form of grants or foregone taxes – is exacerbated by the lack of consequences for failure to deliver on the projections and claims used to promote the public investment.

A billion dollars is a lot of money to spend on an ad hoc basis. The allocation of the next billion deserves careful thought and scrutiny.


AMERICAN CAN
COMPANY

Layering

Introduction, Scope & Methodology

In this section, BGR reviews public funding provided to eight significant developments, each of which received two or more forms of public investment. BGR refers to the combination of multiple economic development investments in one project as "layering."

Six of the eight projects reviewed by BGR are private real estate or commercial developments. The public's investment in these projects takes a variety of forms, such as infrastructure funding, construction loans, and property tax abatements. The six projects are:

- American Can Apartments
- D.H. Holmes redevelopment
- Jazzland Theme Park/Six Flags New Orleans
- MacFrugal's Distribution Center (MacFrugal's)
- St. Thomas redevelopment
- The proposed World Trade Center hotel[6]

The other two projects involve the Hornets and the Arena and the Saints and the Superdome.

A Note on Calculations and Limitations

As stated in the Executive Summary, BGR focuses in this report on identifying and quantifying expenditures of public funds for economic development. It does not review, or take positions on, the benefits of the various projects nor does it conduct a cost-benefit analysis.

The report is subject to a number of other limitations. First, BGR did not obtain independent appraisals in estimating the cost of property tax abatements or exemptions. Rather, it used information available through assessment records, developer reports, or other publicly available information. Because such records reflect estimated property values at the beginning of the abatement period, BGR has factored in a 1.5% annual growth rate for the values, based on the average annual increase in assessed value on a citywide basis from 1987 to 2002.

Second, BGR could not calculate the value of certain public subsidies for which it did not have reliable data. These included interest savings on tax-exempt bonds and the value of land made available to developers at below market rates.

BGR calls the reader's attention to the following:

- The calculations in this section of the report are not restricted, as were the calculations in the prior section, to the period from 1998 to 2002. In general, they reflect all known costs, regardless of when they were incurred. In some cases, the costs are limited to a specified period (e.g., the term of a current lease or of bonds issued to support a phase of a project).
- Amounts expended are presented in two ways. In the text accompanying each section, investments are presented in actual dollars. In the summary tables found at the end each section, BGR adjusted these amounts to reflect 2004 dollars. This means that prior year amounts have been increased to reflect the historical impact of inflation,[7] and

future amounts have been decreased to adjust for future inflation, using a discount rate of 3%.

- In quantifying public investment in real estate and commercial developments, BGR uses three general categories: grants, loans and foregone taxes. For loans, it includes the principal only, unless the public is subsidizing interest.
- In quantifying public investment in sports teams, BGR divides the investment into two categories: (1) team subsidies, which include cash payments, tax relief, operating cost subsidies, and capital investment in training facilities for the Saints and Hornets; and (2) public infrastructure investments in the Superdome and the Arena. Although public infrastructure is not a direct subsidy to the teams, it is essential for their operation.

Private Real Estate and Commercial Developments

American Can Apartments

Background. In 2001, Historic Restoration Incorporated (HRI), a New Orleans real estate developer, completed the conversion of the former American Can Company factory in Mid-City into 268 apartments and retail shops. The project cost $44.5 million.

Layers of Public Investment. The American Can project received the following public support:

- $8.5 million in equity[8] from the sale of federal tax credits
- $6.5 million in subordinated city financing, composed of loans of the proceeds of a $5 million HUD Section 108 borrowing by the City, $1 million of UDAG Repayment Funds, and $500,000 of a HUD Brownfields Economic Development Initiative (BEDI) grant[9]
- A grant of $500,000 BEDI funds
- $2.3 million from MacFrugal's settlement proceeds
- A 10-year PILOT
- Reduced interest cost from tax-exempt financing

The subordinated financing package, to be repaid with project revenues, has a maturity of 40 years and an annual interest rate of 2%. However, the City must repay its corresponding HUD Section 108 borrowing in 20 years at approximately 7.6% annual interest.[10] As a result of the interest rate spread and the difference in maturities, the City's borrowing cost exceeds the offsetting repayments by approximately $2.3 million. This shortfall is being covered by the MacFrugal's settlement proceeds.

The City is entitled to receive 15% of net project cash flow,[11] bringing the expected rate of return on its loan to 4.75%. Prior to 2003, the project did not generate sufficient net project cash flow to produce payments to the City. According to the developer, the project generated net project cash flow in 2003; the City's share will be remitted after the developer receives the audit report for the project.

The IDB approved a 10-year PILOT of $36,556 a year, approximating the pre-development taxes on the property. The PILOT went into effect in 2002.[12] BGR estimates that the City and other tax recipient bodies had foregone $612,000 in ad valorem taxes through 2003, based on the difference between the PILOT amount and the developer's estimate of taxes that would be payable without the PILOT.[13] BGR estimates the remaining foregone taxes at $2.7 million.

Table 13 summarizes the public's investments in the project, with amounts adjusted to 2004 dollars.

D.H. Holmes Redevelopment

Background. In 1989, Dillard's Department Store acquired D.H. Holmes, a New Orleans-based department store chain. Dillard's shuttered the chain's flagship store on Canal Street and donated the property to the City's Canal Street Development Corporation (CSDC). The D.H. Holmes property included significant portions of two blocks of land

Table 13: American Can Apartments

(All figures adjusted to 2004 dollars)

Source of Investment	Loans, principal only	millions (2004 dollars)
City	HUD Section 108 Loan	$5.4
Federal	City Loan of Half of BEDI funds	0.5
City	City Loan of UDAG Repayment Funds	1.1
	Total Loans	**$7.0**
	Quantified Grants and Foregone Taxes	
Federal	Grant of Balance of BEDI funds	0.5
City	Debt Service Subsidy	2.5
	Total Grants	**$3.0**
Federal	Equity from Sale of Federal Tax Credits	9.2
City / Local Tax Recipients	Foregone Taxes from PILOT	3.0
	Total Foregone Taxes	**$12.2**
	Total Quantified Grants and Foregone Taxes	**$15.3**
	Unquantified Public Investment	
Federal	Reduced Interest Cost on $29 million in Tax-Exempt Financing for Construction	

BGR research and calculations. Loans reflect principal amounts only. Totals may not add due to rounding.

(bounded by Canal, Bourbon, Bienville, and Dauphine streets), the store building, an adjacent annex building, and a parking garage.

CSDC leased portions of the D.H. Holmes property to two subsidiaries of HRI. One subsidiary converted the store building into the Chateau Sonesta Hotel; the other converted the annex building into the D.H. Holmes Apartments. CSDC's leases with both subsidiaries run for 99 years, beginning on December 1, 1989. A separate HRI company also leased the upper floors of the parking garage from CSDC. CSDC received approximately $1.7 million in rent payments under its property leases and subleases in 2003, the most recent year for which information is available.

Layers of Public Investment. In 1993, the City borrowed $5.6 million for the hotel development under HUD's Section 108 loan program. Through CSDC, the City loaned the funds to the developer, to be repaid through project rents to CSDC. In 2000, all hotel debt was refinanced, allowing the repayment of the City's loan to the developer and, in turn, the City's Section 108 borrowing, two years ahead of schedule.[14] The HUD loan represented 26% of the $21.4 million cost of the project.[15]

To facilitate the apartment development, the City in 1994 loaned CSDC $1 million in UDAG repayment funds. CSDC placed the money in a certificate of deposit to secure a private borrowing by the HRI subsidiary. Interest earned on the certificate, totaling $330,000, was remitted to the City as interest on the loan. The private loan was repaid, and the CSDC returned the $1 million from the certificate to the City in 1999.[16] The apartment development cost an estimated $7.5 million.[17]

After its donation to CSDC and prior to the hotel and apartment developments, the D.H. Holmes property was declared exempt from ad valorem property taxes by the Louisiana Tax Commission. After the developer completed the hotel and apartments, the property became taxable as private commercial uses of public property. However, the developer received Restoration Tax Abatements (RTAs), which froze the taxes at the pre-development level of zero. The RTA contracts ran initially from 1996 to 2000 and were renewed from 2001 to 2005.[18]

Three sublessees of the hotel and apartment subsidiaries also received RTAs on improvements they have made. Unless they are renewed, the last of these contracts will expire in 2005. BGR estimated the taxes on the hotel, apartments, and other commercial improvements foregone due to the RTA contracts at $7.4 million from 1996 to 2005.[19]

The following table summarizes the public's investment in the D.H. Holmes redevelopment:

Table 14: D.H. Holmes Redevelopment

(All figures adjusted to 2004 dollars)

Source of Investment	Loans, principal only	millions (2004 dollars)
City	HUD Section 108 loan	$7.2
City	Pledge of UDAG Repayment Funds	1.3
	Total Loans	**$8.5**
	Quantified Foregone Taxes	
City / Local Tax Recipients	Restoration Tax Abatements	7.9
	Total Quantified Foregone Taxes	**$7.9**

BGR research and calculations. Loan amounts have been repaid.

Jazzland Theme Park/ Six Flags New Orleans

Background. Jazzland Theme Park opened in eastern New Orleans in May 2000. Originally projected to cost $79 million, the park was eventually built for approximately $130 million.[20]

In February 2002, the park's developer, Jazzland Inc., filed for bankruptcy.[21] Later in 2002, SFJ Management Inc. (SFJ), a subsidiary of theme park operator Six Flags Inc., acquired the park out of bankruptcy and renamed it Six Flags New Orleans. SFJ agreed to assume $19.3 million in private debt, a capital lease for a park ride, and other expenses; to make payments toward the City's HUD Section 108 borrowing, discussed below; and to invest $25 million in the park.[22]

Layers of Public Investment. The public provided $34.5 million from two sources: a $9.2 million state capital grant for park infrastructure[23] and a $25.3 million loan of the proceeds of a HUD Section 108 borrowing by the City.[24] Jazzland Inc.'s bankruptcy cut short the City's repayment stream for its Section 108 borrowing.

Upon its purchase of the park, SFJ agreed to make payments to help cover the City's obligations under its Section 108 borrowing. To provide a payment mechanism, the IDB and SFJ entered into a sale-leaseback of the park for 75 years.[25] SFJ agreed to pay the IDB base rent equal to 4.77% of annual gross SFJ revenues, with a minimum payment of $1.4 million a year from 2002 to 2017. Beginning in 2007, SFJ must pay additional rent equal to 4% of gross revenues in excess of $27.5 million, subject to specific payments in 2008 and 2009.[26] The IDB issued to the City notes payable with SFJ's rent under the lease. The City applies the SFJ rent payments to the approximately $2.45 million annual debt service on its HUD Section 108 borrowing.[27]

From 2002 to 2017, the City must cover the difference between the rent and the annual debt service. The City could be out of pocket more than $1 million a year.

As a result of the sale-leaseback with the IDB, the park is exempt from ad valorem property taxes.[28] Once the HUD loan is repaid in 2017, SFJ has an option to purchase the park from the IDB. If this occurs, the tax exemption will cease. Before its bankruptcy, the park was also tax-exempt through a different sale-leaseback between Jazzland Inc. and the city-created NOLA Economic Development Corporation.[29]

BGR estimates the value of the tax exemptions, beginning in 2001 and assuming termination in 2017, at $33.4 million. The calculation is based on the $69.3 million total value

of the park, reflecting SFJ's assumed debt and capital lease, the HUD Section 108 loan, and SFJ's new investment in the park.[30]

SFJ pays city and state sales taxes, but it is exempt from city amusement and parking taxes.[31] However, due to a lack of publicly available data, BGR could not estimate the value of these exemptions.

The following table summarizes the public's investment:

Table 15: Jazzland Theme Park/Six Flags New Orleans
(All figures adjusted to 2004 dollars)

Source of Investment	Loans, principal only	millions (2004 dollars)
City	HUD Section 108 loan	$29.0
	Total Loans	**$29.0**
	Quantified Grants and Foregone Taxes	
State	State Capital Outlay grant	10.5
City	Estimated Subsidy of Remaining Debt Service on Section 108 Loan, Assuming that SFJ Makes Minimum Rent Payments from 2002 to 2017	14.4
	Total Grants	**$24.9**
City / Local Tax Recipients	Property Tax Exemption, 2001 to 2017	28.7
	Total Foregone Taxes	**$28.7**
	Total Quantified Grants and Foregone Taxes	**$53.6**
	Unquantified Public Investment	
City / Local Tax Recipients	Foregone Taxes on Land Value	
City	Foregone Amusement and Parking Taxes	

BGR research and calculations.

MacFrugal's Distribution Center

Background. In 1988, the City Council approved the lease of city-owned property by the IDB to West Coast Liquidators (WCL) for the development of a 1.1 million-square-foot warehouse.[32] Later called the MacFrugal's Distribution Center, the $60 million facility opened in 1991. In March 1996, it was destroyed in a catastrophic fire.[33]

Layers of Public Investment. The MacFrugal's development received several forms of public assistance:

- $11 million of state capital outlay funds, matched by $200,000 in city funds, to build an overpass from I-10 to Jourdan Road bordering the MacFrugal's site.[34]
- $3.6 million in other city-financed infrastructure improvements related to the MacFrugal's development, including a rail spur, $120,000; utilities, $378,000; land clearance and grubbing, $1 million; Almonaster Avenue road and lighting improvements, $2.1 million.[35]
- A 99-year lease for 92 acres of city land. WCL prepaid rent of $1 per acre for the construction period and first 10 years of the lease. At the time of development, the land was appraised at $1.9 million.[36]
- $155,000 in city sales taxes rebated through the Enterprise Zone program.[37]
- Approximately $3.9 million[38] from the UDAG Repayment Fund and a $2.5 million PILOT used to pay debt service on a city borrowing under HUD's Section 108 program.[39]
- $3 million in additional foregone taxes, representing the difference between the annual PILOT amount and the project-

ed $1 million in ad valorem taxes for the development.[40] The destruction of the warehouse ended the PILOT agreement.

Two years of litigation followed the fire, culminating in a settlement between WCL and the City. As part of the settlement, WCL purchased the property for approximately $4.8 million.[41]

Table 16 lists the layers of public investment in MacFrugal's.

Table 16: MacFrugal's Distribution Center

(All figures adjusted to 2004 dollars)

Source of Investment	Quantified Grants and Foregone Taxes	millions (2004 dollars)
State, City	Jourdan Road Overpass	$17.7
City	Various Infrastructure	5.7
City	City-Owned Land, Appraised Value	3.0
City	UDAG Repayment Fund Amounts Used for Debt Service	4.8
City / Local Tax Recipients	PILOTs Used for Debt Service	3.2
	Total Grants	**$34.4**
City	Rebated City sales tax	$0.2
City / Local Tax Recipients	Foregone non-PILOT taxes	3.8
	Total Foregone Taxes	**$4.0**
	Total Quantified Grants and Foregone Taxes	**$38.4**

BGR research and calculations.

St. Thomas Redevelopment

Background. The St. Thomas public housing site in the Lower Garden District has been demolished for redevelopment under HUD's HOPE VI program, a federal program that enables public housing authorities to partner with private developers to replace severely distressed public housing with new housing at a lower density. The Housing Authority of New Orleans (HANO) selected HRI as the project developer.

The St. Thomas redevelopment will include 1,088 on-site housing units, of which 304 will be affordable or low-income units, and 150 off-site, low-income housing units. As part of the project, a Wal-Mart store has been built on an adjacent site. In addition, a luxury condominium complex and a continuing care retirement community are proposed for the St. Thomas site. The total cost is estimated at $320.5 million.[42]

Layers of Public Investment. Based on HANO's October 2003 list of financing sources, BGR identified approximately $55.2 million in public grants.[43] Through other research, BGR estimated another $50.3 million in foregone taxes.

The project has received $28.5 million in federal funds, including a HOPE VI demolition grant in the amount of $3.5 million, and a HOPE VI revitalization grant in the amount of $25 million.[44]

HANO has contributed $11.7 million in capital funds. The State has approved $9 million in capital funds, while the City has provided $6 million in bond proceeds.

The project is partially financed with $20 million in TIF bonds payable from sales tax revenues from the Wal-Mart store. By their terms, the bonds have a maturity of 45 years; however, the City anticipates that prepayments will allow the bonds to be repaid in 13.5 years. In that case, the City will forego an estimated $33.8 million in sales taxes from the Wal-Mart store. If the Wal-Mart does not generate sufficient sales taxes to allow prepayments, the debt service would be $87 million.[45]

In addition, the City stands to lose sales tax revenue from competitors with the Wal-Mart store. The City Council's consultant for the transaction estimates that the additional lost revenue will be $6.6 million[46] over 12 years.

HANO estimates a total of $22.6 million of equity investment from the sale of federal tax credits.

The IDB has approved two PILOTs: one for the Wal-Mart store and one for the first phase of rental housing. BGR estimates that the 20-

year Wal-Mart PILOT will cost tax recipient bodies $7.1 million in ad valorem property taxes. This estimate reflects the portion of the Wal-Mart PILOT diverted from tax recipient bodies to pay debt service on bonds for the first phase of housing.[47]

BGR estimates that tax recipient bodies will forego property taxes of $2.8 million as a result of a 15-year PILOT for the first phase of rental housing.[48] The developer expects to seek additional PILOTs for a second phase of apartments and the continuing care retirement community. However, BGR does not have reliable estimates of their cost.

The various subsidies for the St. Thomas redevelopment are summarized in Table 17, with amounts adjusted to 2004 dollars.

Table 17: St. Thomas Redevelopment

(All figures adjusted to 2004 dollars)

Source of Investment	Quantified Grants and Foregone Taxes	millions (2004 dollars)
Federal	HOPE VI Demolition Grant	$3.9
Federal	HOPE VI Revitalization Grant	29.1
Other Local	HANO Capital Funds	11.7
City	City Bond Proceeds for Infrastructure	6.3
State	State Capital Funds for Infrastructure	9.4
	Total Grants	**$60.4**
City	Sales Taxes for TIF Debt Service	27.3
City	Potential Sales Taxes Lost from Wal-Mart competitors	5.4
Federal	Equity from Sale of Federal Tax Credits	22.6
City / Local Tax Recipients	Diverted Revenue from Wal-Mart PILOT	5.4
City / Local Tax Recipients	Foregone Taxes from First Phase of Rental Housing	2.3
	Total Foregone Taxes	**$62.8**
	Total Quantified Grants and Foregone Taxes	**$123.3**
	Unquantified Public Investment	
Federal	Interest Savings on Tax-Exempt Bonds	
Other Local	Value of Land	
City / Local Tax Recipients	Foregone Taxes for Later Phases	

BGR research and calculations. Totals may not add due to rounding.

World Trade Center Hotel

Background. In 1963, the City, acting through a special purpose entity, leased property at the foot of Canal Street to the World Trade Center of New Orleans Inc. (WTC), a private, non-profit organization, for 56 years at $1 a year. The lease, which expires by its terms in 2019, required WTC to construct a 33-story office tower and an eight-story garage on the site. The City's interest in the lease was transferred to New Orleans Building Corporation (NOBC) in 2001.

In the 1990s, WTC approached the City with a proposal to convert a portion of the building into a hotel. In 2001, the lease was amended to allow the conversion. At the same time, WTC entered into a sublease with WTC Development Limited Partnership (the Developer) for the development of the hotel. The amended leases were replaced in October 2003 with the Second Replacement and Superseding Lease (the Lease) between NOBC and WTC, and the Amended and Restated Lease (the Sublease) between WTC and the Developer. The Lease and Sublease were analyzed by BGR in a report published in February 2004.[49]

Layering. The public subsidy for the hotel project consists of:

- $202 million in future hotel occupancy tax revenues to be captured by the tax increment financing district for the site (the TIF District) over a 30-year period. The revenues will be used by the TIF District to repay the Developer's private financing.
- $12.9 million in ad valorem property taxes foregone due to an RTA anticipated for the hotel project.[50]

NOBC has identified three revenue streams as repayment sources for the TIF subsidy. NOBC projects that these repayment sources will exceed the full cost of the TIF subsidy by approximately $5 million on a net present value basis over 99 years. In its February 2004 report, BGR disagreed with NOBC's calculation, which included payments due to both the City and the WTC. Excluding the WTC's share, BGR found the net present value of the revenue streams is $10 million less than the diverted taxes. Also, the repayment streams are subject to serious limitations and contingencies discussed in greater detail in BGR's February 2004 report.

The City and other tax recipient bodies stand to lose additional hotel tax revenue from other hotels that compete with the World Trade Center hotel. However, BGR could not calculate a reasonable estimate of these costs. NOBC and the Developer disagree on the extent of this loss. In 2003, NOBC estimated that the 70% of the hotel's expected sales would be taken from other hotels. The Developer disputed this estimate.[51]

The following table summarizes the public investment in the project:

Table 18: World Trade Center Hotel

(All figures adjusted to 2004 dollars)

Source of Investment	Quantified Foregone Taxes	millions (2004 dollars)
City / Local Tax Recipients	TIF subsidy	$120.0
City / Local Tax Recipients	Foregone ad valorem taxes, net of RTA rent	10.9
	Total Quantified Foregone Taxes	**$130.9**
	Unquantified Public Investment	
City / Local Tax Recipients	Hotel Taxes Lost from WTC Hotel Competitors	

BGR research and calculations. The reader should note that the calculations in BGR's February 2004 were performed using the City's 5% discount rate for the project. For consistency, the figures in the table above reflect the 3% inflation adjustment used for all projects discussed in this Layering Section.

Sports Teams and Related Public Facilities

Hornets and Arena

Background. In May 2002, the National Basketball Association (NBA) approved the relocation of the Charlotte Hornets franchise to New Orleans.[52] The Hornets lease the Arena from the Louisiana Stadium and Exposition District (LSED).

Professional Basketball Team Revenues. The Hornets and other NBA teams receive shares of certain league-wide revenues, including revenues from the sale of national television broadcasting rights and the licensing of NBA merchandise.

NBA teams also receive locally generated revenues. These include gate receipts and local broadcast rights fees. Teams generally receive all or part of the revenues generated at their respective arenas, which are often publicly owned. The revenue sources include: concessions, beverage sale rights fees, luxury box or suite rentals, club or other premium seat rentals, parking, arena naming rights, sponsorships, promotions and other advertising, and sales of team publications, merchandise, and other items.

Hornets Revenues. Under the team's lease, the Hornets receive 14 revenue streams generated locally by games and other Hornets events.[53] These streams include, among others, ticket receipts, arena advertising, net revenues from the sale of merchandise and licensing of premium seating, net parking revenues, and 40% of gross concessions revenue. Payments for parking and concessions totaled $2.2 million during fiscal year 2003.[54]

For the purposes of calculating the public's investment in the Hornets, BGR excluded the Hornets' share of league-wide revenues and locally generated revenues. These revenues result from or depend heavily on the Hornets' operation in the Arena, and team entitlements to such locally generated revenues are common in the league.[55]

Public Investment in the Hornets and Arena. As described in the introduction to this section, BGR has divided the public investment into team subsidies and public infrastructure investment in the Arena.

Hornets' Team Subsidies. The Hornets' team subsidies include cash payments, operating cost subsidies, and tax relief over the current lease term, LSED fiscal years 2003 to 2012, and capital investment in training facilities over the lifetime of the investment.

In 2002, the State Legislature authorized $1.75 million to pay for the team's moving expenses.[56] The LSED will reimburse the State from future surplus hotel occupancy taxes.[57] In addition, the State agreed to reimburse the Hornets for any relocation fee imposed by the NBA, at a rate of 20% per year up to $1 million per year and $5 million aggregate.[58] As of August 2004, the NBA had not imposed a fee, and the State had not made any reimbursement payments.[59]

In 2002, the State Legislature approved legislation allowing an NBA team relocating to Louisiana to receive a payment under the Quality Jobs incentive program. The Hornets were awarded the incentive, which runs for five years, renewable for another five. The State pays the team an amount equal to 5% of the payroll of Louisiana residents who work for the team and 5% of the income earned in Louisiana by nonresident coaches and players.[60] The maximum payment allowed is $3.65 million. The State recently made the first payment, amounting to approximately $1 million.[61]

The State, through LSED, guarantees the Hornets certain amounts of revenue related to the sale of naming rights to the Arena. The guarantee covers the difference between actual naming rights revenue and $2.5 million, with the guarantee capped at $1.5 million a year. Through fiscal 2004, naming rights had not been sold, and the LSED paid the maximum $1.5 million fee to the Hornets.[62] The $2.5 million base amount and the cap both increase by 5% per year.[63] In estimating the potential cost of the naming rights guarantee, BGR assumed that no naming rights would be sold during the current lease term.

In addition, the State guarantees payment of up to $2 million if the Hornets' annual revenues from arena club seats, luxury box seats, and various advertising fall below $18 million.[64] Both the payment guarantee and the base revenue amounts increase at a rate of 5% per year, except in the sixth season when the annual guarantee amount jumps to $3 million. The State has not made any payments under the guarantee through fiscal 2004. It anticipates revenues to be sufficient in the coming years to avoid payments.[65]

Table 19: New Orleans Hornets' Team Subsidies

(All figures adjusted to 2004 dollars)

Source of Investment	Quantified Grants and Foregone Taxes	millions (2004 dollars)
State	State Payment of Relocation Costs	$1.8
State	Game-day Operating Costs	11.8
State	Savings on Office Rent	1.6
State	State Guarantee of Naming Rights Revenue	16.9
State	Quality Jobs Payment	9.0
State	State Renovations to Alario Center	0.1
City	City Commitment for Training Facility[78]	6.6
	Total Grants	**$47.8**
State, City, Other Local Tax Recipients	Foregone Sales Taxes	29.2
City	Foregone Parking Taxes	0.1
	Total Foregone Taxes	**$29.4**
	Total Quantified Grants and Foregone Taxes	**$77.3**
	Unquantified Public Investment	
State	State Guarantee of Revenue	No Payments Yet Required
State	State Reimbursement of NBA Fee	No Payments Yet Required

BGR research and calculations. Totals may not add due to rounding. Team subsidies reflect only the current lease term from fiscal years 2003 to 2012.

The Arena manager, SMG, pays all game day expenses up to $1.1 million per fiscal year. The Hornets pay the expenses in excess of this ceiling, which increases 4% per year. For the first two seasons, game-day operating costs exceeded the ceiling, providing total savings to the Hornets of $2.2 million. BGR assumed for its calculations that costs will continue to exceed the ceiling throughout the current lease term.

In addition, the Hornets receive discounted office space at the Superdome at a charge of $1,000 per fiscal year for 18,000 square feet.[66] At the 2003 average rent of approximately $10 per square foot for Superdome office space,[67] the Superdome office space represents savings to the team of approximately $179,000 a year.

The Hornets are exempt from all local and state sales, amusement, ticket, and parking taxes on sales of tickets, concessions, merchandise, and parking at Hornets games and other events. The Hornets are not exempt from income and personal property taxes.[68]

BGR projected the foregone taxes over the 10-year current lease term. It based its estimates of foregone sales taxes on estimated ticket sales of $28 million in fiscal 2003, actual concessions sales for fiscal 2003 and 2004, and foregone parking taxes on actual parking revenues from fiscal 2003 to 2004.[69] BGR assumed that each revenue stream would increase 3% per year thereafter. BGR applied a sales tax rate of 9%, which includes state, city, Orleans Parish School Board, and Regional Transit Authority shares, and a city parking tax rate of 3%. The estimated foregone sales taxes over the current lease term, fiscal years 2003 to 2012, total $32.6 million and the foregone parking taxes, $166,000.

The State provided $130,000 to renovate the Alario Center on the West Bank as a temporary training facility.[70]

The City agreed to spend $6.5 million to build a permanent Hornets training facility.[71] Construction has not begun.

Public Infrastructure Investment in New Orleans Arena. Three years before the Hornets' arrival in New Orleans, the LSED built the Arena. While the Arena hosts other events besides the Hornets' home games, it is essential to supporting a professional basketball team in New Orleans. Public infrastructure investment covers the period from 1994 until the maturity of the LSED bonds in 2026.

LSED paid most of the cost of building the nearly $111 million Arena. The only private money came in the form of a $1.1 million contribution by the New Orleans Brass hockey team, whose lease was not renewed after the Hornets became the Arena's primary tenant. The remaining $109.8 million came from the following:

Table 20: Public Infrastructure Investment in New Orleans Arena

(All figures adjusted to 2004 dollars)

Source of Investment	Quantified Grants	millions (2004 dollars)
State	Debt Service on Arena Bonds	$139.9
State	Interest on Bond Proceeds	9.0
State	LSED Cash from Debt Service Reserve	8.2
State	Hotel Occupancy Taxes	4.1
State	Debt Service on LSED Loan for Arena	13.5
Federal	City Grant of Federal Funds for Arena Road	1.7
State	State Grant for Arena Upgrades	10.2
	Total Quantified Grants	**$186.5**
	Unquantified Public Infrastructure Investment in Arena	
Federal	Interest savings on LSED tax-exempt bonds	

BGR research and calculations. Totals may not add due to rounding. Public Infrastructure investment covers the period from 1994 until the maturity of the LSED bonds in 2026.

- $84 million in LSED bonds. While the LSED does not report debt service costs by project, BGR estimated costs related to the Arena bonds at $39.6 million through fiscal 2003.[72] BGR further estimated future debt service related to the Arena at $133.1 million.
- The balance of the construction funds came from $8 million in interest on bond proceeds, $7.4 million in cash released from a debt service reserve,[73] $3.6 million in hotel occupancy taxes, and a $6.8 million loan to the LSED from the Arena's concessionaire.[74] The LSED increased its borrowings under the concessionaire loan by another $1.9 million through fiscal 2003. The LSED refinanced the remaining balance of the loan in 2004.[75]

The City contributed $1.6 million from a federal grant to build an access road for the Arena.[76]

In 2002, the State provided $10 million[77] for upgrades to the Arena for the Hornets, including new box suites and expansion of the locker and weight rooms.

Tables 19 and 20 summarize the Hornets' team subsidies and the public infrastructure investment in the Arena, respectively, with amounts adjusted to 2004 dollars.

Saints and Superdome

Background. The Saints have leased the Superdome for home games since 1976.[79] In 1985, the team was sold to its current owner, and a new lease was negotiated to keep the team in the City. The lease was revised in 1994 and 2002.[80]

Professional Football Team Revenues. All professional football teams in the National Football League (NFL) receive equal shares of four league-wide revenue streams: the sale of national television broadcasting rights, 34% of ticket receipts from all games, NFL merchandise licensing revenue, and a portion of club and premium seat rental revenue.

NFL teams also receive locally generated revenues. These include the remaining portion of ticket receipts and all local broadcasting rights fees during preseason games. Teams may also receive all or part of other revenue streams generated at their respective stadiums, which are often publicly owned. The streams include luxury box or suite rental revenue; the remaining portion of club or other premium seat rental revenue; concessions revenue; parking revenue; stadium naming rights, sponsorships and other advertising; and sales of team publications, merchandise, and other items.

Saints Revenues. Under the Saints' lease, as amended in 1994, the Saints receive the following locally generated revenue streams:[81]

- All revenues from tickets, publications, and broadcasting rights
- 42% of gross revenues from concession sales
- All gross receipts from game day parking[82]

Table 21: New Orleans Saints' Team Subsidies

(All figures adjusted to 2004 dollars)

Source of Investment	Quantified Grants and Foregone Taxes	millions (2004 dollars)
State	Cash Payments	$164.5
State	Game-day operating costs	5.9
State	2002 State grant for indoor practice facility	6.8
State	LSED debt service on training facility, from 1994 to 2026	10.6
	Total Grants	**$187.9**
State / Local Tax Recipients	Foregone Sales Taxes	36.7
City	Foregone Parking Taxes	0.2
	Total Foregone Taxes	**$36.9**
	Total Quantified Grants and Foregone Taxes	**$224.8**

BGR research and calculations. Totals may not add due to rounding. Team Subsidies reflect only the current lease term, fiscal 2002 to 2011, except for LSED debt service on the training facility, which covers the period 1994 until maturity of LSED debt in 2026.

- Reimbursement of certain marketing expenditures to market the Superdome
- Certain Superdome advertising revenue
- All rental revenue from certain Superdome box suites.

From fiscal years 1994 to 2003, locally generated lease revenues received by the Saints totaled $61.2 million.[83]

For the purposes of calculating the public's investment in the Saints, BGR excluded the Saints' share of league-wide revenues and locally generated revenues. These revenues result from or depend heavily on the Saints' operation in the Superdome. Team entitlements to such locally generated revenues are common in the league.[84]

Public Investment in the Saints and Superdome. As described in the introduction to this section, BGR has divided the public investment into team subsidies and public infrastructure investment in the Superdome.

Saints' Team Subsidies. The Saints' team subsidies include cash payments, an operating cost subsidy, and tax relief over the current lease term, LSED fiscal years 2002 to 2011, and capital investment in training facilities over the lifetime of the investment.

In 2002, the LSED amended the Saints' lease to incorporate $180.5 million of inducement payments to the team over 10 years.[85] The payments start at $12.5 million in 2002 and gradually rise to $23.5 million per year. Payments through 2004 totaled $40 million.

The payments are offset in part by a reimbursement of Saints' rent payments (capped at $800,000 a year). The balance can be funded through the creation of new revenue streams for the team at the Superdome, such as through the sale of naming rights. The creation of such new revenues has been limited, forcing the LSED to rely heavily on hotel occupancy tax revenue to meet the payments. In 2004, hotel occupancy tax revenue was insufficient to meet the $15 million payment. The LSED covered a $7.2 million shortfall by borrowing funds from the Louisiana Economic Development Corporation.

For fiscal years 2005 to 2011, the end of the lease term, the LSED will owe the Saints another $140.5 million.[86]

Most game-day operating costs for the Superdome are paid by the Superdome's private manager, SMG, on behalf of the State.[87] BGR included such costs to the extent that they are not offset by lease payments. From 2002 to 2004, game day costs exceeded lease payments by a total $1.6 million. BGR estimates that game day operating costs will exceed lease payments by $4.8 million from 2005 through the end of the current lease term in fiscal year 2011. This assumes an annual cost increase of 3%.

The Saints' lease exempts the team from paying state and local sales, use, amusement, and other taxes on tickets, concessions, merchandise, and parking revenues at the Superdome. The team is not exempt from personal property taxes and income taxes.[88]

BGR projected foregone taxes over the 10-year current lease term, from fiscal years 2002 to 2011. It based its estimates of foregone sales taxes on actual ticket, concession, and merchandise sales and foregone parking taxes on actual parking revenues for fiscal years 2002 to 2004.[89] BGR assumed that each revenue stream would increase 3% per year thereafter. BGR applied a sales tax rate of 9%, which includes state, city, Orleans Parish School Board, and Regional Transit Authority shares, and a city parking tax rate of 3%. The estimated foregone sales taxes over the current lease term total $39.8 million and the foregone parking taxes, $234,000.

The LSED issued $6 million in bonds in fiscal year 1995 to build a training facility and offices for the Saints on LSED land in Metairie.[90] The LSED owns the facility and leases it to the Saints. The LSED bonds are payable out of hotel occupancy tax revenue. Through 2003, debt service for the training

Table 22: Public Infrastructure Investment in Louisiana Superdome

(All figures adjusted to 2004 dollars)

Source of Investment	Quantified Grants	millions (2004 dollars)
State	LSED debt service on Superdome bonds, 1994 to 2026	$98.3
State	LSED debt service on Superdome renovation bonds, 1994 to 2026	35.6
	Total Quantified Grants	**$133.9**
	Unquantified Public Infrastructure Investment in Superdome	
Federal	Interest savings on LSED tax-exempt bonds	

BGR research and calculations. Public Infrastructure investment covers the period from 1994 until maturity of LSED debt in 2026.

facility totaled $3.4 million. The undiscounted future debt service will total $9.5 million.[91]

In 2002, the State approved a grant of $6.75 million to build an indoor practice facility on LSED land adjacent to the team's Metairie training facility. The facility was completed before the 2003 season. The State's investment covered more than half of the project cost; the Saints paid the remainder.

Public Infrastructure Investment in Superdome. The Superdome was completed in 1975.[92] The LSED funded the entire project through bonds backed by its hotel occupancy tax. While the Superdome hosts events other than the Saints' home games, it is essential to supporting a professional football team in New Orleans.

In 1994, the LSED issued $55.5 million in hotel occupancy tax bonds to refinance the outstanding Superdome debt.[93] Debt service on the refinancing bonds cost the LSED approximately $31 million through fiscal 2003. The undiscounted amount of the future debt service is $88 million.[94]

The LSED later issued $20.5 million in bonds for Superdome improvements, including new artificial turf, enhanced seating, and food courts. Through 2003, the debt service for Superdome renovations, paid from LSED's hotel occupancy tax, totaled $10.9 million. The undiscounted amount of future debt service is $32.5 million.[95]

The Saints invested approximately $10 million in the construction of new suites at the Superdome in the 1990s.[96]

Tables 21 and 22 summarize the team subsidies provided to the Saints and the public infrastructure investment in the Superdome, with amounts adjusted to 2004 dollars. Public infrastructure investment covers the period from 1994 until the maturity of the LSED bonds in 2026.


Audubon Aquarium
of the Americas
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3
TRACKS
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Administration of Economic Development Programs

Fragmentation of Responsibility and Control

Despite the impressive size of the total pool of economic development funds, there is no one "investor" in control. During the period from 1998 to 2002, the City itself had full or significant control of only 35% of the economic development funds. The rest flowed through a variety of special entities established over the years to handle individual pieces of the economic development puzzle. BGR identified 37 governmental or quasi-governmental entities that receive or administer economic development funds.

More than 40% of the total $1.1 billion went to five special purpose entities: the New Orleans Aviation Board, the Exhibition Hall Authority, the Dock Board, the LSED, and the Audubon Commission. These entities oversaw investment in the following major economic development assets:

- New Orleans Aviation Board – Airport
- Exhibition Hall Authority – Convention Center
- Dock Board – Port
- LSED – Superdome and Arena. (Part of the LSED's funding paid for subsidies to sports teams and other local projects.)
- Audubon Commission – Aquarium and Zoo

The mayor appoints, with City Council approval, all or some of the members of the Audubon Commission, Exhibition Hall Authority, and New Orleans Aviation Board. The governor appoints all members of the LSED board and the Dock Board.

Other entities that control portions of local economic development funding include the following:

- The Regional Loan Corporation (RLC) administers a small business loan program, funded through the U.S. Small Business Administration. Under a contract with the City, it also administers the City's Neighborhood Commercial Revitalization (NCR) and CDBG small business loan programs.
- Other economic development entities focus on specific geographic areas in New Orleans. The DDD receives a dedicated ad valorem property tax in downtown New Orleans. The Regional Business Park receives a separate ad valorem property tax in an industrial area in eastern New Orleans. City Council approves the budgets and annual plans of the DDD and the Regional Business Park. The mayor appoints, with City Council approval,

all members of the DDD's board and some members of the Regional Business Park's board. Another geographically based entity, the state-created Algiers Development District, focuses on development and improvement in Algiers.

- Public benefit corporations, established to exploit the commercial potential of various city-owned properties, can supply excess funds from their properties for other economic development purposes. The mayor and City Council approve expenditures of excess funds.
- The public benefit corporations include the Canal Street Development Corporation, the French Market Corporation, the New Orleans Building Corporation, the Rivergate Development Corporation, the Piazza D'Italia Development Corporation, and the Upper Pontalba Building Restoration Corporation. The mayor appoints, with Council approval, the directors of these corporations. City Council approves their annual budgets.
- For a brief time the now-defunct NOLA Economic Development Corporation received rent payments from Jazzland Theme Park to fund economic development grants in the City.
- The IDB, a city-created nonprofit corporation, enters into PILOT agreements with developers. In some cases, the PILOTs are set at an amount that is below the taxes that would otherwise be payable or do not flow back to the tax recipient bodies. Although the state enabling legislation does not require the approval of City Council or other tax recipient bodies for PILOTs, the IDB seeks Council approval.
- The Louisiana Board of Commerce and Industry awards the Industrial Tax Exemption. City Council and other tax recipient bodies have no say in this exemption, which allows manufacturers to forego paying ad valorem property taxes on new plants, expansions, or equipment for up to 10 years.
- Two tourism promotion organizations receive and spend economic development funds. The New Orleans Metropolitan Convention and Visitors Bureau, a private nonprofit organization, receives a hotel occupancy tax. The New Orleans Tourism Marketing Corporation, a city-created economic development corporation, receives a portion of a city-imposed hotel occupancy privilege tax, payments from Harrah's New Orleans Casino (Harrah's), and other revenues.
- The City's workforce training office, called Job 1, works with the New Orleans Workforce Investment Board to coordinate the spending of job training funds received annually from the U.S. Department of Labor through the Louisiana Department of Labor.

Fragmentation of responsibility has clouded the question of whether the public's funds are being invested in the most efficient and effective manner. The decentralized web complicates planning, and the vested interest of players in specific programs makes it difficult to redirect funds. Fragmentation also works against the public's receipt of comprehensive information and obscures the big picture when multiple incentives are provided to major developments.

Planning

The City lacks a continuous, coordinated planning process for its own programs. Although each recent administration has developed an economic development plan of some sort, the plans tend to resemble broad wish lists more than action plans. While they set forth a series of goals and strategies, they fail to define clearly the priorities among the goals.

Expenditures tend to be considered on an ad hoc basis, without evaluation of their relative value or the "opportunity cost" of a particular investment. This is particularly true in the area of tax abatements and similar incentives,

where the indirect, intangible nature of the investment obscures the cost and weakens fiscal discipline.

In addition, little, if any, consideration is given to the relationship between overall economic development strategies and the provision of general government services in the City. The success of economic development is intimately related to the sufficiency of basic public services. Weaknesses in public schools, transportation, law enforcement, streets, and other services and infrastructure can undermine economic development efforts. Yet, the impact of diverting funds from these basic building blocks receives only the most cursory attention.

Evaluation of programs has been rare, leaving a large information gap. The Nagin administration did undertake a comprehensive review of the Restoration Tax Abatement program, which led to changes in the program. The administration has also made changes in two other programs, the City of New Orleans Economic Development Fund and the HUD Section 108 loan program. It is currently reviewing the UDAG Repayment Fund.

The Mayor's Office of Economic Development (OED) is responsible for the City's economic development strategy. Economic development planning is complicated, however, by the large number of entities involved. As mentioned above, the City's programs make up only a portion of the total economic development investment in New Orleans. There are many other entities focused on specific initiatives, such as tourism marketing and conventions. Some regular coordination among the entities is necessary to create and achieve common economic development goals. A few times over the past quarter-century, city officials, some local government entities, and private sector individuals have coordinated to prepare comprehensive economic development plans to maintain the City's eligibility for funding through the U.S. Economic Development Administration. The last such plan was developed in 1998.

Review of Program Administration

BGR reviewed the application and program requirements, procedures, and performance measures in place for allocating, monitoring, and evaluating 10 economic development programs. BGR selected these programs because the City has unrestricted control or significant control over them, subject to state or federal laws and regulations and other legal requirements.

The programs BGR selected are:

- City of New Orleans Economic Development Fund (EDF)
- City Council/Entergy Economic Development Fund (Entergy Economic Development Fund)
- UDAG Repayment Fund
- PILOTs
- TIFs
- NCR loans
- CDBG small business loans
- HUD Section 108 loans
- Restoration Tax Abatements
- Enterprise Zone rebates

Criteria and Application Requirements

The application requirements and key criteria of the programs are summarized below:

Economic Development Fund grants. The Nagin administration has created new guidelines for EDF grants. They require the applicant to submit project descriptions, budgets, selected financial data, information on job creation and other project funding, and other background material. According to the OED, the administration is in the process of revising the application form.

EDF grants are awarded only to non-profit projects in Orleans Parish. Many types of projects are eligible.

In 2004, the Nagin administration introduced new, very general criteria for awarding grants from the fund. Projects must benefit and support job creation and business development, including assistance to small businesses. There is a minimum goal of creating one permanent, full-time job. The guidelines state that applicants must have in place other project funding equal to or greater than the grant amount. However, according to the OED, the Nagin administration views this more as a goal than a precondition.

Entergy Economic Development Fund grants. Applicants to the Entergy Economic Development Fund must submit project budgets, selected financial data, and information on other funding for the project.

The Entergy Economic Development Fund grants may be awarded either to for-profit or nonprofit entities in Orleans Parish. The applicants' projects must meet one of six purposes, such as increasing employment in the city. Fairs, festivals, conventions, and other one-time special events are ineligible for funding, unless they would have a major economic impact on the city. Grant funding is limited to 50% of total project budget for existing businesses and 25% for start-up businesses. Awards are limited to a maximum of two consecutive years of funding.

UDAG Repayment Fund grants and loans. During the period from 1998 to 2002, the UDAG Repayment Fund program used a standard application. According to the OED, the Nagin administration is revamping the application and developing new criteria and guidelines for the program.

The only federal criterion for program participation is that the project must be an eligible activity as defined in federal community development law.[97] The City has no additional criteria and has reviewed past UDAG Repayment Fund loans or grants on a case-by-case basis because of significant variations in project scope.

PILOT. The IDB requires that entities requesting PILOTs agree to fund a cost-benefit analysis conducted by an IDB consultant. There are no other standard application or information requirements for PILOT requests.

State laws governing PILOT are broadly written to allow many types of projects to receive assistance. The IDB has not adopted additional criteria for evaluating PILOT requests. It reviews applications on a case-by-case basis with the assistance of its consultants.

TIF. There are no standard application or information requirements or criteria for TIF. State TIF laws are broadly written and provide little guidance. For TIFs that have been approved to date, the City has requested such information as it has deemed necessary.

NCR loans. Applicants for NCR loans are required to submit project budgets, selected financial data, and information on other funding for the project. Applicants also are required to submit a business plan and fulfill the requirements of HUD regulations.

NCR loans target small business and encourage equity contributions between 10% and 20% of project cost. There is no minimum requirement for private financing. Projects must be located in one of 13 neighborhood commercial zones in New Orleans.

CDBG small business loans. Applicants for CDBG small business loans must submit project budgets, selected financial data, and information on other funding for the project. Applicants must also submit a business plan and fulfill the requirements of HUD regulations.

The RLC, which administers the program, requires applicants to have some private financing and encourages equity contributions between 10% and 20% of project cost. Under HUD regulations, applicants must cre-

ate or retain at least one job per $15,000 in loan funds or demonstrate sufficient benefits. Any job created or retained must be made available to Orleans Parish residents, and 51% or more of the jobs must be made available to persons of low or moderate income.

HUD Section 108 loans. The Nagin administration created new guidelines for Section 108 loans in 2004. The City requires applicants to demonstrate that they meet the national objectives and other requirements of HUD. In addition, the developer must submit financial information needed to support the City's application to HUD, including project budgets, financial data and projections, and other project information.

HUD requires loan applicants to meet certain minimum standards for job creation. City criteria include a goal of creating one permanent, full-time equivalent job for every $30,000 in loan proceeds. Other city criteria include a minimum owner equity contribution of 10% of total project costs, a commercial loan component, and collateral equal to at least 125% of the HUD Section 108 loan amount. Section 108 projects must conform to the goals of the Consolidated Plan that the City submits to HUD.

Restoration Tax Abatements. In 2003, the Nagin administration and the City Council adopted new guidelines for the Restoration Tax Abatement program. Applicants for Restoration Tax Abatements must provide information on the renovation investment and project equity. In addition, applicants for income-producing properties must submit pro forma projections and cost-benefit analyses. Applicants must also fulfill state requirements.

Current criteria include the following: (1) all projects must have a minimum renovation investment of 25% of their pre-improvement value, (2) the building's useful life must be extended at least 20 years, (3) the physical expansion of the building cannot exceed 10% of its original footprint, and (4) general maintenance, insurable damages, or routine repairs are prohibited from receiving abatements.

Enterprise Zone rebates. Applicants for Enterprise Zone rebates must submit information on project budgets, employees residing inside and outside Orleans Parish, construction purchases inside and outside Orleans Parish, land value, other taxes and fees, and annual and projected sales data.

Applicants must also fulfill the state program requirements. State law requires that applicants for Enterprise Zone rebates create five new jobs or increase current employees by 10%, with a minimum of one job created. In addition, while the business may be located anywhere in Orleans Parish, 35% of new employees must live in Enterprise Zones or meet other requirements.

Review and Award Process

Substantial discretion in making awards is provided to most of the decision makers in the 10 programs reviewed by BGR. Even in those programs that use scoring systems and cost-benefit analyses, the decision makers retain discretion.

Economic Development Fund grants. The Mayor's Economic Development Advisory Committee reviews grant applications and prepares recommendations to the Mayor. The OED assists the committee with reviewing applications and preparing the recommendations. The Mayor reviews and approves the Committee's recommendations and submits them to City Council, which has final approval of awards.

The reviewing entities consider the applications or requests individually against various general goals and objectives. They do not attempt to gauge the relative values of competing proposals through a scoring or ranking system.

Entergy Economic Development Fund grants. Under a settlement agreement, Entergy New Orleans Inc. provides funds for the program annually. City Council reviews and adopts

resolutions approving Entergy Economic Development Fund grants. The reviews are conducted through individual council district offices, with recommendations prepared for the full Council. Once Council approves the grants, Entergy authorizes the payment of funds.

City Council's guidelines for the Entergy Economic Development Fund state that applicants receive "greater emphasis" if they create jobs, meet council goals, are cost-effective, and provide a high ratio of private capital to project cost. The guidelines do not define any thresholds for meeting these targets. Nor do they attempt to gauge the relative values of competing proposals through a scoring or ranking system. A portion of the amount available for grants is allocated among council members.

UDAG Repayment Fund grants or loans. The OED reviews UDAG Repayment Fund requests and makes recommendations to City Council, which has final approval authority.

PILOT. The IDB reviews and approves PILOTs. The review is conducted by a committee, which works with a cost-benefit analysis prepared by its consultants. The committee makes a recommendation to the board after its review. Although state law does not require the IDB to seek City Council approval of PILOTs, it has followed this practice.

As part of the process, the IDB holds a public hearing. It also notifies and gives the assessors and impacted tax recipient bodies an opportunity to comment. It can proceed, however, over objections.

TIF. Under the general TIF law, a special TIF law for all of New Orleans, and another law applicable to Algiers,[98] City Council has final approval of TIF requests. In recent years, the State Legislature has enacted two special TIF statutes applicable to New Orleans – for the proposed World Trade Center hotel[99] and the Lake Forest Plaza Shopping Center[100] – that do not require City Council approval.

There is no formal procedure established for review of TIF requests. The city administration generally is responsible for submitting TIF requests to the Council for its approval. Council reviews each project on the basis that it sees fit.

NCR Loans. During the period 1998 to 2002, the RLC reviewed and approved NCR loans. RLC submitted loans to the OED for its approval. The review covered, among other things, the recipient's ability to repay loans, as well as potential job creation and private investment. The Mayor's Division of Housing & Neighborhood Development reviews requested disbursements against CDBG regulations.

Since taking office in 2002, the Nagin administration has not funded the NCR program. It has reserved funds from 2003 and 2004 in preparation for a new economic development program.

CDBG small business loans. The RLC reviews the recipient's ability to repay the loans, as well as potential job creation and private investment before approving CDBG small business loans. The Mayor's Division of Housing & Neighborhood Development reviews requested disbursements against CDBG regulations.

HUD Section 108 loans. Under new guidelines adopted by the administration, the OED reviews HUD Section 108 loan applications and makes recommendations to the Council. The office uses a committee comprised of the mayor's executive assistant for economic development, the office's deputy director, the director of public investment, and other staff members with knowledge of the project's focus area. The review covers, among other things, the recipient's ability to repay the loan, as well as potential job creation and private investment.

Council approves all Section 108 borrowings. Once approved, the City submits the funding request to HUD for review and approval.

Restoration Tax Abatements. The Mayor's Restoration Tax Abatement Committee reviews applications, receives information and opinions from Orleans Parish assessors, and prepares its own recommendations on Restoration Tax Abatements to City Council, which has final approval. The OED assists the committee with reviewing applications and preparing the recommendations to City Council. Once Council grants approval, the applicant must seek further review by the Louisiana Department of Economic Development and final approval from the Louisiana Board of Commerce and Industry.

In 2003, the City adopted a scoring system for reviewing several factors related to Restoration Tax Abatement applications. The factors include the applicant's projections for jobs, investment, property use, and historic value. The Restoration Tax Abatement system applies ratings of excellent, good, fair, and poor to ranges of point scores. City Council is not bound by the scoring.

Enterprise Zone rebates. The OED reviews applications to participate in the Enterprise Zone program. The OED conducts a cost-benefit analysis using a one-page form and information supplied by the applicant. The analysis develops a ratio of benefits to the potential cost of the City rebate over a period of five years. Council approves applicants' participation in Enterprise Zone programs.

Once endorsed by Council, the applications are reviewed by the Louisiana Department of Economic Development and approved by the Louisiana Board of Commerce and Industry.

City Council Review and Approval of Significant Public Investments

As the preceding section indicates, the final decision on awards rests with City Council in six of the programs: Entergy Economic Development Fund grants, Economic Development Fund grants, HUD Section 108 loans, UDAG Repayment Fund loans, Restoration Tax Abatements, and TIF. The IDB, which approves PILOTs, routinely seeks Council's approval.

For certain development projects, City Council conducts a review independent of the city administration. The Council generally reviews projects that involve (i) significant city financing, such as UDAG Repayment Fund and HUD Section 108 loans, (ii) significant city tax incentives, such as TIF, or (iii) leases of city-owned property. All six of the multi-million dollar real estate and commercial developments reviewed in Part II (Layering Section) underwent some degree of review by City Council prior to their receipt of certain city incentives or investment.

City Council has no written policies or procedures for handling its reviews. The Council follows the practice of using one of two committees to conduct its reviews: the Special Development Projects and Economic Development Committee or the Budget, Audit, and Board of Review Committee.[101] The committees usually hear presentations from the developers of the project.

The committees have full discretion in determining the extent of their review. Committee members decide on a project-by-project basis whether the developer or city administration has provided sufficient projections, reports, and other information. As a general practice, the members also receive summaries of the project, its goals, its financing, and other aspects prepared by the City Council Fiscal Office. For several projects in recent years, the committees, with approval by the full Council, have hired outside consultants, such as appraisers, housing experts, and financial advisers.[102]

For some of the real estate and commercial developments reviewed by BGR in this report, developer financial statements were provided; in other cases, they were not. The same was true with respect to pro forma financial projections, economic impact studies, market studies, and other information.

Post-Award Review

Audits of Expenditures. Data on actual expenditures is collected for the three programs awarding grants: Entergy Economic

Development Fund, the Economic Development Fund, and UDAG Repayment Fund awards structured as grants. For example, recipients of Entergy Economic Development Fund grants must submit expenditure reports every six months. Loan repayments are monitored for the four programs awarding loans: NCR, UDAG Repayment Fund, HUD Section 108, and CDBG small business loans.

Tax Abatements. The City does not estimate on an ongoing basis the amount of taxes foregone through abatements or diversions. State law requires that Orleans Parish assessors "make and maintain a list"[103] of all property exempt under active Restoration Tax Abatement contracts, but neither the assessors nor the OED is required to calculate the actual tax impact of these contracts. The OED does maintain a database of estimated foregone taxes, which it calculates on the basis of final construction costs. The OED also maintains a database of taxes rebated under the Enterprise Zone program.

Performance Measurement. Of the 10 programs, only five track whether the award recipients fulfill their promises of new jobs, investment, and other benefits.

The RLC tracks job creation of NCR and CDBG loan recipients for two years after the award. The applicant's performance with the Enterprise Zone hiring and purchase requirements is certified prior to its receipt of a city rebate.[104]

Guidelines for the Economic Development Fund provide for quarterly payments of grant funds, subject to its review of whether the recipient has met performance goals for the quarter. If a recipient has not met performance goals for a particular quarter, the City can withhold 10% of the quarterly payment.

The City Council includes HUD Section 108 loans in its regular reviews of the performance of sub-recipients of the City's federal funds. It uses outside auditors to prepare reports. The city administration also reviews HUD Section 108 recipients, in coordination with Council.

The review covers not only the drawdown of funds, but also compliance with HUD national objectives and other city stipulations in the loan agreement for the project. The administration's HUD Section 108 review requires the recipient to provide information related to the criteria on a quarterly basis and to assist the City in preparing an annual report.

A sixth program, PILOT, does not have standard requirements for performance measurement. The IDB did impose a performance requirement for the PILOT agreement with Crescent Crown Distributing LLC. The company, which operates a warehouse in eastern New Orleans, must maintain at least 100 full-time employees on average during any calendar year. The IDB has not included specific performance requirements in its active PILOT agreements with other projects.

For PILOTs requested by the City, the City rather than the IDB tracks the projects' performance. PILOTs for public housing redevelopments are monitored by the City and the Housing Authority of New Orleans.

Performance measurement is not required for TIFs and Restoration Tax Abatements.

Despite the lack of formal requirements, City Council, in its discretion, sometimes monitors projects on an ongoing basis. The degree of performance measurement varies by project. For example, in light of the size and complexity of the St. Thomas redevelopment, the Council retained a consultant to monitor the project during development and to prepare semi-annual progress reports.

It is rare, however, that the City Council or city administration conducts a formal financial or economic analysis of the project's post-development performance. This lack of analysis stands in stark contrast to the ubiquity of pre-development projections of economic and fiscal impacts, often used to win public financing of a project.

Penalties. Penalties for failure to meet basic monitoring or performance goals are also rare. As noted above, the City may withhold funds from Economic Development Fund grant recipients who have not met performance goals. The Entergy Economic Development Fund mandates that failure to document expenditures makes the grantee ineligible for future awards.

The one PILOT agreement with a specific performance requirement, the Crescent Crown project, carries a penalty. In any year in which the facility does not maintain the specified number of jobs, the company must pay a PILOT in the amount that would have been payable if the facility were subject to ad valorem tax. The regular PILOT is an amount equal to the ad valorem taxes on the land and improvements prior to the company's acquisition of the site.

PILOT agreements generally contain a provision specifying that, if the PILOT is not paid, the developer will be held in default until payment, with interest accruing on the unpaid portion.

There are no other "clawbacks" for poor performance (e.g., mandatory repayment of all or a portion of an incentive award[105]).

Endnotes

1. BGR, I*nventory of Economic Development Programs and Strategies in the City of New Orleans*, 1970-1992, September 1992, pp. 75-76. Also, *City of New Orleans, Overall Economic Development Plan*, 1998, pp. IV-6 to IV-12.

2. BGR, op. cit., pp. 24-26.

3. T*he Bank of New York v. Honorable Erroll G. Williams, Assessor, City of New Orleans and Industrial Development Board of the City of New Orleans, Louisiana, Inc.*, 796 So.2d 69 (La. App. 4 Cir. 2001).

4. Sahr, Robert, Oregon State University, "Inflation Conversion Factors for Dollars 1665 to Estimated 2014," August 21, 2004, http://oregonstate.edu/dept/pol_sci/fac/sahr/sahr.htm.

5. The figure of $120 million reflects the total $202 million in projected foregone taxes over 30 years discounted at an annual rate of 3%. This discount rate differs from the 5% rate used in BGR's February 2004 report, *Uneconomic Development: An Analysis of the World Trade Center Lease*. The 5% rate discounted the projected foregone taxes to a present value figure of $88.5 million. BGR used the 5% discount rate in its earlier report to allow for comparison of its cash-flow calculations with those of the City, which applied the 5% rate. In this current report, BGR is using a 3% rate to adjust all future investments to 2004 dollars. It applied the 3% rate to the World Trade Center hotel project for consistency.

6. The latter two projects have been discussed in previous BGR reports: *Tax Increment Financing in New Orleans*, April 2003, and *Uneconomic Development*, op. cit. Both reports are available at BGR's web site, www.bgr.org.

7. Sahr, Robert, op. cit.

8. Official Statement, $29,000,000 Industrial Development Board of the City of New Orleans, Louisiana, Inc., Variable Rate Demand Multifamily Housing Revenue Bonds (3700 Orleans LLC Project) Series 2000, p. 19.

9 Ibid., p. 19.

10. Mayor's Office of Economic Development, *HUD Section 108 Guaranteed Loans, Status Update Report*, March 5, 2002, attachment.

11. Loan Agreement by and between City of New Orleans (City) and 3700 Orleans LLC (Borrower), March 20, 2000, p. 17.

12. The PILOT agreement ends after the 10th year following the year in which the apartments were available for occupancy. The apartments opened in 2001.

13. The PILOT amount is $36,556 per year. The developer told the IDB in a May 1999 meeting that the estimated property taxes without the PILOT would be at least $340,000 per year. The difference is approximately $303,000. BGR's calculation assumes a 1.5% annual increase in the value of foregone taxes, based on the average increase in total assessed value on a citywide basis from 1987 to 2002.

14. *Transition Report, Canal Street Development Corporation*, Mayor Marc H. Morial Records, City Archives, 2002. Funds for the repayment of the Section 108 borrowing were placed in a defeasance account to complete the payments as scheduled.

15. Affidavit of Final Cost, submitted with hotel's Restoration Tax Abatement application.

16. CSDC, financial statements and auditor's report, for the year ended December 31, 1999, p. 30. Also, Pailet, Meunier and LeBlanc, LLP, *City of New Orleans, Urban Development Action Grant, Independent Accountant's Report on Applying Agreed-Upon Procedures, For the Period from Inception through October 31, 2002*, prepared for the Chief Administrative Officer of the City of New Orleans, June 19, 2003, Appendix B.

17. Eggler, Bruce, "Quarter apartments get green light," *The Times-Picayune*, April 16, 1994.

18. Assessment records, 2nd Municipal District Assessor's Office.

19. BGR estimated the foregone taxes based on final construction costs reported for the RTA contracts.

20. Debtor's First Amended Disclosure Statement Pursuant to Section 1125 of the Bankruptcy Code, *In re: Jazzland, Inc.*, Debtor, Chapter 11 Case No. 02-11257, U.S. Bankruptcy Court for the Eastern District of Louisiana, New Orleans, June 21, 2002, p. 9.

21. Ibid., p. 15.

22. Debtor's First Amended Chapter 11 Plan of Reorganization, *In re: Jazzland, Inc.*, Debtor, Chapter 11 Case No. 02-11257, U.S. Bankruptcy Court for the Eastern District of Louisiana, New Orleans Division, June 21, 2002, p. 25.

23. State of Louisiana, Division of Administration, Office of Facility Planning and Control, list of capital outlay funding (excluding highway projects) for Orleans Parish, July 2003. The State Legislature approved $10 million in FY 1998 and 1999, but reallocated $800,000 in 2001 to other projects.

24. Mayor's Office of Economic Development, op. cit. Jazzland Inc.'s loan had a maturity of 8.5 years, an interest rate of 7.9% with a balloon payment of $17.7 million due in 2007. The City's Section 108 borrowing had a maturity of 20 years and an interest rate of approximately 6.3%. Jazzland's annual debt service to the City was $2.8 million; the City's annual debt service on the Section 108 notes is $2.45 million.

25. Lease Agreement by and between the Industrial Development Board of the City of New Orleans, Louisiana, Inc., and SFJ Management Inc., as approved by City Council Ord. Cal. No. 24,379, August 8, 2002, p. 2.

26. Ibid, pp. 7-9.

27. Ibid., p. 1. Also, Debtor's First Amended Disclosure Statement, op. cit., p. 5, and City of New Orleans, *City to HUD Rates – Jazzland Project, Summary of Section 108 Offering Circular Rates – $25,300,000 Loan*, undated.

28. La. R.S. 51:1160.

29. La. R.S. 33:9030. Also, NOLA Economic Development Corporation, financial statements and auditor's report for the year ended December 31, 2001 pp. 5-7.

30. Debtor's First Amended Chapter 11 Plan of Reorganization, op. cit., p. 25. In a June 26, 1998 memorandum to City Council members, the Council Fiscal Officer noted that a HUD appraisal estimated the park's value upon completion of construction at approximately $69.1 million.

31. Six Flags Inc., Proposal Letter to City of New Orleans and NOLA Economic Development Corporation, April 26, 2002, p. 3.

32. Lease Agreement by and among The Industrial Development Board of the City of New Orleans, Louisiana, Inc., West Coast Liquidators, Inc., and the City of New Orleans, as approved by City Council Ordinance Cal. No. 14,944, July 7, 1988.

33. King, Ronette, "Company plans to rebuild huge $60 million warehouse," *The Times-Picayune*, March 22, 1996.

34. Gethers, Ernest G., Memorandum to Eugene Green, Assistant to the Mayor for Economic Development, May 28, 1998.

35. Ibid.

36. Lease Agreement by and among the IDB, WCL, and the City, op. cit., p. 17.

37. Gethers, Ernest G. op. cit.

38. Pailet, Meunier and LeBlanc, LLP, op. cit., p. 4. Also, Gethers, Ernest G., op. cit.

39. Gethers, Ernest G., op. cit. The City's Section 108 borrowing was invested directly into pilings for the site. WCL argeed to reimburse the City for $3 million of the piling cost. The City used approximately $850,000 of the $1.1 million reimbursed before the fire to pay its debt service on the borrowing. Over the life of the Section 108 borrowing, the City paid total debt service of $7.3 million.

40. Louisiana Attorney General Opinion, No. 88-454, October 27, 1988. According to City Council Resolution R-90-240, adopted December 20, 1990, the PILOT was to run for 40 years and annual payments for 10 years were to be diverted to pay the HUD Section 108 loan. According to Gethers, Ernest G., op. cit., WCL made annual PILOT payments of $500,000 from 1991 to 1995.

41. *The City of New Orleans and the Industrial Development Board of the City of New Orleans, Louisiana, Inc. v. West Coast Liquidators Inc.*, Judgment, Civil Action No. 97-2864, U.S. District Court, Eastern District of Louisiana, January 26, 1998.

42. Housing Authority of New Orleans, *Financial Summary by Project*, October 15, 2003.

43. Ibid.

44. The developer has applied for but not received a $4.7

million federal grant for apartments for the elderly.

45. BGR, *Tax Increment Financing*, op. cit., Appendix A, p. 5.

46. Lambert Advisory LC, *St. Thomas Hope VI & Wal-Mart Evaluation Report to the New Orleans City Council*, prepared for the New Orleans City Council, April 11, 2002, p. 38. BGR calculation takes Lambert Advisory's estimated maximum of $554,000 per year over 12 years.

47. The Wal-Mart PILOT runs for 20 years and increases gradually from $300,000 to $450,000 per annum. However, tax recipient bodies will receive only $25,000 per annum. The remainder will be diverted to pay debt service for the first phase of housing. BGR has considered the diverted portion to be the foregone taxes.

48. The required PILOT on the first phase of rental housing is $1 per low-income unit and $100 per market-rate unit. With 122 low-income units and 174 market-rate units, BGR calculated the annual PILOT at $17,522. BGR calculated the foregone taxes as the difference between the PILOT and BGR's estimate of taxes otherwise owed by the first phase. BGR based this estimate on net operating income figures provided to City Council, capitalized at a rate of 10% to estimate property value. The net operating income figures were provided in Lambert Advisory LC, op. cit., p. 22.

49. BGR, *Uneconomic Development*, op. cit.

50. Calculation assumes that the RTA remains in effect for 10 years. The calculation reflects the projected amount of taxes to be abated, less a rental stream of $558,000 per year. The projections for abated taxes are based on an NOBC estimate of property taxes due when the RTA expires.

51. BGR, *Tax Increment Financing*, op. cit., Appendix B, p. 5.

52. Reid, John, "We did it!" *The Times-Picayune*, May 11, 2002.

53. Arena Use Agreement by and among SMG, the State of Louisiana, and Charlotte Hornets NBA Limited Partnership, May 2, 2002, p. 18. The agreement runs for 10 years, with options for two five-year renewals. If the Hornets terminate the agreement before June 30, 2017, the end of the 15th year, the team must pay the State $10 million.

54. LSED, financial statements and auditor's report for the year ended June 30, 2003, p. 40.

55. Barrett Sports Group, LLC, *Louisiana Stadium and Exposition District: Analysis of Current Financial Obligations*, prepared for the State of Louisiana, May 18, 2004, p. 4. Also, telephone interview with Doug Thornton, Regional General Manager, SMG, July 12, 2004.

56. Louisiana State Legislature, Act 152 of 2002 1st Extraordinary Session. The LSED paid the funds to the Hornets in fiscal year 2003.

57. Ibid. Also, Louisiana State Legislature, Act 73 of 2002 1st Extraordinary Session.

58. Arena Use Agreement, op. cit., p. 18.

59. Telephone interview with Thornton, August 27, 2004.

60. Telephone interview with John Jernigan, Restoration Tax Abatement and Quality Jobs program administrator, Louisiana Department of Economic Development, September 7, 2004.

61. Ibid.

62. LSED financial statements, op. cit., p. 40.

63. Arena Use Agreement, op. cit., p. 27.

64. Ibid., pp. 16-17.

65. Telephone interview with Thornton, August 2, 2004.

66. Arena Use Agreement, op. cit., p. 15 and p. 64.

67. Telephone interview with Thornton, August 27, 2004.

68. Arena Use Agreement, op. cit., p. 63.

69. BGR estimate of ticket sales. Actual concessions and parking revenue figures were provided in LSED and SMG, selected financial data for the Superdome and Arena for fiscal years 1995 to 2004, August 2004.

70. Reid, John, "Alario Center set for Hornets," *The Times-Picayune*, September 3, 2002.

71. City Council Ord. No. 20,672 MCS. This initial portion was comprised of $990,000 from City bond proceeds; $500,000 from the Mayor's Economic Development Fund; and $2 million from proceeds of a settlement with CSX railroad.

72. Because LSED reports only aggregate debt service expenditures, BGR calculated the annual shares of these expenditures related to individual projects based on the projects' pro-rata shares of the bond proceeds received since the 1993 authorization.

73. Telephone interview with Thornton, August 2, 2004. The LSED freed the cash by replacing the reserve with a surety bond instrument.

74. LSED, financial statements and auditor's report for the year ended June 30, 2001, p. 19.

75. LSED resolution, May 13, 2004. Also, telephone interview with Thornton, August 27, 2004.

76. Part of $6 million congressional appropriation.

77. State of Louisiana, Division of Administration, Office of Facility Planning and Control, op. cit. Also, Anderson, Ed, and Steve Ritea, "Foster signs financing bills for N.O. projects," The Times-Picayune, April 19, 2002.

78. City Council had appropriated only $3.5 million of $6.5 million commitment through 2002.

79. Amended and Restated New Orleans Louisiana Saints/Louisiana Superdome Stadium Agreement, by and among the State of Louisiana, the Louisiana Stadium and Exposition District, Facility Management of Louisiana, Inc., and the New Orleans Louisiana

Saints Limited Partnership, September 30, 1994, p. 1. The current lease term runs through the 2010 football season (LSED fiscal year 2011).

80. Lease documents prior to 1994 were not reviewed for this study.

81. Amended and Restated Superdome Stadium Agreement, op. cit., pp. 9-14. Two revenue streams, stadium club dues and Superdome tour fees, have been discontinued.

82. According to the New Orleans Saints, only a portion of total Superdome parking spots are available for game-day parking. The team receives 100% of revenue from these available spots.

83. LSED, financial statements and auditor's reports for the years ended June 30, 1995 to 2003.

84. Barrett Sports Group, LLC, op. cit., p. 4.

85. Memorandum of Understanding by the State of Louisiana and the New Orleans Louisiana Saints Limited Partnership, September 25, 2001, Exhibit A. The Memorandum of Understanding was incorporated by reference in the Second Amendment to Amended and Restated New Orleans Louisiana Saints/Louisiana Superdome Stadium Agreement, by and among the State of Louisiana, the Louisiana Stadium and Exposition District, SMG, and the New Orleans Louisiana Saints Limited Partnership, July 3, 2002, p. 1.

86. Memorandum of Understanding, op. cit., Exhibit A. The State has the option not to pay the final three years of guaranteed payments, exercisable in January 2008. If exercised, the Saints have the right to terminate their lease within a year without penalty.

87. Telephone interview with Thornton, September 1, 2004.

88. Second Amendment to Amended and Restated Superdome Stadium Agreement, op. cit., p. 4.

89. LSED and SMG, selected financial data, op. cit.

90. BGR analysis of LSED financial statements and auditor's reports for the years ended June 30, 1995 and 1996.

91. Because LSED reports only aggregate debt service expenditures, BGR calculated the annual shares of these expenditures related to individual projects based on the projects' pro-rata shares of the bond proceeds received since the 1993 authorization.

92. National Sports Law Institute of Marquette University Law School, "Appendix 3," *Sports Facility Reports*, Vol. 4, No. 1, http://law.marquette.edu/cgi-bin/site.pl?2130&pageID=1680.

93. BGR analysis of LSED financial statements and auditor's report for the year ended June 30, 1995.

94. Because LSED reports only aggregate debt service expenditures, BGR calculated the annual shares of these expenditures related to individual projects based on the projects' pro-rata shares of bond proceeds received since the 1993 authorization.

95. Ibid.

96. Information from New Orleans Saints, August 26, 2004.

97. Pailet, Meunier and LeBlanc, LLP, *City of New Orleans, Urban Development Action Grant, Independent Accountant's Report on Applying Agreed-Upon Procedures, For the Period from Inception through October 31, 2002, prepared for the Chief Administrative Officer of the City of New Orleans, June 19, 2003*, p. 3.

98. La. R.S. 33:9033, 33:9033.3, and 33:9038.1 et seq., respectively.

99. La. R.S. 33:9038.21.

100. La. R.S. 33:9038.24.

101. Telephone interview with Suzanne Mague, Council Fiscal Officer, July 29, 2004.

102. Ibid.

103. La. R.S. 47:4313.

104. The applicant is entitled to receive additional rebated sales taxes and a tax credit under separate state approvals.

105. Good Jobs First, "Clawbacks," January 16, 2004, http://www.goodjobsfirst.org/clawbacks.htm.

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